



Get a Handle on Claims:
Reduce Reserves,
Increase Efficiencies and
Improve Customer Service

Special Notices

© 2002 FINEOS Corporation Limited

Confidential

This work is protected by copyright. No part may be reproduced by any process without written permission from FINEOS Corporation Limited.

The information in this document is believed to be accurate in all respects. The company and its divisions and subsidiaries cannot, however, assume responsibility for any consequences resulting from the use of this information. The information contained herein is subject to change; revisions and new additions may be issued to incorporate such changes.

FINEOS Corporation Limited
Pembroke House,
8-10 Lower Pembroke Street
Dublin 2, Ireland

Telephone: + 353 1 639 9700
Fax: + 353 1 639 9701
Email: info@FINEOS.com

Title: Get a Handle on Claims: Reduce Reserves, Increase Efficiencies and Improve Customer Service

3

Table of contents

Abstract	4
Why claims handling is under scrutiny	5
The underwriting cycle	6
Leakage	7
Customer service	8
Stumbling blocks to effective claims handling	9
Time lost to low-value functions	9
High rates of staff turnover	9
Out-of-date technology	9
High level of human intervention	9
Swathes of documentation	10
Managing contacts	10
Are risk practices consistent?	10
Managing the claims pipeline	10
Solving the problem	11
The FINEOS Claims Management solution	11
Case Management	13
Document management	14
Relationship management	14
Integration with expert systems	15
Management information	15
Graphical User Interface	16



4

Abstract

This paper looks at the claims handling process. It examines the environmental forces that are affecting business, such as the underwriting cycle, leakage, and the pressure to increase customer satisfaction.

The paper touches on some of the key issues in the claims process, including the high level of human intervention it involves; risk practices; and management of claims pipelines. It concludes with a look at six areas in which the FINEOS Claims Management solution optimises the claims handling process.



5

Why claims handling is under scrutiny

“Claims professionals evaluate almost US\$200 billion annually, yet operate in the ice ages of information efficiency.¹” This was one of Deutsche Bank Alex Brown’s more choice assessments in its recently released report on claims handling.

Claims handling is certainly the part of the business that most readily lends itself to both cost control and efficiency improvement measures. Indeed, a recent review of insurers’ claims operations underlined the critical role that claims can play in determining profitability. The study was conducted by Accenture, and involved analysis of more than 7,000 settled claims and interviews with over 3,000 claims personnel in North America and Europe. The findings were dramatic and are summarised in Figure 1.

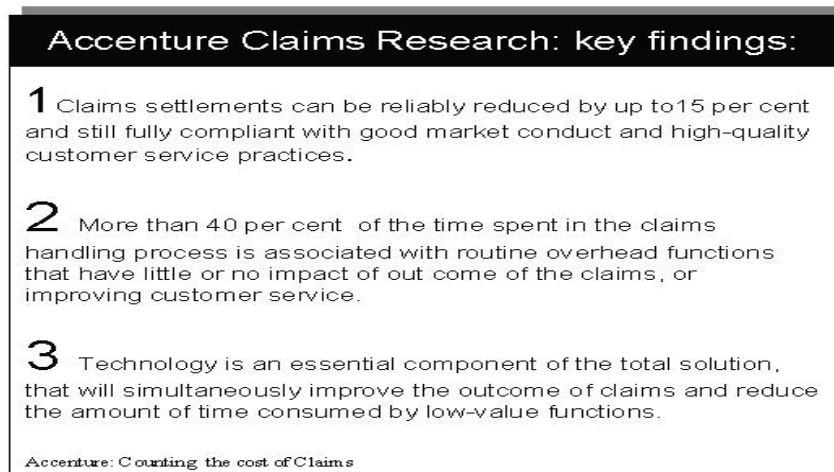


Figure 1: Key findings of Accenture research into the claims handling process.

Certainly the facts provide damning evidence of how inefficient a process the claims function can be. It is the single largest overhead in an insurance company, accounting for an average of 80% of total overhead. Yet, remarkably, analysts calculate that more than 40% of the time spent in the claims handling process is associated with routine overhead functions that have little or no impact on the outcome of the claim².

¹ Guyan, V. “Conquer the paper mountain.” *Post Magazine*, 22 Nov. 2001.

² Accenture, “Unlocking the Value in Claims”, April 2001

6

The underwriting cycle

The pressure on the industry to streamline its claims process is compounded by the fact that the underwriting cycle over the past 20 years has failed to deliver a positive result for the general insurance market as a whole. Today investment returns are too market-dependant to offer profitability safeguards. This means the insurer must improve the performance of its core insurance business.

The UK motor insurance industry ran at a £1.3 billion underwriting loss for 2000 (i.e. net premiums were £7 billion while total expenditure, including claims, ran up to £8.3 billion). Meanwhile, non-motor insurers suffered an underwriting loss of £433 million (i.e. net premiums of £12.8 billion were offset against total expenses of £13.2 billion)³.

To date, the industry has largely accepted this situation – i.e. an underperforming core insurance operation – safe in the knowledge that profits can be shored up by investment performance. The longevity of this business model is questionable, primarily due to today's volatile stock market and the uncertain global economic climate that prevails. Needless to say the pressure to increase shareholder value further undermines the prevailing situation.

Hence, the onus is on companies to reduce operating costs; this is even greater given a certain set of underlying changes to the general insurance business. These factors include a growing culture of litigation, increasing demand on insurance companies to cover accident-related medical treatment, and rising claims for bodily related injuries.

³ Association of British Insurers, 2001

⁴ Association of British Insurers, 2001

7

Leakage

And of course there is also the issue of leakage, the crippling and unnecessary cost paid during the claims process. Indeed, conservative estimates put leakage at 8% of total settled claims⁵. Recognising and identifying the causes, such as those listed below is not the issue. But identifying solutions that can address some of the key areas is.

- Fraud – according to the Association of British Insurers, 3.7% of every premium paid is the direct result of fraud;
- Recoveries management; and
- Extra handling costs caused by inefficiency in administration.

There are a number of environmental factors that contribute to leakage. These include high levels of merger and acquisition activity; the constant pressure to speed up time-to-settlement; handling claims on reduced levels of information and in alternative methods (paper and electronic); and the advent of more fragmented supply chains. The upshot is that claims handlers often have to use multiple systems and have reduced access to specialist information that they may have previously enjoyed.

⁵ Bower, A. "Claims Leakage" *20:20 Vision*, Winchester White, July 2001.

8

Customer service

The insurance company who deals with leakage effectively can improve its market position – as claims efficiency increases, the corollary is that customer service will also improve. And there is a definite clamouring to increase customer satisfaction and meet growing customer expectations, expectations on price and service that have transformed over the last decade.

Remarkably, evidence shows that customers rank service as being more important than the value of the claims settlement. Analysts have found that 94% of U.S. consumers who have filed a property and casualty (P&C) claim cited quick resolution of an insurance claim as highly important to their satisfaction with the claims process, while only 74% of respondents stressed the importance of the settlement amount offered⁶.

Forty-two percent of settled claimants expressed dissatisfaction with the amount of time it took to settle their claim. And more than four in ten (41%) expressed dissatisfaction with their claim representative's ability to keep them informed of their claim status.

In another survey by Chubb Group of Insurance Cos., it found that 76% of respondents believe claim service is a significant factor – if not the most important factor – in selecting a new P&C insurer⁷. And customers have become quite happy to move if service is not up to scratch.

More sophisticated, spurred on by a vigilante-like media sector and with the advent of telephone- and internet-based sales, customers have become more likely to change supplier; they are quite happy now to shop around for their commodity-type insurance products. This has had a profound effect on retention rates.

The overriding incentive for insurers to improve operational efficiency is that the claims function is, in effect, the shop window – it's where companies handle the customer experience. As a consequence, there is unrealised commercial opportunity in the claims process – on the service end but also at the sales end.

Claims management is not all about cost-cutting: effective claims handling offers the potential to better understand customers, to gather information at source of contact, filter that information for marketing purposes and if cued properly this information can be used for cross-sell opportunities.

But first a look at the specific stumbling blocks to unlocking those commercial opportunities.

⁶ Accenture "Consumer Satisfaction with Claims Experience Directly Affects Likelihood of Customer Loyalty to Insurance Carrier" Risk Insurance Management Society (RIMS) Conference in New Orleans, Louisiana April 2002.

⁷ Chubb Group of Insurance Cos. "Influencing the Insurance Purchase", June 2002.

9

Stumbling blocks to effective claims handling

To improve claims income ratios there are several options: a company can increase premiums; it can seek to improve the quality of business written; it can reduce the amount paid out in claims; or it can reduce claims handling expenses and loss costs.

At best, some of these traditional strategies typically yield short-lived success; at worst they can eat into volume and potential market share, and damage customer service levels.

A smarter approach is to analyse existing performance and see where efficiency, transaction processes and customer service can be improved. A closer look indicates that there are eight underlying issues that contribute to the inefficiency of the claims process.

Time lost to low-value functions

First, the amount of time lost to low-value functions is the bane of the claims handling process. A lot of claims handling is tied up in time-consuming chores such as document processing, keeping records, generating letters, telephone inquiries, photocopying, sending faxes, etc. These low-level activities do not add to the quality of the claims settlement.

High rates of staff turnover

Second, the claims function is a labour intensive process, which is ravished by high rates of staff turnover, reportedly at 23% per annum⁸. This can effect consistency in loss adjusting.

Out-of-date technology

Third, its staff operates with outmoded technology, ageing “greenscreens” technology that is unsatisfactory for the modern business environment.

High level of human intervention

Fourth, it involves a lot of human interaction, which complicates the process; especially if it's not properly documented and monitored. Involved in any claims case, there can be an assortment of parties, outside of the customer and insurance company. These include the third-party insurance company, brokers, solicitors, suppliers, repairers, valuers and assessors, rehab consultants, physicians, to name a few.

These parties contribute to a lot of communication. Orchestrating the flow of information that develops over time can be an arduous and messy process. More critically, the bulk of leakage is caused by the fact that there is such a high level of human intervention.

⁸ This figure comes from confidential research conducted by FINEOS.

10

Swathes of documentation

Typically, the claim file will act as the central repository for related information on a claim. Problems obviously arise because of the volume of documentation that builds up. Claim documents, faxes, callback slips, solicitors' letters and medical reports can all end up being crammed into a paper folder. Appropriate access to necessary information for interested parties can be difficult and slow, as well as error prone if done manually.

Managing contacts

That's from the documentation aspect of it. Other less tangible issues arise as well. With so many parties involved in the process, it's difficult to keep track of the various contacts that exist. Are these relationships organised in a way that is easy to objectively assess the status of the claim? Perhaps more pertinently are the processes in place to standardise the management of these relationships? More often than not, they aren't.

Are risk practices consistent?

Claims handling is about one thing: decision making, and managing how those decisions are made. It's vital, given the complexity of the claims process, that the risk practices applied are consistent across a claims team, and that everyone applies the same framework and philosophy to the same claim type. Inconsistent applications of best practices in recovery, fraud, injury management, supplier interaction and negotiation can significantly add to costs.

The underlying framework for good decision-making, risk practices and documentation is about science and good practices. The key issue is about how you ensure that the proper practices and principles are being used – consistently and uniformly.

Managing the claims pipeline

Finally, there's the issue of effectively managing the claims pipeline because it impinges on how companies manage their reserves. It's critical to know what is coming through the process and what is being paid out.

Also, there is a real need to collate and analyse the data that accrues in the claims process in order to inform underwriting practices. This involves highly sophisticated information gathering and analysis.

At a more micro level it's important for supervisors to be able to properly monitor performance for claims teams and individuals.

11

Solving the problem

Technology can help to alleviate these problems. FINEOS has designed a system that⁹ orchestrates the bulk of the tedious, error-prone processes tied up with claims. It can reduce time spent doing routine administrative tasks – such as document processing, generating letters, telephone inquiries, photocopying, sending faxes, etc. – by half, at least.

The FINEOS Claims Management solution

The solution works by acting as the central hub for the claims handling process. (See Figure 2.) Driven by workflow automation, it ties in call centres and includes role-based portals for interested parties in the process so that information can be accessed easily and tasks triggered and monitored automatically. It also integrates in real time with a range of document, third party and legacy systems, including general ledger systems.

FINEOS Claims Management combines sophisticated business automation with powerful customer relationship management (CRM) components, orchestrating the bulk of the tedious, error-prone processes tied up with claims handling. The system puts key information – from claims data capture through all stages of case management – at claims personnel's fingertips, consolidating customer, policy and involved-party information and documentation, making it accessible in real time. Furthermore, by leveraging access to this data via secure portals, the solution fulfils customer's self-service needs.

These components provide a multi-channel and self-service capability, (for example, claims submission from a number of sources and web-based progress/reporting). They are extremely flexible and "open" to legacy and third-party systems integration. This includes intelligent claims routing and assignment plus task creation and balancing, combined with document production. Furthermore, the solution's straight-through processing capability allows seamless real-time legacy system updates.

Improve efficiency by 25%

FINEOS recognises that a holistic approach to claims management, which includes support for the integration of the supply chain, is essential. The Supplier Management function must incorporate steps to monitor and improve service levels, including a means to control pricing within the procurement model.

The FINEOS solution is capable of delivering an increase in efficiency around the claims process of 25%, reducing the overall cycle time, and manual intervention, for many claim types. Additionally, this solution creates a means to reduce leakage. One such example is stricter

⁹ Designed to cater for personal and commercial lines of business, FINEOS Claims Management is made up of customised components from the FINEOS product factory. For more information, contact info@FINEOS.com

recovery management triggers and processes. Indeed, the FINEOS Claims Management application has produced some impressive results to date on customer sites, including the following:

- 40% reduction in claims handling cycle times at Fortis Benefits (US)
- 15% reduction in claims' administration costs (CORE, Inc.)
- 1% reduction in annual reserves through tighter claims management processes at Delta Lloyd (part of Aviva, The Netherlands)

Proven technology

In addressing claims management, it is important to look at complementary solutions that enhance existing legacy systems and to use specialist component-based modules. From an IT perspective, the focus is shifting to solutions that move away from core legacy system changes and modification. This new breed of solution concentrates on niche components that support best practices within IT-driven processes, ensuring more specialised segmentation of transaction processes.

The FINEOS CRM component, workflow components and internet portals have all been implemented across leading financial services companies in their own right. The FINEOS Claims Management solution embraces all of the specialised functionality inherent in each component. It provides a very powerful and flexible solution that can be deployed and configured in a variety of innovative ways for the challenges identified in this paper.

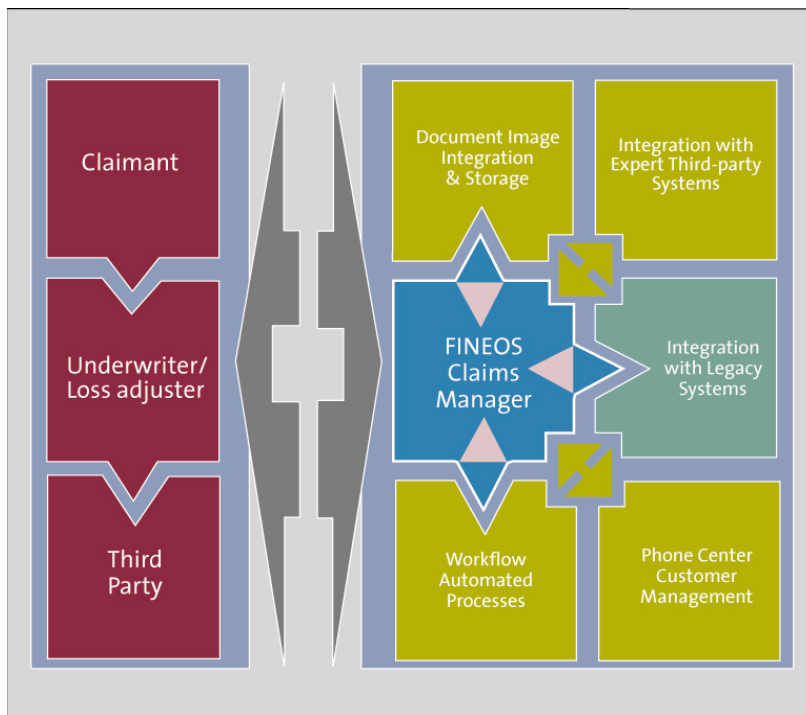


Figure 2 A high-level view of the FINEOS Claims Management system Model.

13

The solution addresses six areas in particular.

Case Management

The case management functionality helps to co-ordinate the various parties in the claims process – e.g. desk adjuster, supervisor, field adjuster, assessor and case manager – and provides staff with appropriate, real-time access to claim file information. This leads to speedier claims payments and reduces call centre traffic because accurate claims status information is always available online.

Indeed, the central case management repository can act as the ideal mechanism for strategically aligning your business processes such as centralising your recovery department so that its members have easy access to complete case information.

Task management

Each contact, task and prompt associated with a claim is located within the central case management repository. Powerful workflow management automatically creates, allocates and monitors these tasks, as appropriate.

For example, recovery tasks can be triggered automatically or when claims come into the organisation a series of tasks are kicked off: a claim profiling component will use advanced modelling techniques to identify claims with similar attributes and match them to the appropriate profile. Based on the areas of matching, specific tasks can be assigned to adjusters.

This ability to intelligently trigger activities helps to reduce the number of times an adjuster handles a claim, and frees up users for more complex tasks. In turn, this can radically improve the turnaround time of claims. For example, it can reduce disability claim cycle times from five days to three days, at least.

Auto underwriting also helps to reduce the number of hand-offs. Effectively, this means that thousands more claims can be adjudicated without human intervention.

But the critical benefit of this level of automation is that the room for human error is greatly reduced as tasks are always accounted for. This has a huge impact on leakage rates.



14

Document management

One of the key benefits of the system is its document management capability. Where paper is used, the solution can image all incoming files. When, for example, a fax comes into the office, it can be sorted, scanned and indexed so that there is no more paper in the workflow process.

Once documents are scanned into the system, the documents are routed automatically so that information is processed and gets into the hands of decision-makers faster. The system also automatically captures outgoing letters and documentation.



Relationship management

From the customer's perspective claims management is a slow, irritating process with practically no transparency. Invariably, when customers phone an insurance company to check on the status of a claim, not only does it take time and effort, the insurer incurs the cost to support this service.

As John Parker, Head of General Insurance at the Association of British Insurer's states: "While insurers are good at explaining the claims process at the outset, claimants need to be better and more regularly informed about the progress of their claim. And attention needs to be paid to ensure that customers can be confident that, if they have any complaint, it will be handled fairly and quickly."

Auto-service capabilities alleviate this problem by adding transparency to the process for customers – and third parties. The FINEOS Claims Management system provides secure web-based portals for each interested party – such as agents, policyholders and garages – in the process.

These portals enable interested parties to trigger tasks – from assigning work, requesting estimates to the flow of medical data – and view information as required. The system automatically filters this information into an electronic claim file system.

For example, a claimant (or broker) can have the ability to submit a claim via an electronic form (or via phone or fax), monitor its progress and request further information. All these activities are orchestrated by intelligent workflow that routes tasks appropriately, helping to avoid manual hand-offs. The result is fewer calls and lower operating expenses.

Increase sales opportunities

That's from a service perspective. The unique selling point of the FINEOS Claims Management solution is that it harnesses CRM techniques so that all customer information is gathered and integrated into a single customer view. In turn, this information can be profiled and used to prompt agents with appropriate cross-selling opportunities.

15

With the provision of a fully integrated, comprehensive single view of the customer, the solution enables insurers to identify and capitalise on customers' needs as an integral part of the claims cycle, providing the means to truly focus on the customer relationship.

With the solution, claims experience becomes an opportunity to further understand customer requirements together with providing the opportunity to fulfil them. It enables claims handlers to discretely exploit opportunities for gathering customer information, and to impress and ultimately retain more customers.

Workflow with fully integrated case and contact management is an integral part of the solution. There is a particular focus on using the processes to cross- and up-sell from information accrued, all from a single electronic claims file which includes a complete sales view of a customer's history.

Integration with expert systems

Most insurers prefer to tackle fraud at the proposal stage by studying a proposer's claims history before granting a policy. As the industry moves towards more business being done through highly automated call centres, the ability to check claims history online is being incorporated into call centre agent systems more and more.

The FINEOS Claims Management solution provides the glue that populates expert systems such as Glasses Guide vehicle selection, Postal Address File (PAF) validation, etc. For example, for the auto industry solution, it can integrate in real time with the following systems:

- Experian, the UK database that provides customer and vehicle details and a Fraud Check component, providing details of people who may have a history or potential history of fraud. The Experian Car Data Check component provides full details of a vehicle based on registration number and/or VIN number.
- HPI, the UK database that provides details of vehicles still on Hire Purchase, previously crashed or stolen.

Management information

FINEOS Claims Management provides managers with a bird's eye view of each claim case, enabling them to monitor individual and team performance. The solution also provides effective pipeline management, helping to ensure that financial projections are more effectively balanced with reserves.

16

Graphical User Interface

The FINEOS solution provides users with a claim desktop that provides claims representatives with an easy-to-use graphical user interface (GUI) of the various systems available to them such as imaging software, estimation systems, and so on. This common look and feel supports easy navigation, minimises training on the systems and maximises utilisation of their tools.

[Contact FINEOS for a demonstration of FINEOS Claims Management or for any queries you have about this solution.](#)

<http://www.FINEOS.com/Claims>

