

# Claims transformation

## A critical strategy to staying ahead

Insurers are faced with numerous trends that are driving change within the industry. These trends are changing the way that insurers must interact with customers and service providers in order to stay ahead of the competition and maintain their bottom line. Nowhere is change having a bigger impact than in the claims area. Several forces are increasing the pressure on claims.

### 1. Increased complexity

Marketing strategies are increasingly relying on claims as a source of differentiation. Products are becoming more complex resulting in more complex claims. Managing claim complexity in a streamlined, straight-through process is key to maintaining an insurer's bottom line.

### 2. Baby boomers are retiring

Managing complex claims – particularly when Bodily Injury or Disability is

involved requires experienced claims staff. There's a looming shortage of experienced claims staff, particularly in smaller labour markets where many insurers are located.

### 3. Evolving claims platforms

Technology innovations are allowing claims departments to rethink their strategies and processes to stay competitive. Insurers are looking to technology as a way to help them manage more complex claims in a streamlined way.

### 4. Procurement

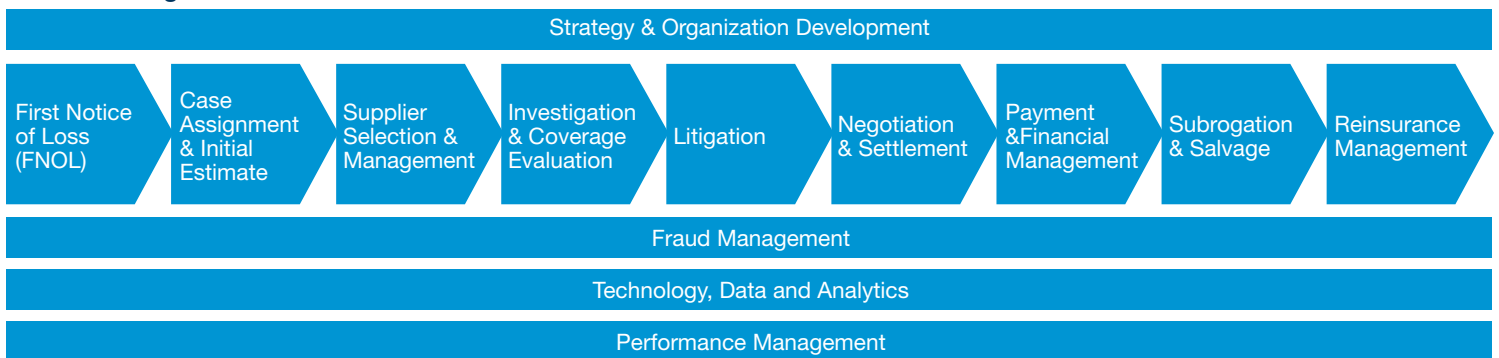
Managing service provider costs and implementing vendor management initiatives can drive significant savings especially in areas that are both integral to the claims process and have high volume. Examples could include Chiropractic or Glass Repair.

Organizations must recognize these trends and adapt and transform to meet customer expectations or risk falling behind the competition. Insurers should also consider the importance of claims transformation to their bottom line as well. According to a recent PwC report *Claims strategy - Large scale change in claims*, effective claims transformation can reduce loss and expense ratios by up to 12% and improve customer satisfaction.

### Guiding principles for claims transformation

Successful transformation is hard to achieve. Establishing guiding principles offers a “touchstone” to help keep a claims transformation initiative on the right path. If we view the following diagram as a generic claims process or value chain, then here are some guiding principles that have worked well:

### Claims management value chain



- Satisfy the customer at every touch point during the claims process.
- Operate the claims value chain using supply chain management techniques.
- Integrate business processes enterprise wide to affect a more consistent claims handling process.
- Employ a structured approach to outsourcing with a view to reducing claims handling costs.
- Boost profitability by identifying and eliminating sources of claims leakage.
- Harness claims data with a responsive knowledge management system.
- Employ innovative human resources practices to recruit, train, and retain claims staff.
- Improve the quality and consistency of case reserving.
- Employ a risk-based approach to complex claims handling.
- Align claims with the organization's overarching vision of creating shareholder value.



In addition to these guiding principles, a successful claims transformation also considers the following aspects:

**“What” before “how”**

Examine the capabilities required to deliver the functional claims strategy first. Use validated leading claims practices before looking at the organization, vendors, process or technology. This should minimize rework and establish clear direction for the transformation.

**Business value focus**

Establish a tested, quantitative basis for evaluating recommendations across loss, claim-related process costs and customer satisfaction.

**Appropriate targets**

Create metrics, targets and benchmarks that are customized against each claim function’s strategy using deep claims functional and line of business specific knowledge.

**Accurate costs**

Develop detailed, proven cost estimation models for business transformation and systems implementation costs.

**Cross functional impacts**

Build a mix of claims, finance, change management, systems implementation and strategy resources to focus not only inside claims but also on the underwriting, reinsurance, finance and actuarial areas as well.

**Claims transformation and system replacement**

Claims transformations are often associated with a “Claims System Replacement”. Although not always true, claims transformations often do include the replacement of an existing claims system. Anyone who has replaced a claims system can tell you that this type of initiative is not for the faint of heart. Any

number of factors from dirty data (such as multiple instances of the same record), to custom adjudication notes captured in text fields to undocumented business rules embedded within spaghetti code can complicate migrating to a new claims system. Following a structured approach can improve the chances of success for a claims transformation. Critical success factors to consider when structuring a claims transformation approach are listed in the table on the following page.

**Looking forward**

With the economic events of the past year, insurers are looking to bolster their bottom lines any way they can. The forces impacting on the claims area are becoming more intense and forward-looking insurance companies are responding. By engaging in claims transformation, these insurers are strengthening their market position for some time to come. There are 10 or 15 mid-to-large scale claims transformation initiatives underway in Canada. What is your company doing to stay ahead?

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Critical Success Factor	Mitigation Strategy
Identification of a solution that provides required functionality to support the insurer, but also allows for flexibility to handle regional variations.	Sufficient time and effort must be allocated to the requirements and evaluation phases.
Architecture that supports both the desired end state and the migration.	Continually refine the architecture to increasing levels of detail and ensure strong governance throughout.
Development of a strong business case, including an approach to measurement and accountability for benefits realization.	Core systems replacement must be driven by more than cost reduction. The business benefits, including improved sales support, customer information, process flexibility, and overall management help to justify the migration risk.
Identification of an appropriate implementation approach that balances sequencing of migration.	Sufficient time and effort must be allocated to migration planning. Careful consideration of current business processes and anticipated integration challenges will allow for the identification of a “best suited” migration approach.
Creation and implementation of a sufficiently staffed and qualified Project Management Office to oversee the implementation.	Project Management Offices support different facets of project-based work to effect lower costs, to reduce risks and to achieve successful outcomes by establishing and facilitating project management standards and creating/employing project best practices, standard templates and tools. A well-managed and appropriately structured Project Management Office will be a significant factor in ensuring the success of the initiative.
A focus on data management and process standardization to lower risk and improve control, while driving significant business benefits.	This requires careful consideration of how and why business processes differ today, and how efficiencies can be gained, and must include consideration of risk and compliance, data quality and management, technology and organization. The re-engineering of business processes to increasing levels of detail carries on in subsequent phases in order to ensure that the detailed design is complete and has been approved at the point of preparing to implement the new core banking system.
Clear accountability between the insurer, the core systems vendor, the system integrator, and the insurer’s infrastructure vendor.	Minimize the number of separate contracts as well as ensuring clear responsibility and accountability for all aspects of the project.
Management and project sponsors (including senior management and lines of business leadership) ongoing, active involvement.	Ensure that management and project sponsors provide the appropriate time and focus and decision making throughout the initiative.