top issues

An annual report

Operations: Improving the claims function

Volume 5
2013

The insurance industry in 2013

pwc

Operations: Improving the claims function

Like other parts of insurers' business, claims functions are investing billions of dollars, often with outside vendors, in new technologies and processes to help them manage the torrent of data that has become available in recent years and improve the claims process. In order to manage costs and increase claimant satisfaction, carriers are refining how they manage vendor relationships and embracing new technologies that promise more usable insight into customer behavior and expectations.

Systematic large-scale data integration for vendor management

To maximize their investment, insurers are consolidating vendor work orders, estimates, invoices and customer feedback scores into databases in order to track, analyze and manage vendor performance and enhance the overall claims outcome. Carriers can use systematic performance data to make vendor selections and manage service fulfillment throughout the claims lifecycle. Since vendor management also is a critical skill for claims adjusters, analysis of the adjuster's role also can be assessed as part of the process.

P&C supply chains exhibit some leading practices (mainly in auto claims), but there are opportunities to change the relationships with many vendors and reduce unnecessary claims loss and expense. We see data integration as the primary way to achieve this; doing so will allow insurers to develop predictive analytics capabilities that provide insights into customer behavior. Analysis of structured and unstructured data will provide new metrics and information throughout insurers' operations, and allow more efficient and directed management of vendor services. All of this should help improve overall claimant satisfaction and reduce costs.

Carriers who do all of this effectively are able to consolidate vendor work orders, estimates, invoices and customer feedback score into databases that track, analyze, and manage vendor performance. They can use this systematic performance data to make vendor selections and manage service fulfillment throughout the claims lifecycle. And, while automated analysis capabilities based on consolidated vendor data currently are providing competitive advantages to carriers on the cutting edge, they are likely to become the norm in the relatively near future.

Vendor data integration can be a significant contributor to effective vendor management and the reduction of unnecessary claims loss and expense.

Third-party administrator (TPA) management

Market consolidation and evolving claims practices are continuing to drive the need for operational effectiveness. This is leading to greater focus on the role and management of TPAs. TPAs can be effective partners for self-insured corporations or insurance carriers that do not have the resources to process claims internally. However, for a TPA relationship to be successful, an organization needs to have a comprehensive management program that addresses the TPA's qualifications, establishes standards, develops consistent contract terms, and monitors the effectiveness of the TPA's performance.

In our view, an effective TPA management program needs to satisfy three fundamental objectives:

- **Due diligence** – An insurer should establish vendor selection criteria covering cost, customer service, service accuracy, and quality. The carrier also will need to understand the TPA's ability to manage risks, as well

as obtain and verify references prior to engaging it. Furthermore, the carrier should conduct an operational review to understand the TPA's system capabilities, staff experience levels, claims handling and reserving methodology, and quality of work. Both parties need to understand each other's expectations and limitations and should not make assumptions about service conditions. No TPA service will be free, and insurers should clearly understand services, including ancillary services, by the end of the contracting stage.

- **Contracting** – Contract terms and conditions should include performance requirements, termination clauses and reporting procedures. Compensation agreements, roles, responsibilities, and expectations for performance should be clearly defined, and make clear the required and expected extent of TPA oversight. The contract should clearly state who owns the work product, and discuss liability responsibilities; moreover, the carrier should require the TPA to carry errors & omissions (E&O) coverage and to hold the insurer harmless from any liability it may cause.
- **Audit** – It is standard for TPAs to have claims processes and procedures manuals, which often include best practice guidelines. However, insurers should not rely solely on the existence of a manual, and should use audit procedures to determine if the TPA is following the procedures manual's recommended practices.

TPA selection used to be mainly about price. However, there is now a focus on finding a business partner who shares the same values and way of doing business. This makes due diligence especially important.

Using sensor networks for proactive property loss mitigation

Some insurers already have access to near real-time data on natural disaster damage from aerial flyovers (including by unmanned aerial drones) and advanced radar. They use this data to provide quicker and more accurate post-catastrophe estimates of damage, and to anticipate the numbers of field agents they will need on the ground. Moreover, advances in sensor and networking technologies are allowing insurers to monitor insureds and enable the targeted deployment of services in ways that previously would not have been feasible or economical. Telematics in auto insurance is the most commonly known, but monitoring and analysis is becoming possible at a much greater level of detail for a wider range of insurance types through inexpensive, miniature sensors, including "smart dust" technology.

For example, it is now possible to externally distribute miniature sensors and build them into buildings, utilities and other infrastructure. The sensors can detect environmental information such as light, voltage, temperature, humidity, vibration, gas and fluid flow rates, magnetism, and gas and chemical presence. Insurers have used sensors for high-end personal and commercial risks for some time, but the declining cost of the technology and miniaturization of the sensors should allow it to be become much more widespread. We expect insurers to use information from sensor networks to understand damage and expected claims automatically, providing the equivalent of a loss-adjuster's report in real time as the damage occurs. Systems could even be programmed to auto-populate claims forms, allowing claims to be fulfilled before the customer is even necessarily aware of the extent of the damage. Sensor data will also allow insurers to be more proactive about claims management and mitigation, by monitoring insured assets (and further in the future, even individuals' health), and providing early detection and notification of minor or developing damage (e.g., rot or water leaks) before it becomes serious.

Image analytics and augmented reality for on-the-spot claims settlement

In most industries, the use of smart phones applications to enhance the customer experience has become essential. Many insurers are now using mobile applications to provide first-notice-of-loss (FNOL) for auto insurance and to provide accident help. We expect that, in the coming year, the extent of smart phone use for insurance claims will continue to increase.

The convergence of several established and new technologies will facilitate this growth. Smart phones are now ubiquitous, and newer cars also now commonly have integrated telematics such as GPS, sensors and data-logging. Significant advances also are occurring in advanced image analytics and augmented reality. Insurers are combining these technologies to create powerful new platforms for on-the-spot claims assessment and settlement. As a result, in the mid-term, application of new and emerging technology to insurance auto claims will enable customers to photograph a damaged vehicle at the scene of an accident, filing an FNOL and exchanging proof of insurance and contact details with the other party automatically. Image recognition software will identify the make and model of the car and associated damage, and augmented reality software will overlay relevant parts over damaged areas to determine the extent of damage. With this information the repairs required, estimated cost and estimated time to repair will be calculated and presented as an estimate to the customer on-the-spot.

Significant integration of contact data to enhance the claims customer experience

Carriers are developing a sophisticated view of claims service segments and sub-segments by various policy, underwriting and customer dimensions. Most P&C carriers have deployed computer telephony integration (CTI) and web technology in their sales and service operations. Components of these platforms also can be reused in claims with the proper approach to application, data architecture, and integration. Carriers can use this technology to link and/or consolidate contact data across internal and external sources, as well as log all customer interactions, related vendor interaction data, feedback, claims, and social media aggregators in a central location.

Leading carriers continually segment policyholders by their service needs before a claim starts; claimants are identified based on their segment, and claims representatives then are able to provide customized service that helps make the most of the claim experience. More specifically, some companies are developing a range of interaction maps for each claimant type at each interaction point and each channel in the claim lifecycle in order to determine the influencers of the customer experience and when and how to capture experience data. This helps them prevent, manage, and resolve individual and overall claims service failures, as well as improve service levels for personal lines and commercial lines claims; as a result, their overall customer service scores improve.

Leading carriers continually segment policyholders by their service needs before a claim starts.

Implications

- Insurers will continue to evaluate the value in their TPA relationships. Establishing a TPA management program will drive renegotiation of existing TPAs, as well as inform due diligence, contracting and auditing of new TPA agreements. As a greater amount of consolidated data becomes available to management and decision-makers, TPA management has the potential to improve, perhaps significantly. In-house staff will be able to work more easily with TPAs through better integrated systems, and TPA evaluation metrics will become more detailed and monitor key aspects of TPA performance.
- Combining sensor and drone data with advanced geo-location engines will allow insurers to produce highly descriptive displays that provide real-time feedback on major events, and enable them to monitor damage to insured property and causes of damage. Insurers also could use these systems to automatically assign adjusters and estimate losses, as well as coordinate the contacting of customers and the claims process. More importantly, these systems offer much promise in helping to proactively address risks and mitigate loss during a claim event As a result, unique service offerings and policy riders are likely to become part of retail homeowners coverage.
- Interaction with customers through smart phone interfaces will become an increasingly common part of insurance customer service. It will make doing business faster and more efficient not just for policyholders, but also carriers, and thereby recoup the technology and systems investment necessary to develop and implement new capabilities.
- New systems and automated processes are emerging to complement existing CTI, web, and social media practices, thereby improving customer experience.

Improving the claims function

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