

Insurance Claims Technology: Moving off the Expense vs. Customer Satisfaction Tightrope onto Firm Ground



Analyst Author: **Karen Pauli**

Research Director, Insurance

August 2, 2010

Reference # V64:011

TowerGroup Key Findings

- Claims leaders recognize that the goals of expense reduction and customer satisfaction can be met only through technology adoption, but the path is often unclear because of a glut of solutions.
- For commodity lines of business, less complex commercial lines, and life and annuities, data warehouse and claims administration systems form the bedrock on which carriers can build operational effectiveness.
- Technology for Web-enabled documents, self-service portals, mobility, and electronic signature must be part of core claims capabilities, but the costs should be at the enterprise level.
- Analytics and models are the only means by which insurers can generate sophisticated outcomes for fraud detection, third-party provider management, litigation decisions, and automated workflow.
- Business intelligence and business process management solutions align claims activity for both cost and customer advantage; claims leaders must drive this dual focus in their organizations.
- The scope of claims technology requirements demands that carriers incorporate outsourcing for processes and technology solutions, particularly accelerators, to bring business value in 2011.

Two Charles River Place
63 Kendrick Street
Needham, MA 02494
United States

T +1.781.292.5200
F +1.781.449.6982
towergroup.com

Report Coverage

Insurance claims organizations are under tremendous pressure to find new ways to contribute to the improvement and stabilization of bottom-line corporate financial results. This has always been the case, but the convergence of unprecedented economic and business pressures requires new solutions. Expense reduction and customer satisfaction are nearly equal in importance to claims executives, yet they appear to be in conflict in practical terms. This TowerGroup Research Note provides a view of the technology solutions that carriers must adopt in order to meet expense and customer satisfaction goals. TowerGroup Research Note V63:281, *Insurance Claims Operations: Walking a Tightrope Between Expense Reduction and Customer Satisfaction*, describes the claims business challenges with which carriers are wrestling. Remaining competitive requires a broad framework of technology architected with equal consideration for expense and the customer.

Background

The claims adjusting process is very complex. Claims executives frequently have an underlying group of business issues that affect them differently than do the high-level business drivers of corporate strategy. In Q4 2009 and Q1 2010, TowerGroup conducted primary research on claims operations to determine what business issues and processes were causing claims executives to look at their organizations for change opportunities. Expense reduction and customer satisfaction ranked very close together as business drivers that were leading claims technology purchasers to buy. Under the headings of expense reduction and customer satisfaction are business processes that claims management wants to address.

- **Workflow.** First-call resolution, straight-through processing (STP), and adjuster scheduling.
- **Fraud.** Early detection for routing to the carrier's special investigations unit (SIU), cut off of payment.
- **Subrogation.** Triage of claims from most likely to be successful to least likely, routing to specialty law firms.
- **Third-party service provider.** Continuous monitoring for compliance, customer satisfaction, and fraud detection.
- **Adjuster assignment.** Assigning adjusters based on skill sets, growing global nature of claims.
- **Litigation.** Settle vs. adjudicate, in-house vs. outside counsel, long-tail claim case management.

Although the topics are fairly well established, finding solutions to the problems challenges the thinking of many claims organizations. Technology has matured, and the choices actually may be too numerous.

Claims Automation Stages

In broad terms, insurance carrier automation has tracked with product complexity. Commodity lines with strong data standards such as personal auto and homeowners insurance were the first to automate, starting with policy production and stat systems. For a long time, claims automation seriously lagged other automation initiatives. One primary reason was the stubbornly persistent view that the goal of technology adoption was to replace claims adjusters with machines. Very few claims veterans saw this strategy as palatable or sensible. However, as the role of technology has become better defined and its functionality has matured, claims technology adoption has ramped up significantly. Exhibit 1 details the evolutionary path of claims product automation.

Claims Automation by Product: A Long Evolution

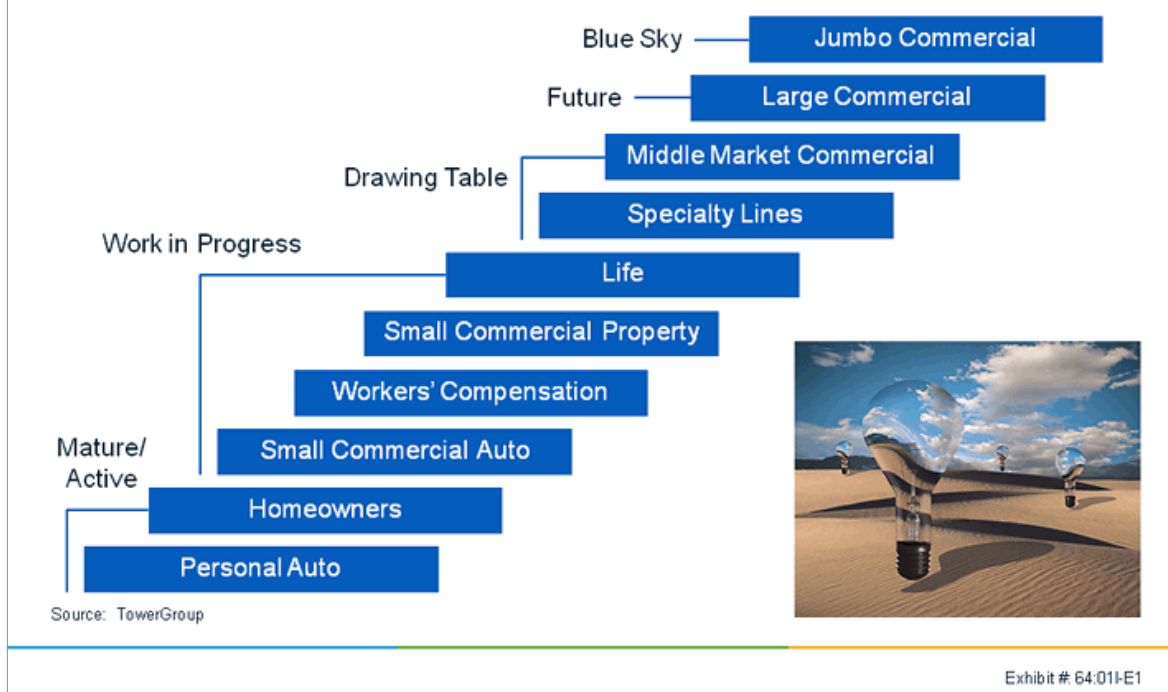


Exhibit 1
Claims Automation by Product: A Long Evolution
Source: TowerGroup

Because of the combination of product commoditization in personal auto and homeowners insurance and high transaction counts, the financial justification for automating personal lines claims was not difficult to establish. Consequently, claims automation in personal lines is mature, many carriers having replaced legacy claims applications with modern claims technology.

For insurers that have excelled at personal auto and homeowners policy automation, automating small commercial lines was not too great a leap of faith, given the similarities of the primary insured risks — vehicles and structures. Claims automation for small commercial lines is tracking accordingly. Workers' compensation is a transaction-intensive product and highly regulated, with many state-prescribed standards. Therefore, automating workers' comp claims is both required and facilitated and is moving forward in its development life cycle. Life insurance is getting a claims processing boost from life policy administration vendors that have included claims processing within their life policy administration systems (for example, HP, Oracle, StoneRiver, and SunGard). For additional information on life policy administration and claims support, see TowerGroup Research Note V62:031, *Emerging Drivers and Vendors in Life Policy Administration*.

Specialty lines of business are just now gaining technology attention. Given the move on the part of some carriers to focus solely on specialty lines, critical business data mass will be achieved and automating claims operations will become both financially feasible and important to do. For middle-market commercial lines, claims automation will take time. Because mid commercial lines are characterized by many unique variables, carrier technology maturity will be necessary to bring automation to bear in a significant way for claims operations handling this market segment. Carriers

that excel at service-oriented architecture (SOA) will be able to bring technology components together to support claims operations for mid commercial lines. For large and jumbo commercial lines, claims automation will have a long tail. Because of the lack of standards or commonality of risks and the extreme complexity of large and jumbo commercial lines claims, fully automating claims processes will not be feasible for carriers. Adopting technology such as imaging and electronic documents makes perfect sense, but core claims administration systems are not likely to be provided by vendors simply because commercial viability is lacking.

Core Technology Requirements

TowerGroup believes there is a core grouping of technology components that all carriers must adopt in order to start on the road to meeting the two main goals that claims executives expressed in TowerGroup's recent survey: expense reduction and customer satisfaction. These seven technology "staples" are shown as a pyramid in Exhibit 2, the foundation of which is a data warehouse and automated data management. Each staple is explored in the following text.

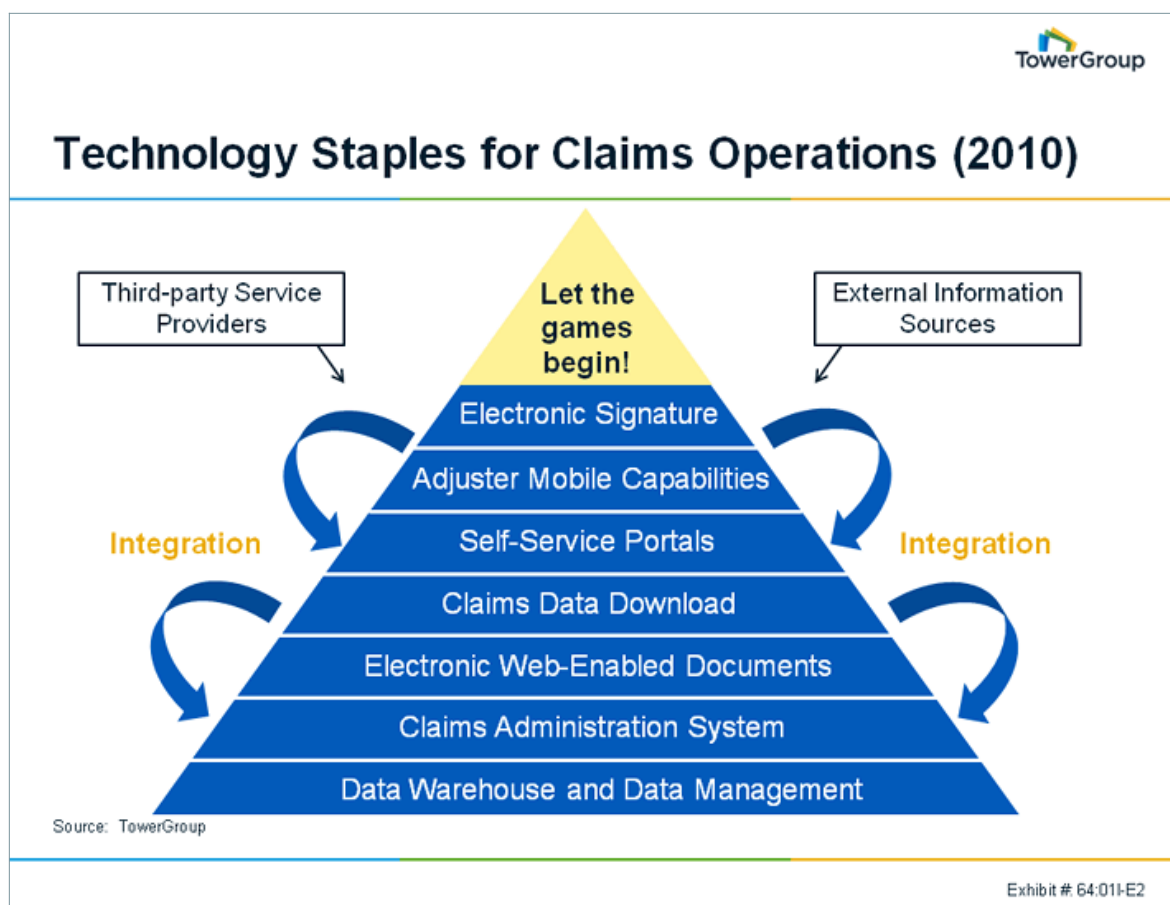


Exhibit 2
Technology Staples for Claims Operations (2010)
Source: TowerGroup

It is important to understand that the technology vendor landscape is diverse and, over time, has become complex. Examples of vendors of some of the technology staples are cited in the following descriptions. Jumbo technology providers such as IBM, Microsoft, and Oracle have solutions in virtually every category detailed in this Research Note.

Data. Data and data management are the critical foundation of automation. Without a data warehouse, carriers will not be able to aggregate data harvested at various process points for self-

service portals and mobility, for instance. Analytics, models, and business process management (covered later in this report) require a data warehouse in order to generate robust business outcomes. Vendors in this space include companies like Teradata.

Claims Administration Systems. Modern claims administration systems are an absolute requirement for virtually all carriers, with the exceptions noted for large and jumbo commercial lines. A modern claims administration system with functionality appropriate to the product line is where data, process, customers, claimants, distributors, adjusters, and call centers all come together to start the settlement process and conclude it. Given that claims operations is a primary buying center, insurance technology vendors have been highly focused on delivering claims solutions. TowerGroup believes there is almost no excuse for not having a modern claims administration system given that solutions can be found at virtually any price point. Claims administration systems can be found as components, end-to-end, hosted, software as a service (SaaS), and cloud, so no matter what a carrier's IT strategy, a claims administration system is available that fills the bill. Indeed, so many claims administration solutions are available today that carriers must be diligent in their vendor selection decisions to ensure that the vendor chosen will still be around in three years or more. In light of the maturity of the technology and the deep claims expertise of many of the vendors, TowerGroup believes there is little justification for any carrier to build a claims administration system from scratch.

Electronic Web-Enabled Documents. The customer requirements for immediacy, convenience, and accuracy together with the enterprise need for expense control and regulatory compliance are the core drivers of adoption of electronic documents technology. Technology providers such as Adobe and EMC Document Sciences have concentrated on providing claims document capabilities with varying degrees of sophistication. Other organizations such as Cedar Document Technologies are able to deliver solutions via business process outsourcing (BPO) for carriers wanting to allocate internal resources in other directions. Considering the global nature of insurance today, electronic communications reduces the challenges of communicating over wide geographies. Electronic documents also control content, an important consideration from a compliance standpoint.

Claims Data Download. The data download building block in the claims technology pyramid relates most critically to the independent agent and broker channel. Independent agents and brokers rely heavily on their agency management systems to manage their customers' products and services. Given that agents and brokers have multiple carrier relationships (averaging between 7 and 13, and far more for large national and global agents and brokers), keeping track of individual transactions is not easy. Yet, in a claims situation, the policyholder expects the agent or broker to know what is transpiring. As insurers have increasingly gravitated to direct report of loss to the carrier, the independent agents and brokers are at a disadvantage because they may not know a claim has actually occurred. This service disconnect is unacceptable on a number of levels. Keeping agency management systems in synch with carrier information has been an issue almost since the inception of agency management technology. Uploading and downloading data from carrier to agency/broker has been the answer to this problem. For a more detailed discussion of agency interface, see TowerGroup Research Note V61:16I, *Survival of the Independent Agent and Broker in 2010: Time for Tradition or Transformation?* Unique to the subject of claims is claims data download. TowerGroup believes that getting claims details from carriers to distributors via electronic data interchange, prominently provided by IVANS, is mandatory so that agents and brokers can provide proactive, rather than reactive, service.

Self-Service Portals. Throughout the life cycle of an insurance claim, there are points when the consumer either may want to talk to a live representative or may prefer complete self-service. Self-service portals are an important claims service component for all carriers. Self-service offers not only customer satisfaction but also equally strong expense reduction. Allowing customers with small, uncomplicated claims to file a first report of loss with the carrier via a self-service portal ultimately saves a carrier money. Claims status inquiry is also important from the perspectives of both expense reduction and customer satisfaction. The inability to obtain claims information

immediately frequently compels consumers to contact state insurance departments and/or lawyers, neither of which actions has a happy outcome for the carrier. Robust integrated claims portals have great potential to divert these actions. Claims portal capabilities must be part of an overall corporate self-service portal strategy so that costs are allocated effectively and consumers are provided consistent service levels.

Adjuster Mobile Capabilities. A mobile phone and a tablet or personal computer for estimating and data gathering are table stakes for field adjusters. Unfortunately, many carriers stopped claims mobility initiatives at this point. However, mobility is not a once-and-done matter. Because of the robust nature of mobile devices, claims applications, particularly those enabling data capture for upload into claims administration systems, can significantly improve the adjuster's efficiency and should be included in carriers' plans of implementation of claims technology. Mobile devices equipped with cameras and video can capture and transmit photos in real time, allowing office-based claims workers to execute tasks and deliver service. Role-based mobility strategies are necessary, especially with a focus on equipping field adjusters, supervisors, and catastrophe teams with devices that conquer past problems with storage, battery life, visibility, and cell tower damage. The fully mobile office is a reality, and adjusters that directly interact with customers and claimants gain efficiency and customer satisfaction when they conclude transactions at the point of interaction. Sprint and Symbility Solutions are examples of vendors that supply mobile capabilities to claims organizations.

Electronic Signature. Electronic signature capability is essential. Web-enabled electronic forms are a fundamental component of a modern claims technology design, and electronic signature capability is the key to eliminating hand-offs of paper documents. Claims processing requires numerous signatures on various process execution documents. This is the case all the way from life insurance claims through to P&C and workers' compensation claims. Without electronic signature, automated processes must stop, print, and mail, which is costly, time consuming, and a disconnect for the many consumers who expect a fully automated environment. In addition to expense reduction and customer satisfaction, electronic signature is a key element in an overall fraud prevention program. Solutions are available from companies like CIC and Silanis.

Integration. A very critical factor for the success of a core claims technology suite initiative as described in this Research Note is integration of data across all technologies as well as with external data sources and service providers. This aspect of implementing claims automation is frequently overlooked or underestimated. Claims organizations are increasingly reliant on external information to improve decisions. Data ranging from geospatial from organizations such as CoreLogic to compliance from organizations such as Wolters Kluwer are required. Given that carriers must be able to manage their third-party service providers and need information from processes to work seamlessly for customer support, it is important that data integration technology be a part of the claims automation road map. Organizations such as Informatica have technology for this purpose.

Prioritizing Technology Initiatives

Although some carriers are well on their way to having all of the technologies TowerGroup identifies as core for claims operations, the great majority of carriers are still in the process of evaluating operational pain points and balancing priorities. Certainly, putting these technologies in place costs a good deal of time and money. This reality can paralyze a claims organization but is a major roadblock that must be overcome. As long as a carrier has a claims technology road map that accounts for the entire stack of technology within the next two to three years, then that carrier is on a good course. Carriers that do not have a detailed plan for deploying technology will fall behind competitively and risk losing their best customers and distributors. In terms of prioritization, it is not coincidental that Exhibit 2 is a pyramid. A modern claims administration system and data warehouse is a good starting point for a carrier just commencing claims transformation. Electronic signature is dependent on electronic documents. Claims download is dependent on policy download. Self-service portal is dependent on everything. The point is: Have a plan that business

and IT can work with.

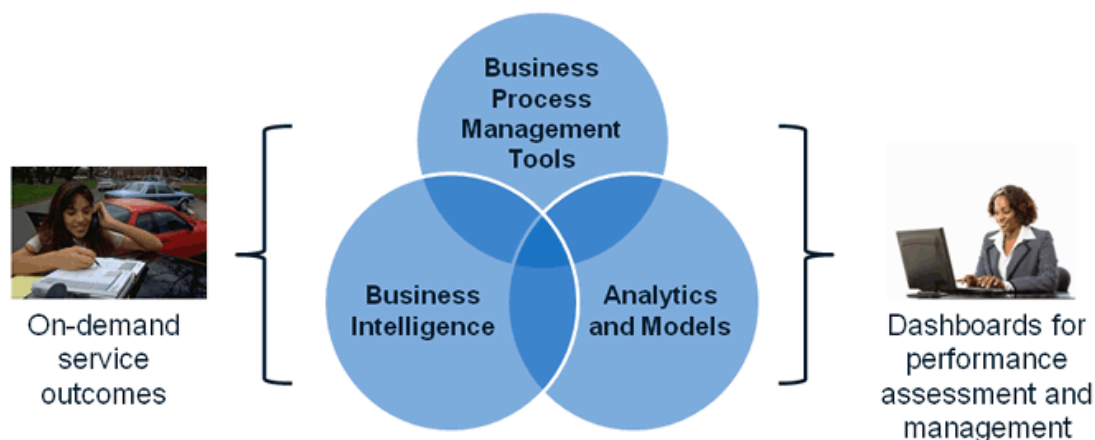
Dealing with the extensive number of claims technology and service providers is daunting. For carriers that want to simplify the vendor selection activity, diversified technology organizations mentioned previously — IBM, Microsoft with its Insurance Value Chain, and Oracle —can provide literally one-stop-shopping for the majority of the technologies and services identified in this report. Diversified organizations can supply everything from hardware to infrastructure to applications and services, which is an appealing option for carriers because it obviates problems of interoperability and integration. Additionally, with jumbo, diversified technology providers, concerns about financial viability and commitment to innovation are rare or nonexistent.

In terms of technology investment, the good news about the technologies forming the claims core is that many are enterprise investments. Data warehouse, Web-enabled document application, self-service portals, and electronic signature software can and should be utilized by all lines of business and across most functional areas of an insurance company. The costs of much of a mobile infrastructure can be shared by other areas of a carrier's organization such as loss control, premium audit, tied agents, marketing, and field underwriters. Adopting an enterprise application does present organizational challenges, but leading carriers will recognize this point and make management changes to deal with them.

Taking Claims Operations to the Next Level

Claims organizations that fully adopt the core claims technology will be able to provide acceptable service and trim costs. However, in order to be an industry leader and to address the claims business issues that TowerGroup has identified as being processes that executives want to change, a carrier must obtain additional technology solutions. Exhibit 3 outlines these additional technologies.

Alignment of Claims Operations' Cost Containment and Customer Satisfaction Goals Through Technology



Outsourcing: Business Processes, KPI Accelerators, Integration

Source: TowerGroup

Exhibit # 64-011-E3

Exhibit 3

Alignment of Claims Operations' Cost Containment and Customer Satisfaction Goals Through Technology

Source: TowerGroup

Managing claims operations by tradition is no longer acceptable. The claims settlement process is too complex, and gaining visibility into data so that performance — both individual employee and corporate — can be managed proactively is imperative. Business intelligence and analytics are necessary to gain full insight into key performance indicators. After understanding the data, business process management (BPM) tools from organizations such as Pegasystems allow managers to execute strategies emanating from models. Superior claims performance comes about when business intelligence (BI), analytics, models, and BPM tools converge to reside permanently together. They must form a circle of technology that is perpetually evolving and growing.

The sophisticated outcomes that claims executives told TowerGroup they needed — first-call resolution, straight-through processing, early fraud detection, triaged subrogation, third-party service network management, skill-based adjuster assignment, litigation decisioning — can be achieved only by utilizing information, analytics, models, and process management tools. In particular, predictive analytics from organizations such as FICO and SAS Institute can correlate data in ways that human workers with manual processes cannot. In a high-volume, information-intensive area such as claims settlement, it is virtually impossible to optimize processes and outcomes without predictive analytics.

Consumer demands for service on their terms and freedom from process rule the day. Carriers that recognize this truth will solutions at the point where BI, BPM, analytics, and models converge. When developing new strategies, carriers must keep an eye on both cost containment and customer satisfaction. They can do this through well-architected and well-executed business

intelligence and analytics initiatives.

Again, the good news about BI, BPM, and analytics/models is that the underlying technology is an enterprise purchase. Clearly, the information and the actual process execution is function specific, but once a carrier has established the vendor relationship and the internal expertise, best practices can be shared throughout the enterprise to optimize the financial investment.

Outsourcing

As stated above, the providers of insurance technology and service realized quite some time ago that claims operations is a significant sales target. Consequently, there are many proven BPO and information technology outsourcing (ITO) providers with claims competencies. The following is a partial list of leading providers with claims skills:

- Capgemini
- CGI
- CSC
- Genpact
- HCL
- iGate Global Solutions
- Infosys
- Keane, Inc.
- L&T Infotech
- Polaris
- Tata Consultancy Services (TCS)
- Wipro

For BPO, competencies fall into numerous areas — for example, first report of loss centers, bill review, back-office paper processing, and even adjusters themselves. Claims executives must review their operations to determine where a BPO provider is better equipped than the carrier's own claims operations from both a cost and service perspective to handle certain processes. Outsourcing is an important strategy that allows carriers to free up skilled employees so they can focus on high-value tasks that are competitive differentiators.

Some technology initiatives fall within carrier's comfort zones, and some do not. For most carriers, implementing a claims administration system or an electronic document system falls into a comfort zone. While the technology itself may be new, the steps toward conclusion of the project and the ultimate outcome are familiar. However, when contemplating BI, analytics, and models, most claims executives and claims IT professionals start to squirm in their chairs. In addition to the discomfort is the pressing need for technology initiatives to deliver business value quickly —in under a year and preferably within six months. BI, analytics, and model initiatives do not historically correlate with speed of adoption. Fortunately, some technology providers have developed key performance indicator (KPI) accelerators and solution accelerators that significantly reduce the time required to bring business value to fruition. Carriers must consider KPI accelerators, particularly if actuarial and business analyst resources are scarce or new to these disciplines.

Integration of systems has been the point at which many insurance technology implementations lose momentum or, worse, fail to deliver promised business value. TowerGroup believes that one of the most important technology trends over the past 18 months is the accelerated growth of vendor partnering strategies. Leading technology providers will be able to introduce integration partners that are fully familiar with the technology. Carriers would be well served to strongly consider employing integration specialists that have successfully integrated specific solutions in the past.

There is no room, either competitively or financially, for failed solution integration. Moreover, few carriers can afford the time it takes to get internal staff up to speed on new applications.

Collaboration

At the end of the day, claims is a people business. This was a common attribute found in the TowerGroup claims study. Clearly, a human being does not need to be, nor should be, involved in each transaction. However, at critical points of interaction, a good number of individuals — agents, adjusters, lawyers, doctors, and others — can have a stake in that interaction. Exhibit 4 illustrates this point and expands the scope.

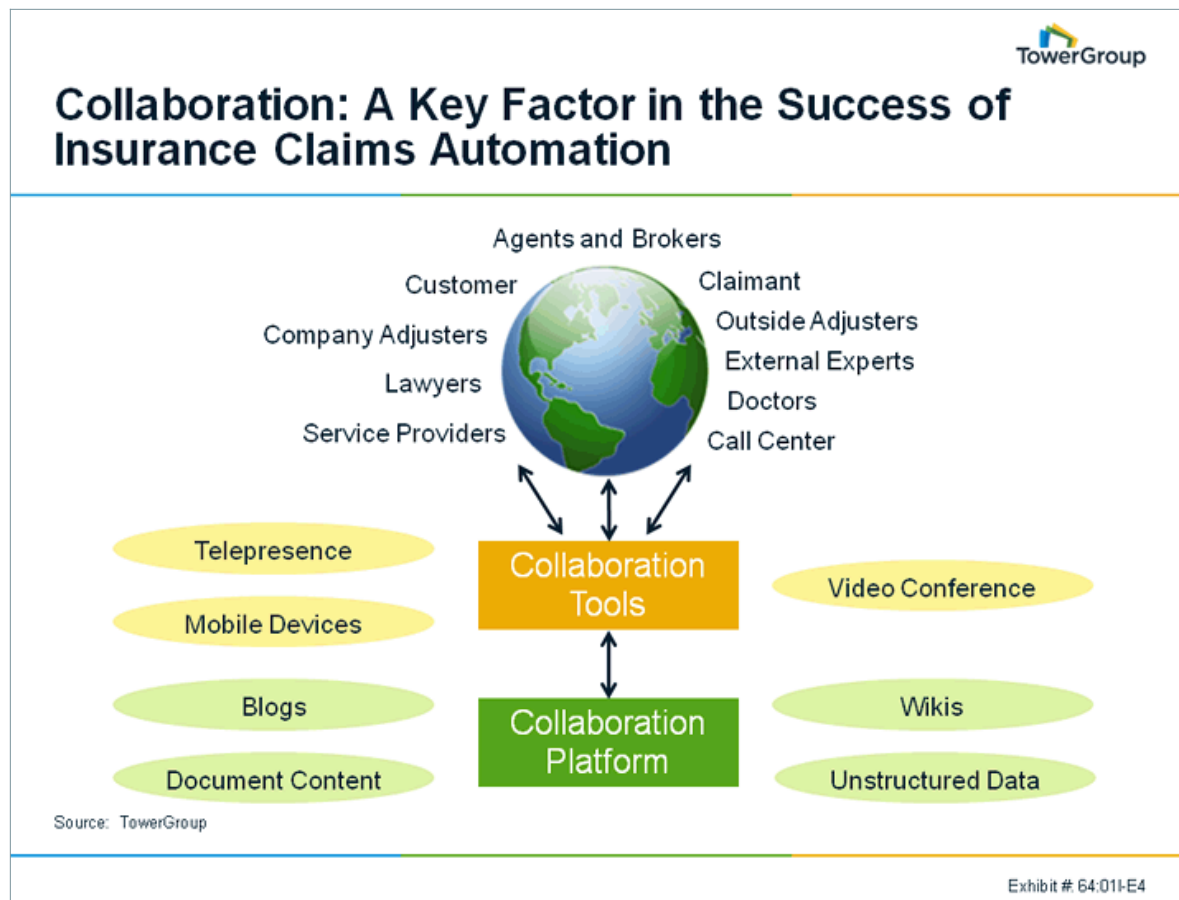


Exhibit 4

Collaboration: A Key Factor in the Success of Insurance Claims Automation

Source: TowerGroup

Real-time collaboration among all parties to a claim is vital to improve the performance cycle. In the past, connecting all the appropriate parties involved in a claim required multiple phone calls and a lot of scheduling. Rarely would all interested individuals meet together. This resulted in frequent misunderstandings and delayed outcomes and sometimes even lawsuits. These problems are compounded by the growing global nature of business and resulting global nature of claims, particularly in commercial lines of business. Carriers must connect home office experts with industry experts, medical personnel, and lawyers who may not even be located on the same continent. Given that many carriers utilize remote or outsourced claims call centers, connecting call center personnel who are assisting a claimant with claims experts is another example where collaboration is important. Video conferencing and telepresence facilitate real-time collaboration. Mobile devices ensure that individuals can participate regardless of their physical location. Technology providers such as Cisco and Sprint play an important role in making such collaboration

possible.

Open access to information is another component in the collaboration chain. Information pours into carriers' operations from many internal and external sources, including everything from documents to blogs and wikis, with much of the data being unstructured. Historically, information has resided in siloed business operations with no integration. This arrangement allows for reference but not collaboration. A collaboration platform such as Microsoft's SharePoint provides a central repository for information that can be accessed on demand. Real-time information sharing and collaborative problem solving will meet customer satisfaction goals as well as reduce process cycle time, thus reducing expenses. Collaboration is an enterprise issue, and so the technology spend is not just for claims but for all departments. This continues to be good news.

Recommendations

By now, carriers either should have adopted or be planning to adopt the seven core technologies identified by TowerGroup as core claims technologies. The two- to three-year window for adoption to avoid becoming uncompetitive does not allow for protracted debate. The greater opportunity lies in the role of the chief claims officer as a sponsor for the enterprise solutions, particularly data warehouse, BI, BPM, analytics/models, and collaboration. In terms of the improvement that claims automation can contribute to a carrier's bottom-line financial results and the pivotal role that claims plays in customer satisfaction, few other line-of-business heads have as much potential to drive corporate transformation as does the head of claims. Claims executives can justify corporate investment in technology, and they must play a key role in steering their companies toward adoption.

Summary

Claims executives have a choice: Either invest minimally in technology and relegate their company's single most important point of consumer contact to, at best, mediocrity and, at worst, ineffectiveness. Or invest fully in core claims technologies and optimize with business intelligence tools, business process management tools, analytics and models, and collaboration technology, thus creating a claims organization positioned for sustainable innovation with expense reduction and customer satisfaction firmly entrenched. While the needs of claims organizations are unique with respect to claims administration systems and claims data download, most other technology components needed for claims automation are enterprise solutions: data warehouse, electronic Web-enabled documents, self-service portals, mobile capabilities, and electronic signature.

The breadth of technology requirements may appear daunting to many insurers, but outsourcing — both business process outsourcing and information technology outsourcing — can dampen the impact and should be part of an overall claims technology road map. Claims operations executives do not have to walk a tightrope between their top two business drivers. Through the use of the leading technologies, claims organizations can solidly meet expectations regarding both expense reduction and customer satisfaction and be positioned to handle the challenges of the future.