

Handle With Care

A property/casualty claim is a moment of truth for customers. How an insurer handles the claim can make or break its business.

by Steven Kauderer and Rebecca Tadikonda

Proficiency in handling claims has become a signal ingredient of success in property/casualty insurance.

Roughly 75% of revenues from premiums flow through the claims function as expenses or indemnity payouts, so even a marginal improvement can affect the bottom line. Claims handling also stands as a moment of truth that can turn customers into stalwart promoters or detractors of the carrier.

Superior claims management thus offers a means of competitive differentiation, whether that's through faster payouts, easier filing through digital channels or higher quality interactions between customers and claims representatives. Very few carriers excel on every dimension of the claims process, but those making the most headway have focused on four areas that form the basis for claims excellence:

- Delighting, not just satisfying, customers.
- Upgrading to smarter digital technologies.
- Fine-tuning the adjustment process for efficiency and accuracy of payouts.
- Selectively using specialists.

Bain & Company analysis consistently finds that customers who

become promoters of a carrier stay longer, recommend the company to friends and family and usually cost less to serve. Carriers that forge stronger ties with customers and become more trusted and valued will be better positioned to counter the price-only proposition for new customers and to cross-sell to existing customers.

One carrier in Brazil, for example, developed a network of integrated auto claims drop-off centers across the country. The firm's claims adjusters conduct damage appraisals on site, and approved garages located nearby handle repairs. The insurer realizes net repair costs that are significantly lower than costs for comparable claims appraised directly at garages. Customers, meanwhile, benefit from the convenience as well as a discount in deductibles to use the centers. In fact, customers who use the auto centers give the company higher recommendations than other customers who file comparable claims.

Presenting attractive self-service options provides another route to improving the customer experience and, often, to reducing expenses in the bargain. Allstate, Farmers and other carriers now allow customers in minor traffic accidents to use their smartphones to photograph

Key Points

- ▶ **At Issue:** Roughly 75% of premium revenues flow through the claims function as expenses or indemnity payouts; even marginal improvement can affect the bottom line.
- ▶ **Suggested Solutions:** Insurers should invest in claims segmentation technology and consider building specialized claims units or enlisting outside firms to handle complex claims.
- ▶ **Watch For:** Insurers to look hard at the value of owned versus outsourced resources and embrace digital technologies to improve risk management and the customer's experience.

the damage and upload the images using a mobile application. In some cases, carriers can settle the claim on the spot and make a direct deposit to the customer's bank account. Self-service puts the customer in control, but the mechanics must work well, if not flawlessly, in order to delight the customer rather than impose a burden at a stressful moment.

Flexible Systems and Innovation

The work of claims units has outgrown what many legacy systems can handle. Claims information architecture has become quite complex, integrating information from mail, fax, email, batch systems, online systems, call centers and mobile apps. And claims units want to supplement their intuition and classic investigative

Contributors Steven Kauderer and Rebecca Tadikonda are partners in Bain & Company's Global Financial



Kauderer Tadikonda

Services practice, based in New York. They may be reached at steven.kauderer@bain.com and rebecca.tadikonda@bain.com

Figure 1
Moving to More Effective Deployment of IT

	From a siloed, insular system	➔	To an integrated, flexible system
Customer	Mostly analog		Digitally fluent
Technology and data	Digitizes entrenched norms		Redefines expectations
Claims process	Linear, process-driven		Automated, networked, parallel
Claims segmentation	Adjuster-based		Algorithm-based
Role of adjuster	Process oversight		Data and management expertise
Pace of change	Long and sequential		Fast and iterative

Source: Bain & Company

methods with data analytics, in order to make better decisions.

Carriers thus have been investing in new information technology, including a shift to external modular solutions provided by Guidewire and other firms (see Figure 1). The challenge will be to reap value from these investments, by moving beyond process efficiency to using IT in ways that reinforce close connections with customers and inform better decision-making. Here's a taste of the digital innovations now available:

- Mattersight software listens to claims interviews for various carriers in order to discern whether the claimant is being truthful.
- EagleView relies on satellite imaging to identify pre-existing conditions and estimate storm damage to roofs, eliminating the need in most cases for an adjuster to visit the property.
- Enservio software estimates the value of contents in a home based on demographic and other information. If a house is destroyed, the carrier can make a payout three times faster than processing a traditional bank check, and sharply reduce time-consuming negotiations.

These and other innovations give adjusters new tools to determine payouts. But it's also essential that carriers adapt their processes so adjusters can use the data to make better decisions.

Aligning Everyone's Incentives

With so much value at stake in the claims process, it's worth a renewed push to ensure that carriers make the right payout through a more efficient process, in ways consistent with a positive customer experience.

Some carriers overpay, on average, by 10% to 12%, in large part because they skimp on adjustment resources or rely too heavily on independent adjusters. To improve the process, therefore, leading carriers are investing in capabilities for smarter claims segmentation up-front (see Figure 2.) Their most experienced adjusters handle the most complex and large-loss claims, with some of these adjusters

specializing in certain types of claims. The simpler claims can be handled by less-experienced, lower-cost staff and auto-adjudication software.

Leading companies such as Chubb go a step further, deploying sophisticated models for faster, more accurate triaging and routing of claims. This allows Chubb to deliver exceptional claims service and payout at the appropriate amount, not a penny more or less. As a result, for both personal and commercial lines, Chubb has the lowest loss ratio of the largest carriers, relatively high customer loyalty scores in its markets and stable premiums in a turbulent environment.

With smarter segmentation in mind, some carriers find it increasingly attractive to outsource the straightforward majority of claims, while keeping more complex and high-value claims in-house. XL, for instance, uses a network of several providers and just a handful of employees to oversee its claims. As an alternative, a number of carriers have opened their own offshore facilities in low-cost locations.

Regardless of who handles the claim, carriers need to choose and manage vendors and service providers, such as car repair shops and medical doctors, with greater care. It's critical to develop a trusted panel of preferred providers that adhere to contracts based on performance,

with distinct service levels and fee arrangements to ensure consistent, high-caliber service on behalf of carriers and customers.

Knotty Claims Untangled

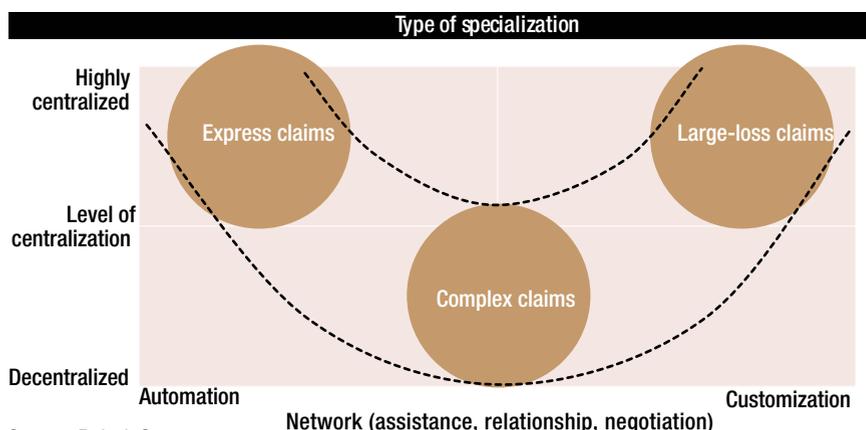
For a typical large carrier, complex claims represent only 5% of cases but 70% of payouts. In response, more carriers have been using expert specialists, either by building specialized claims units or enlisting outside firms.

Santam, a South African multiline insurer, captures key risk indicators when claims are made and triages them into five categories. It settles immediate claims with no further assessment. Merit claims with a high fraud risk are handed to specialists. Other categories may require a visit by a Santam operative. Through triage and greater reliance on specialists, Santam has speeded up its claims processing by 90% for low-risk claims, reduced fraud with its attendant costs and further cut costs through a faster process and fewer visits.

Specialist expertise is proving particularly valuable in three areas:

Litigation management. Forward-thinking carriers have been working to actively prevent litigation. They've also upgraded their in-house counsel and winnowed their external panel to a smaller number of law firms, with greater attention to aligning incentives and focusing on outcomes rather than billable hours.

Figure 2
Thoughtful Segmentation Upfront
Can Reduce Total Claims Costs



Source: Bain & Company

Fraud detection. Among the people disposed to committing fraud, there is perfect information on the street—they know the vigilant and complacent carriers, and tend to target the latter. So it's important for carriers to aggressively pursue the bad guys through tactics including innovative use of data sources and software that recognizes patterns of suspicious behavior.

CNA, a U.S. commercial lines carrier, has tackled the problem through a special fraud unit comprised of two dozen employees with military and law enforcement backgrounds. The company worked with SAS to build a predictive model that identifies connections among multiple claims, such as doctors consistently charging the maximum billable hours. Within a year of implementing the model, CNA had recovered or prevented fraudulent claims totaling more than \$2 million.

Medical management. Carriers have found value in developing a strong network of health care providers that will ensure the right treatment, through outcome-based reimbursement, at reasonable rates. Their double-check of medical necessity can substantially lower costs.

Effective networks emphasize accurate procedure coding and associated bill review. They use nurses and telephone interactions whenever appropriate to manage cases. And for workers' compensation, it's critical to steer policyholders to providers that not only ensure the right medical treatment but also expedite return to any form of light-duty work, which limits indemnity.

Fuel for Future Growth

Many of the recent shifts in claims management have major implications for carriers' organizations. For example, carriers that pursue outsourcing aggressively will need fewer adjusters. For those adjusters who do remain in-house, we expect a dual-path model to become the most sustainable path.

Lower-level adjusters will handle most claims, and for this group, carriers will emphasize throughput and efficiency, as directed by experienced supervisors. Some of those adjusters, along with outside hires, will then be trained and developed to take on more complex or large-loss claims, and perhaps move into specialty lines.

Carriers that aim to fuel long-term

growth, regardless of their strategy or target segments, will take a more systematic and customer-centered approach to claims management. They will look hard at the value of owned versus outsourced resources. And they will embrace digital technologies to improve risk management and the customer's experience—and ultimately, to enhance their economics. **BR**

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