IBM **Information Management** software

Driving Competitive Advantage in Property Casualty Claims Management

Overview

Insurer-insured relationships begin with the promise of good coverage for a good price; however, it is the handling of a customer's claim that can most dramatically reinforce or diminish a carrier's brand equity. Great marketing and sales may have won the customer, but the moment of truth occurs at the time a claim is made.

Over time, even the most mature industries experience dramatic periods of change. For insurers, managing claims is no longer strictly limited to just determining the benefits payable and dispersing payments. Claims management has evolved into a complex ecosystem with a complete lifecycle of its own, complicated by the requirements to comply with a host of mandates and regulations. No longer just a means to fulfill contractual obligations, claims processes have become a key battleground for competitive differentiation as more carriers seek to distinguish themselves from their competitors as a way to retain existing customers and attract new customers.

Challenged by slow industry growth, carriers are investing in major branding campaigns, strengthening the agent channel and establishing an aggressive presence on the web. Yet, customer loyalty is fragile. If a carrier cannot deliver upon their claims service promises, even the most robust advertising campaigns cannot override a reputation for poor claims service. Carriers are seeking to differentiate themselves and support their brand strategies with claims management as a cornerstone. To drive this competitive differentiation, the time has come for a strategic management approach that increases the value of this brand asset, and includes leveraging an enterprise view of the customer, strengthening supply chain management, implementing innovative approaches to customer care, and increasing productivity to efficiently and accurately adjudicate claims.

The Customer Experience Remains Number One and Goes Public

Insurer-insured relationships begin with the promise of good coverage for a good price; however, it is the handling of a customer's claim that can most dramatically reinforce or diminish a carrier's brand equity. Great marketing and sales may have won the customer, but the moment of truth occurs at the time a claim is made. During this window of opportunity, a carrier has one chance to make the right impression when a claim is filed to deliver quality, prompt customer service. There are no "do-overs" to erase the impression of poor claims service.

Particularly in personal lines, the inherent emotional elements of a claim demand that carriers take into account the customer experience while their claims are being adjudicated and eliminate any inconveniences to customers as a result of delays or other reasons. Speed in claims settlement is universally acknowledged by carriers as improving their bottom line, but it is also an absolute imperative from

the perspective of today's "now" society. Perhaps even more important than speed, customers' service and communication expectations are rising, and increasingly shaped by industries outside of insurance, such as travel and retail. Information and insight become the common denominators, regardless of the length of the settlement process or the number of participants. By bringing transparency into the claims process through the use of business process and technology, carriers can immediately improve service to claimants. They can provide visibility into the status of claims and other value added differentiators such as triggered communications related to the process to proactively inform customers at key milestones. Strategically, this communication should not be looked at in isolation of the claims process, but as a component of improving the customer experience as part of the longer term branded relationship.

More than ever before, the result of a claim settlement no longer represents merely the satisfaction level of a single claimant. Individual experiences are influencing public perception of carriers through internet blogs and discussion groups, creating a vicarious customer satisfaction experience. As these tools have gained in popularity, in part due to their acceptance as open and honest forums, so has their sphere of influence.

The insurance industry continues to score poorly in customer satisfaction surveys and indexes. In a recent survey of companies conducted by Business Week, only two insurance companies were included in the top 25 companies identified as "The Customer Service Elite" by the publication.[1] The insurance industry is also plagued by negative press coverage especially due to unsettled claims years after major catastrophes. This heightened awareness of service delivery by carriers cannot be overlooked.

Of potentially more impact, insurance carriers are increasingly being included in the studies of various industries measured by independent service rating firms, further reinforcing the potential importance of customer satisfaction and claims service. Since 1999, J.D. Power and Associates has been more active in assessing customer satisfaction received from auto and homeowners insurance carriers. The American Customer Satisfaction Institute (ACSI) has conducted surveys of various property casualty carriers and rates a select group of carriers on an annual basis. Since ACSI began its rating surveys in 1994, the cumulative rating of satisfaction with major property casualty companies has declined by 4.9 percent.[2]

The J.D. Power and Associates 2006 Collision Repair Satisfaction Survey reported that nearly one out of every five customers contemplate changing insurance companies after they have filed a repair claim.[3] In this survey, respondents also ranked the claims/estimation process as the most important factor driving their satisfaction. Studies have also shown that customers who receive prompt claims settlements are more likely to renew with their existing carriers.[4]

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[1]   Jena McGregor with Frederick F. Jesperson, Megan Tucker and Dean Foust, "Customer Service Champs," Business Week, 5 March 2007.

[2]   The American Customer Satisfaction Index, "Scores by Industry: Property & Casualty Insurance," 2006, <http://www.theacsi.org/index.php?option=com_content&task=view&id=147&Itemid=155&i=Property+%26+Casualty+Insurance>.

[3]   J.D. Power and Associates, "J.D. Power and Associates Reports: Nearly 20 Percent of Customers Consider Switching Auto Insurance Companies Following Their Most Recent Collision Claim," 9 January 2007, <http://www.jdpower.com/corporate/news/releases/pressrelease.aspx?ID=2007004>.

[4]   Ray Matthews and Bob Crowther, "Property and Casualty Claims: Transformation Path Made Clear," IBM, October 2005, p1.

J.D. Power and Associates 2006
Collision Repair Satisfaction Survey

Factors Driving Satisfaction
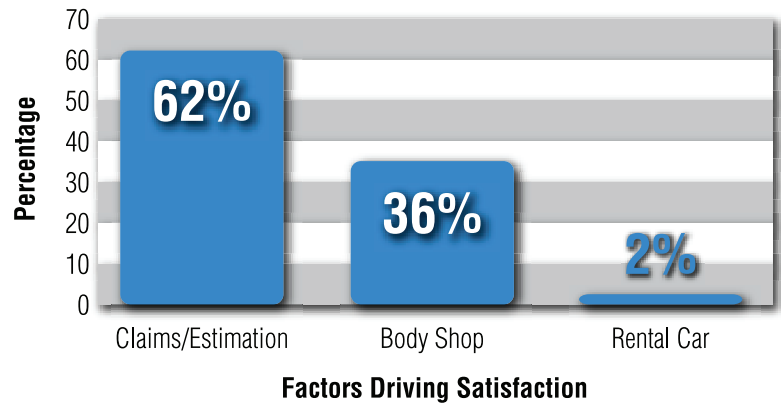
If claim settlement satisfaction has an impact on customer retention, the corollary for P&C insurers is to tap a pool of potential customers, third parties involved in accident claims. By delivering upon its service promises and communicating its brand values to third party claimants (and potential customers) through claims management practices, the favorable service experience may influence the claimant to consider changing carriers. To do so requires taking a strategic approach that provides an enterprise view of existing and potential customers' relationships, with the necessary information and processes that cross insurance enterprise silos. In this case, carriers must collaborate with marketing and sales in this process and convert this individual from claimant to customer. Without the ability to implement cross-enterprise information and processes, this potential conversion is not possible.

Claims Management: A Collage of Outsourcing

For every insurer, the claims process has evolved from merely writing a check into a complex value chain that includes a colorful collage of outsourced goods and services: repair vendors, litigation specialists, subrogation services, claim information providers, and appraisers to name just a few. Few claims executives would acknowledge that they actually "outsource" these processes, referring instead to these providers as "vendors." Not unexpectedly, this mindset has led to the unintended result where the evolution has resulted in just as many "one-off" solutions as vendors, where carriers have disconnected these providers from their

"core" claims process and systems. For claims professionals, this lack of integration results in claims files that are incomplete, difficult to access or share, and processes that are disconnected and broken. For customers, this lack of cohesion often results in erratic customer service levels impacting satisfaction.

Customers become frustrated by the elapsed time in the claims process, and particularly when they perceive a lack of progress or interest in resolving their claims. This collage of claims process participants creates many potential failure points; however, in the eyes of the claimant, the buck stops with the insurer. In addition to its negative impact on reputation and customer retention, the perceptions of service failures reduce the ability of a carrier to use its claims management as a competitive differentiator. According to J.D. Power and Associates, 44 percent of a claimant's overall impression of their insurer is the result of satisfaction with their auto claim handling. [5]

The need to improve claims management is clear, but claim professionals are handicapped by the current state of their systems and processes. To compete, carriers must assert stewardship over the entire claims management lifecycle, including integrating the supply chain with claims adjudication. Orchestrating processes through service providers who are part of the preferred supply chain network allow adjusters to direct, oversee, and intervene while management gains unprecedented visibility. Customers also receive services faster and at predetermined cost levels. As a result, the carrier enjoys a more predictable claim cost model.

Implementing Supply Chain Management for Effective Claims Management

Effective supply chain management begins with the carrier qualifying and recruiting service providers for a range of services. Supply chain participants can include repair facilities, rental car firms, independent adjusters, appraisers, contractors, rehabilitation specialists, health professionals, water damage mitigation contractors, mold remediation specialists, litigators and legal counsel. Expectedly, recruitment and procurement of providers has the benefit of reducing unit costs through preferred service rates and provide the opportunity to establish priority service models. But, the elevation of supply chain management to a strategic approach also delivers a far greater benefit: an optimized claims value chain.

Several companies have clearly demonstrated how focusing on supply partners and processes can change an entire industry. Wal-Mart, the global retailer, has had a profound effect on not only other retailers, but on the manufacturers and suppliers who stock their shelves, dictating terms, conditions and processes. Dell, the personal computer maker, forever changed the industry with made-to-order computers, concurrently providing exceptional visibility into the process for its customers.

Each carrier must determine its optimum claims value chain proposition. To deliver upon this proposition, carriers must transform their collage of vendors into an optimized supply chain by weaving together the complete set of processes. Carriers and their supply chains must jointly determine the best course of action using common estimator tools, establish an open line of communication to address any subsequent issues, and eventually perform the service to resolve claims. In this model, supply and demand are coordinated; however, there must be a level of transparency and an integration of the processes between the

[5] Marcus Ryu, "3 Reasons to Replace Legacy Systems," Best's Review, 1 May 2007.

carrier and its supply chain of preferred providers to collaborate on the common goal of cost-effectively resolving claims. With this joint effort, customers receive timely and quality restorative services according to the benefits of their policy.

Innovations in technology, including the ubiquity of service-oriented architectures (SOA) and Web services, have made this orchestration a reality for leading claims organizations. The use of SOA and Web services support a componentized application development, allow the reuse of these application components, enabling carriers to streamline integration within their enterprises and with other applications. To win contracts, these supply chain providers must not only deliver a service, but provide an underlying technology and process integration that easily connects to the insurance carrier's core processes and systems.

Claims are not an isolated function of the carrier, its processes, technology and people alone and as a result, there is much at stake. A robust, agile and dynamic supply chain impacts both short-term and long-term financial results of carriers. Faster resolution of a claim translates into clear monetary savings for the carrier. For example, when the benefit from a preferred supply chain vendor is shorter repair time, getting the vehicle back on the street sooner reduces rental car costs. If a business is closed due to water damage, prompt restoration reduces business income losses.

Delivering upon these service and supply chain models requires that information is shared and available. IBM Enterprise Content Management (ECM) and Business Process Management (BPM) provide carriers with a foundation to share claim information and establish a transparency of processes between the preferred members of the supply chain and the carrier. This sharing of information allows a supply chain member to participate in a virtual file, contribute to and annotate the file with additional information based on examination of the property or vehicle and document the services rendered directly to the file. BPM can also initiate processes for handling exception requests between the parties, such as sending a notice for additional damage discovered directly to the adjuster, allowing for a real-time review and authorization.

Differentiating with Process

Today, telephone calls still initiate most property casualty claims. Even this simple initiation of the claims process has a lasting impact on a customer's perception of their carrier. But once initiated, best practice carriers begin to distinguish themselves with the ability to triage or segment claims, monitor service levels, ensure the consistency of processes, help automate process steps and correspondence, balance workload, and orchestrate all participants in the supply chain using Business Process Management.

Speed, efficiency and accuracy become identifiable characteristics of these leading organizations. These leaders recognize that the process, their process, is a key differentiator in the marketplace. But process is process, right? If that were the case, all insurers would buy and operate the same packaged claims software solution. Instead, leading organizations begin by transforming their claims strategy into a differentiated market tactic, and they design holistic processes around the defining elements of that strategy.

Corporate strategy, geography and lines of business don't merely define an insurer's products, they also have a profound impact on key performance measures of the claims function. Some insurers focus on customer intimacy and care, while others emphasize convenience to the claimant, offering innovative onsite settlement options. Still, each and every claims management strategy requires the key components of putting the right information into the right hands at the right time.

In the day-to-day claims process, many tasks are still performed manually. These tasks may be as simple as a claims supervisor sorting and assigning new claims, matching reports or correspondence to a file. Or, these tasks may involve a process of notification, i.e., sending a flash notice to all company management, including the VP of underwriting and the Legal Department in the event that a significant claim or large loss has been identified. Claims professionals often devote from one-third to one-half of their work time to non-essential activities such as completing forms and re-keying data.[6] Many claims professionals still operate in a world characterized by cumbersome diary systems, sticky notes and putting files in suspense as they investigate, evaluate and settle claims.

By using Business Process Management, claims processes can occur in parallel rather than in sequence, saving substantial time and effort.

Differentiating Processes with Business Process Management

Using Business Process Management in claims handling, carriers can depend upon claims management as a key market advantage. Claims processes can occur in parallel rather than in sequence, saving substantial time and effort. Claims professionals can be alerted to aging items, allowing action before critical issues arise and most importantly, new events can trigger additional process activities and results without intervention by an adjuster. By integrating supply chain partners and their services as sub-processes in the overall claims cycle, claims professionals can assign and monitor the completion of tasks in the claims workflow, moving each file toward settlement with many of these steps occurring in parallel. BPM technology enables these parameter-driven business processes to execute automatically. For example, the adjuster automatically alerts key stakeholders to a flash notice by merely entering the reserve or checking a box, without requiring the manually intensive steps of drafting special correspondence. Integrating the management of the core process with a virtual claim file provides claims professionals with complete insight and information immediately, along with the ability to collaborate with other experts as required.

BPM improves the consistency and discipline of processes. Claims processes can be set up so that each worker follows the same outlined steps, and management is constantly notified of exceptions and imbalances. For highly time-critical claims like workers' compensation, step timers preemptively ensure correspondence, filings, and forms are processed within regulatory requirements, even identifying jurisdictional differences. In the case of an investigation or complaint, the carrier must be able to defend their actions, and the documented audit trail of an individual process provides a concise record.

Just as BPM allows claims professionals to orchestrate and oversee their files and caseloads, claims executives enjoy dramatically improved insight to the entire work process allowing them to be both informed and agile in managing performance.

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[6] Marcus Ryu, "3 Reasons to Replace Legacy Systems," Best's Review, 1 May 2007.

These executives need to have an overview of their claims situation, both on an individual file and aggregate basis, across locations or any other divisions. Conditioned by barriers and limitations to information, management accepted periodic reporting, even considering that access to this timely information is important for a carrier to determine financial exposure to liability and the amount to be held in reserve for pending claims. ECM and BPM shatter these barriers, providing insight to monitor key metrics through a management dashboard that routinely measures various parameters of interest to claims executives such as the caseloads (individual or unit) reopening of claims files, the average reserve per new case, and the average case life span. With an enterprise view of claims operations, claims executives have the agility to reassign work across major locations or units, create virtual claims units, assess supply chain partner performance both regionally and globally, and measure performance as never before.

Sharing information across the enterprise introduces a new set of considerations. Consequently, the carrier may need to allow access to specific information to other areas of the organization and determine which parties are allowed to view claims information using various filtering capabilities. A carrier's special investigation unit may need to review claims to spot potential fraud and identify possible trends on an enterprise level, but not everyone should be aware of SIU's involvement. To support the special investigations unit, and other processes such as subrogation and salvage efforts, carriers can use BPM to establish virtual collaboration and also segment or componentized their claims processes to allow each group to pursue their respective objectives simultaneously.

The use of mobile technology is underutilized in the area of claims, yet its impact will undoubtedly increase in the future due to several factors: ease of implementation, declining costs and the adoption of standards. In the realm of virtual claims operations, carriers can use BPM to implement their mobile claims management processes in synergy with office based processes. Whether simply taking advantage of a specific claim adjuster's expertise to consult on a case, or mobilizing an entire claims team following a major catastrophe, integrating virtual claims operations is essential to being able to respond quickly and effectively.

This ability to virtualize claims units will also benefit carriers in their attempt to cope with the upcoming shortage of experienced claims adjusters. The shortage

of claims adjusters is driven by the impending retirement of Baby Boomers and the realization that the majority of company adjusters are 40 years and older.[7] It is estimated that by the year 2014, the industry will need 84,000 experienced claims adjusters to meet its staffing needs factoring in a turnover rate of 10 to 15 percent.[8] As the P&C industry readies itself for this shortage of seasoned professionals to deal with claims, many carriers are considering setting up virtual claims operations involving collaboration with their own internal claims experts, independent adjusters and local network of supply chain partners.

Claims Adjusters: An Impending Shortage
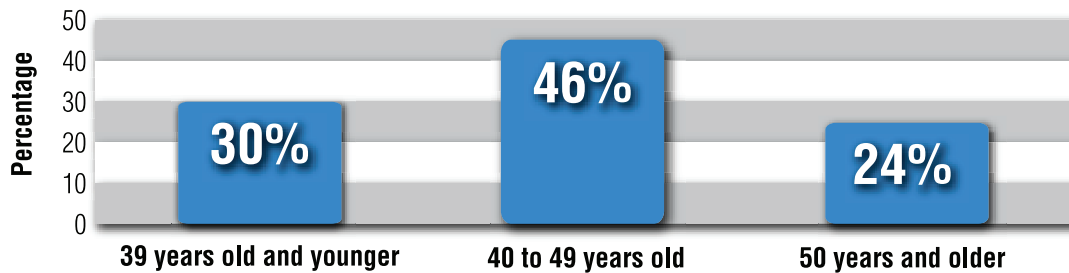
Source: Conning Research & Consulting, Claims Survey, Deloitte Research

Carriers should anticipate that prospective claims employees will scrutinize their potential opportunities with factors beyond salary. Strategic claims management, enabled by ECM, offers workforce flexibility afforded by a mobile claims strategy that allows adjusters to work remotely, improving their balance of work and life and helping establish the carrier as an employer of choice. Furthermore, employees innately understand technology and process are critical to their job satisfaction. In their evaluation of potential employers, candidates are increasing asking to view operations and systems as part of the interview process, and clearly prefer the more technologically advanced companies.

Challenges in Compliance

For claims executives, nothing is more dreaded than having to notify the CEO of a new bad faith or extracontractual suit. The implied covenant of good faith in claims handling is put at risk due to process failure, human error, incomplete or missing information, and time delays. Yet, claims management today remains paper intensive, manually processed, and inconsistent within many organizations. IBM ECM provides the platform for a single version of the truth for both the content, and the process for each claim. With the addition of records management, all necessary information, including the process, can be declared as records managed according to corporate and regulatory standards.

Of the top 10 most common market conduct compliance criticisms in the U.S., 40 percent are directly related to claims such as the failure to acknowledge, pay, or deny a claim in specified timeframes.[9] When regulators conduct their periodic reviews to assess a carrier's market conduct, evidence of claims evaluation and procedures are critical to ensure unbiased, nondiscriminatory claims practices. Recently the Texas Department of Insurance evaluated its workers' compensation insurers

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[7] Deloitte & Touche USA LLP, "How Insurance Companies Can Best the Talent Crisis," 28 June 2007, p3.

[8] ibid

[9] PR Newswire, "Wolters Kluwer Financial Service Identifies Top 10 Criticisms on Insurance Market Conduct Exams; Help Property/Casualty, Life/Health Insurers Prevent Noncompliance Violations," 27 June 2007.

on the basis of speed of payment in processing medical bills, providing temporary income benefits and winning contested case hearings.[10] Its findings revealed that the majority of its insurers were only delivering average performance and 13.6 percent of these carriers were classified as poor performers.

Result of Performance-Based Oversight of Workers' Compensation Carriers
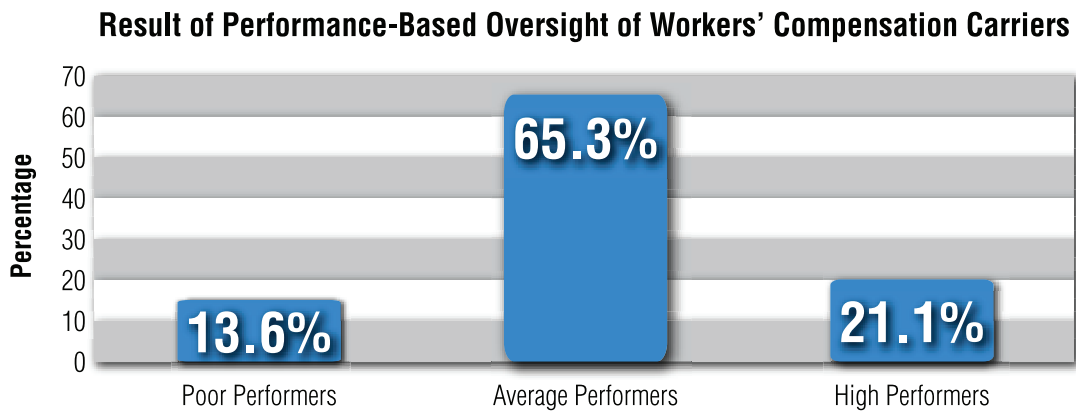
Source: Texas Department of Insurance

On the basis of initial pay performance, 20.4 percent of these carriers were rated as poor, followed by 50 percent rated as average and 30.6 rated as high performers.

What better way to ensure favorable reviews than to gain early insight into claims processes using BPM to help identify potential situations that may result in future market conduct, bad faith or time-to-resolution issues. Timely intervention avoids the high costs of lawsuits that arise out of a claim being mishandled or incorrectly denied, mitigates the risk that the carrier can be subject to punitive and exemplary damages, and helps to maintain a carefully, cultivated brand equity.

Complexity of Discovery Increases

Another challenge in the area of claims compliance is the increasing demands in support of litigation such as the recent updates to the rules of discovery in legal proceedings.[11] In the U.S., the Federal Rules of Civil Procedures (FRCP) now require insurance carriers to quickly identify and produce electronic records that can be used by plaintiffs or defendants in legal proceedings. While not yet a global requirement, the FRCP may have far-reaching implications as changes in compliance in the U.S. often impact carriers around the world.

[10] Daniel Hays, "Texas Finds 13% of Comp Carriers Perform Poorly," NU Online News Service, 17 September 2007, <http://www.propertyandcasualtyinsurancenews.com/cms/nupc/Breaking%20News/2007/09/17-TEXCOMP-dh>.

[11] IBM, "From Sunrise to Sunset: Managing insurance content and data information lifecycles to meet e-discovery requirements, p2.

This requirement for e-discovery now requires that carriers locate and make available in usable formats any electronic documents that might be stored on mainframes, desktop computers, laptops, personal digital assistants — all in a timely manner. The challenge of complying with FRCP rule changes has been made more difficult as correspondence methods have proliferated, particularly the use of email in business communications. Few carriers today can easily produce, with low cost, all records that apply to a given claims file. The discovery process can be costly, especially if fines are levied in the event that not all the discoverable information is provided on a timely basis. And for some carriers, their discovery process may also be potentially incomplete without the right technology.[12]

To satisfy FRCP as well as other regulatory requirements for reporting and legal discovery, P&C carriers need to mitigate the legal, operational and financial risk associated with compliance and corporate governance. Carriers should retain, manage, hold, protect and dispose of electronic information in accordance to established regulations, laws, standards and the carrier's own internal policies. Managing information across the enterprise helps reduce the costs related to operations, compliance, and litigation discovery. With this concerted effort, a carrier can also reduce the volumes of physical documentation that are held in storage, resulting in substantial savings. Identifying what needs to be managed as a record decreases the amount of electronic storage needed, administrative costs and legal risks. Carriers also experience fewer disruptions to their line of business processes with an enterprise-wide content management system that is more streamlined, competitive, and responsive over time.

Are You Ready for Discovery?

- *Can you search all your records?*

- *Can you retain and hold necessary records?*

- *Is your records' audit control timely?*

- *Can you search records using semantic analysis?*

Together IBM ECM, BPM and records management software enables P&C carriers to implement an overall compliance architecture for data and content to meet current and future compliance and reporting needs. Carriers can automate and streamline all records-based activities, eliminate burdensome end-user participation, enforce compliance and create business advantage while reducing the cost of compliance and risk management. Carriers can implement a single source for a complete unstructured information compliance architecture including audit control, retention rules management, records management and email management.

Driving to Competitive Advantage

The significance of innovative claims management continues to grow as Property Casualty carriers cope with compliance issues including legal discovery requirements, increasing expectations for service, growth initiatives, and supporting brand strategies. All elements point to a need for a top-down strategic approach to claims management. By integrating supply chain service providers with P&C claims adjudication, carriers can gain efficiency, manage claims costs, meet expectations for customer service, improve employee satisfaction, reduce the likelihood of fraud, and reinforce brand integrity. Consistent and efficient processing of P&C claims is essential to meet service guidelines and expectations as well as avoiding any subsequent

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[12]   IBM, "From Sunrise to Sunset: Managing insurance content and data information lifecycles to meet e-discovery requirements, p2.

litigation due to time-to-resolution or bad faith issues. Carriers can also gain the benefit from the expertise of claim experts through virtual collaboration on a local or global basis.

Improving claims service supports both competitive differentiation and also can yield cost savings since 80 cents of every dollar a carrier takes in flows through its claims operations as an indemnity or an expense.[13] In its report, Technology-Enabled Claims Performance Improvement, Celent estimates that carriers can reduce their pure losses by 4 to 6 percent and their loss adjustment expenses by 10 to 12 percent, all by implementing and consistently using new claims processing technologies.[14]

"Though their approaches may vary, the carriers that recognize that technology is the road to competitive advantage and business process optimization are taking action."[15]

IBM ECM software provides solutions that enable P&C carriers to integrate and activate content and information with claims management processes to ensure that information to substantiate a claim is delivered within context, limit exception handling, and improve workforce effectiveness and collaboration. It also allows carriers to enable their claims staff to search, retrieve and review information to eliminate unnecessary manual processing steps, reduce costs and above all, improve service. By implementing an integrated approach to securing and managing all content and claims related processes including its supply chain, a carrier can rely upon its claims management as a strategic competitive advantage to support its brand strategy and grow its customer base.

IBM ECM

As the clear market leader in Enterprise Content Management (ECM), IBM's ECM solutions help Property Casualty carriers make better decisions, faster by managing content, optimizing business processes and enabling compliance through an integrated information infrastructure. IBM's ECM portfolio delivers a broad set of capabilities and solutions that integrate with existing information systems to help carriers drive greater value from their content to solve today's top business challenges. IBM ECM solutions are installed 24 of the top 25 insurance companies, making it the leading ECM provider in the industry. For more information on IBM Enterprise Content Management software, go to ibm.com/software/ecm

[13] Donald Light, "Technology-Enabled Claims Performance Improvement," Celent, September 2006.

[14] Karen Pauli, "Technology Directions in US P&C Insurance Claims Operations: Transforming a People Business," The TowerGroup, Inc., July 2007, p7.

[15] Source: "Technology Directions in U.S. P&C Insurance Claims Operations: Transforming a People Business" The Tower Group,July 2007

IMW13083-USEN-00