

Trends in claims handling

A Crawford & Company (Canada) Inc. Insurance Industry Update

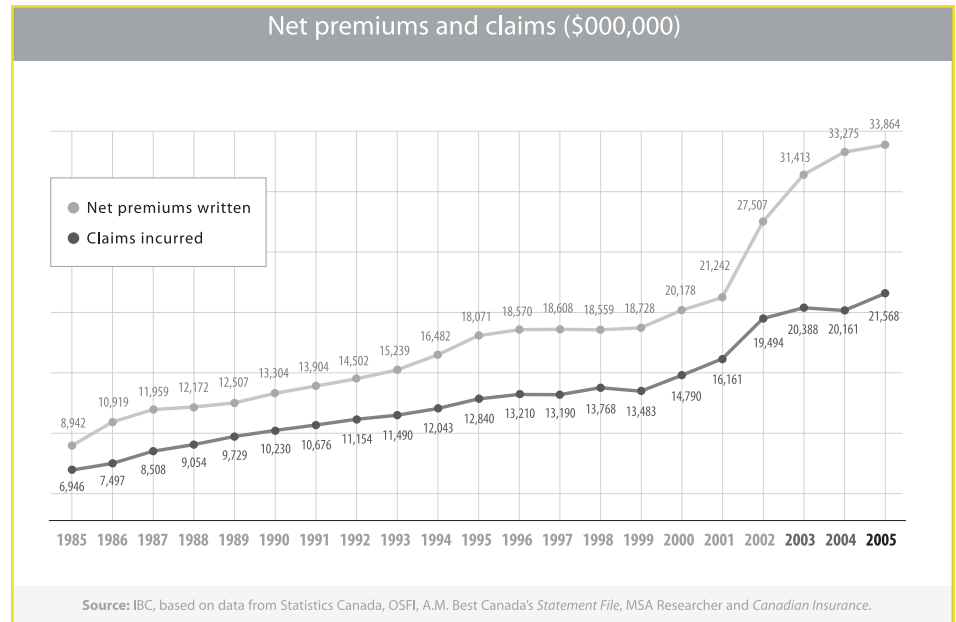
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The insurance industry is under constant pressure to improve customer service in claims handling while also making the process and its outcome more cost-effective. The seemingly contradictory nature of these demands means that the industry is always looking for innovative ways to deal with this all-important aspect of its business.

Historically, claims have represented about 75 per cent of insurers' net premiums, so any savings that can be achieved—without sacrificing service—can have a big impact on a company's bottom line.

Claims are the most critical contact the insuring public has with the industry. Other than shopping for lower premiums, consumers often pay little attention to their insurance coverage until they have a loss.

But when they do have a claim, they expect to be treated well. Rising standards in many other sectors have led people to expect fast—and excellent—service. Initiatives such as instant tellers, Internet and telephone shopping with next-day delivery guarantees, 30-minutes-or-it's-free pizza, and customer service hotlines keep raising the bar for consumer expectations.



When these expectations are not met, customers can be quick to take their business elsewhere. A J.D. Power and Associates *Collision Repair Satisfaction* study released in January of 2006 showed that almost 20 per cent of policyholders consider switching insurance companies after experiencing the collision claim process.

“Filing an insurance claim is a critical moment of truth that shapes a customer's overall perception of their insurer,” said Jeremy Bowler, senior director of the insurance practice at J.D. Power and Associates. “Often, this is the first time they truly become familiar with their insurance policy. Misconceptions about what is covered by the

auto policy or what to expect during the claim and repair processes can lead to significantly lower customer satisfaction, which in turn increases the likelihood that the customer may consider switching carriers in the future.”

Maintaining service excellence not only fosters customer loyalty, but can also lower claims costs.

“If policyholders receive good service, they will usually agree to settlements below the policy limits, as long as the amounts are fair,” said John Sharoun, chief executive officer of Crawford & Company (Canada) Inc.

However, rising claims costs make it more and more difficult to deliver the kind of personalized service customers demand. Escalating court awards, more frequent catastrophes, rising levels of insurance fraud, large payouts for long-term environmental claims, higher material costs, and a stricter regulatory environment all add to the cost of claims. A fiercely competitive marketplace limits insurers' ability to pass these expenses on to customers over the long term.

Adding to these pressures is the fact that many seasoned claims professionals—the people who can most effectively mitigate difficult claims situations and train new staff to handle claims properly—are set to retire soon. An estimated 3.6 million Canadian workers are within 10 years of the median retirement age of 61, and estimates from the Insurance Bureau of Canada show that the property and casualty insurance sector is 10 per cent older than the Canadian average for all industries.

The baby boomers' mass exit from the labour market over a short time will leave a big gap in the Canadian workforce.

In response to these many demands, the insurance industry has sought ways of improving claims service while also streamlining the process.

Service delivery

“I think we're seeing the emergence of a service war founded on brand promises,” said Pat Van Bakel, vice president, Claims Operations of Crawford & Company (Canada) Inc. “Some companies promise to hit certain service levels to their policyholders, and if they don't succeed, the policyholder will have either their deductible or their premium reimbursed.”

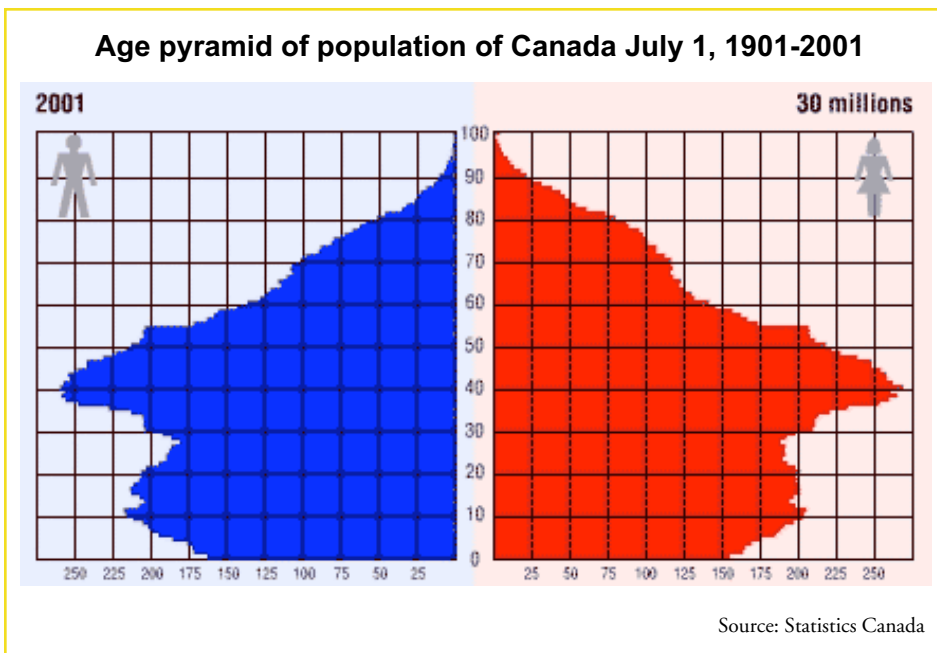
Indeed, some companies even advertise their commitments on television and on their websites. In

one of its television ads, Progressive Insurance, a U.S. company based in Ohio, shows a harried mother whose repaired car has just been delivered to her home by a Progressive representative. This service is a feature of the firm's “concierge claims service,” which allows insureds to submit a claim by phone or electronically, then drop off their car at a service centre where rental cars are available. The insurance company deals with the body shop and any other suppliers, then calls the customer to arrange for pick-up or delivery of the car.

In 2004, following a devastating hurricane in Florida, the same company made a special job assistance program available. People who lost jobs as a result of the hurricane could apply for a job with Progressive in Florida. Any who were hired in claim positions received a \$1,000 bonus. Those hired for other types of jobs received \$500.

This insurer even sent mobile claims specialists to RV parks, marinas and boat storage yards to check vehicle and hull identification numbers. If the vehicle or boat belonged to a Progressive customer, the firm contacted the owner to advise that the company had begun work on the claim.

While few companies go to these lengths, many Canadian firms do pledge to deal with claims within certain timeframes. For example, ING Insurance's Canadian website offers a clear service guarantee and promises customers compensation if the commitment is not met.



Some companies promise they will respond to a claimant within a set number of hours and pay all repair accounts within a specified number of days. Others, such as Dominion of Canada, focus on the quality of their suppliers as well as the timeliness of their service.

Many insurers also conduct follow-up surveys with claimants to see how satisfied they were with the service. For example, Sovereign General's website boasts: "The Sovereign's insureds surveyed in 2006 rate our claims service at 94.88 per cent" and directs viewers to more information about the survey.

In order to achieve these levels of service, insurers have had to take an innovative approach to claims handling. A variety of initiatives have contributed to their ability to streamline operations:

- Claims segmentation
- Outsourcing
- Computer technology and predictive analytics.

"By carefully segmenting all claims, arming claims handlers with proper technology and tools, and outsourcing simpler claims to an outsourcing partner, carriers can transform their claims units into high performers," said Jeffrey Weiss, then a manager at Accenture's Insurance Services Group, writing in the June 2004 edition of *Best's Review*.

ING Insurance's Canadian website says:

Claims Service Guarantee: one call brings it all

The last thing you need when faced with a crisis is to be left alone. Whether a kitchen fire has left your main floor unlivable or your vehicle's been rear-ended, you need someone on your side to help set things right. At ING Insurance, we're there when you need us most. It's part of how we protect your world.

Claims Service Guarantee: immediate, helpful, unailing

When a crisis occurs, you need help fast. If you call us at our dedicated line—1 866 ING 2424—to report a new claim, we guarantee that within 30 minutes you'll be talking to an ING Insurance representative or we'll write you a cheque for the amount of your annual premium up to a maximum of \$1,000.

Available 24/7, our representatives do far more than just confirm your coverage. They also:

- Help you make decisions
- Provide emergency support
- Give you crisis advice
- Can contact suppliers for emergency repairs
- Have the authority to authorize necessary payments for emergency expenses such as alternative accommodations, clothing and transportation.

Dominion of Canada commits to:

1. A prompt response—We will contact you within four business hours of receiving a notice of a new claim either from you or your broker.
2. 24-hour emergency claims service—Telephones are answered by people who have the authority to make appropriate arrangements with you to start the claim process.
3. Access to a Dominion of Canada General Insurance Company recommended repair facility or service provider—Our chosen repair facilities and service providers are selected after a thorough inspection and screening, and our policyholders have consistently found them to be professional and friendly. The recommended facilities are equally committed to service as to ensuring high-quality repair work or treatments. While we respect your preference in choosing a facility to repair your property or vehicle, if you select one of our recommended repair facilities, a single estimate is all we will need to determine repairs.
4. Repairs completed by one of our recommended facilities will be guaranteed with the Dominion satisfaction repair guarantee.

Claims segmentation

Channelling claims into the correct workflow stream can deliver the appropriate kind of service in a cost-effective manner.

“Insurers with an explicit and highly refined ‘who, what, when, where and how’ approach to a given claims segment can drive consistency in their operations,” said Michael Costonis, a senior executive in charge of Accenture’s claims services in North America, writing in the December 2005 issue of *Best’s Review*. “For example, a claim with attorney representation involving a two-car, rear-end collision in a particular zip code resulting in neck and back strain would fol-

low a well-defined claims-handling strategy of resource assignment, investigation approach and outside party usage.”

Simple, straightforward claims require a factory approach, said Ellen Shumway, then a principal with McKinsey & Company, writing in the July 2003 edition of *Best’s Review*.

“The best way to handle more routine, easy-to-resolve claims such as auto glass or first-party auto physical damage is in a service factory. This setting also is best at certain moments in a claim’s life when the process also is relatively standardized, such as during first notice of loss or subrogation.

“In these instances, management will need to focus on three key outcomes: consistency of process (to ensure payment accuracy or loss-mitigation consistency), high-quality customer service, and loss adjustment expense efficiency. Like world-class call centres, the best claims service factories will accomplish these outcomes by focusing relentlessly on making transactions error-free and by reducing waste in the business system. They also will use integrated business-system management (with IT links to vendors’ systems), ‘smart’ support tools and other specialized tools that drive efficiency and consistency.”

More complex or high-severity claims, or those that require litigation, are best handled by an organization that resembles a professional services company, Shumway said.

“Such a firm will borrow many practices from the best professional services firms of today,” she explained. “It will excel in talent management. It will effectively employ a structured problem-solving approach, as well as collaboration on critical decisions. It will make targeted use of best-in-class vendor partners such as law firms and outside experts, and will closely collaborate with them to ensure goals are consistent. It will have robust systems to capture firm knowledge, codify and share it. It also will have the necessary technology tools to support these knowledge efforts.”

These two approaches to claims handling demand completely different staff skill sets and tools, she explained.



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The service factory requires:

- Integrated business-system management, with electronic links to vendors' systems
- Tools similar to those applied in industrial operations settings that minimize waste by reducing or eliminating low value-added tasks, reducing cycle time, accurately matching supply and demand, and minimizing errors
- Customer service diagnostics to lower the number of customer complaints, most of which emerge from this part of a claims operation
- Modular IT applications to reduce manual work and errors
- Call-centre optimization to improve phone-based claims resolution.

“We also have found that companies that adopt a service factory model have an edge in recruiting, training and retaining top performers,” Shumway said. “This is because a focused organization can better address the needs of the type of people who do best in this environment.”

The professional firm requires:

- The talent management practices of world-class professional services firms—recruiting staff in innovative ways, designing tailored career paths and value propositions, and managing development and feedback
- A shift of focus from measuring settlement accuracy to rigorous and consistent claims execution through online learning, continuous feedback and skill building, and ongoing performance monitoring
- Knowledge management through improved leverage of proprietary



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information and more effective use of existing knowledge sources across the organization

- Management of litigation risk at both the individual case level and at the portfolio level, to ensure that aggregate portfolio exposure is well understood.

At either end of the claims segmentation process, even further specialization can generate cost efficiencies while delivering superior service.

For example, contents claims, despite their frequent occurrence and relatively low value, have become more complex and time-consuming.

“With so many new products coming on to the market, especially electronics, people don’t want to replace their damaged goods with the same old items,” said Crawford’s Pat Van Bakel. “This has made it

very challenging and complicated to satisfy the needs of policyholders, especially since the prices for newer, better goods might be much lower than the original cost of outdated items, which now have no value at all.”

Because the documentation of damaged goods is a daunting task for a policyholder during a stressful time, specialists who have experience with proof of loss forms and quick access to valuation data can be a tremendous help.

“It’s important to assist claimants by deploying staff who know about item assessment and quantification, who can access pricing information efficiently, and who can work with the adjuster and contractors to expedite the resolution of the claim,” Van Bakel said.



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Outsourcing

Not all insurance companies have the resources to provide the appropriate level of response to all types of claims, so many outsource at least part of this function. Even insurers with a complete claims department sometimes turn to independent adjusting firms for assistance when disaster strikes; during exceptionally busy times; or when faced with particularly complex, specialized or difficult claims.

“As we enter into 2007, insurers have only begun to scratch the surface of unlocking value from claims business-process outsourcing,” said Accenture’s Michael Costonis, writing in the January 2007 issue of *Best’s Review*. “Nearly two-thirds of carriers’ personnel are involved in some aspect of claims processing; claims payouts consume almost 80 per cent of a property/casualty company’s annual revenue. Given the size of the bite that claims take out of an insurer’s resources, even modest efficiency gains can significantly affect the bottom line.”

This is especially true of smaller, more routine losses, which are a “challenge to most carriers,” said Accenture’s Jeffrey Weiss in the June 2004 edition of *Best’s Review*. “High-volume, low-severity claims . . . are typically over-processed because carriers use a ‘one-size-fits-all’ approach to claims processing. These claims, which are often handled by newly hired and inexperienced adjusters with inconsistent process support, have the highest percentage of loss cost leakage. Disproportional attention devoted to smaller claims prevents more serious

Providing policyholders with such assistance in a timely manner—within two or three days of the loss—has several benefits:

- Claimants appreciate the help and are impressed with the level of service.
- The insurer maintains control of claims, preventing leakage.
- Adjusters can quickly focus on investigating, evaluating, negotiating and settling claims, so claims are usually resolved faster and at lower cost.

Similarly, claims requiring high levels of expertise can benefit from the availability of specialist teams and support tools. For example, some insurers and adjusting firms are putting in place catastrophe response teams to deal with the ever-rising number of global catastrophes.

“These teams must be organized before deployment and ready to leave at a moment’s notice,” said Brent Hackett, assistant vice president of Crawford & Company (Canada) Inc.’s Catastrophe Services. “Otherwise, insurers could be left with thousands of claims totalling billions of dollars, and no estimates. Business owners and homeowners would be left with losses but no financial means to rebuild their lives.”

These specialized groups also need immediate access to the right tools, such as an external call centre equipped with generators or trucks outfitted with satellite phone lines, internet access, global positioning systems, diesel, and the ability to broadcast to another office.

claims from receiving the attention of top claims staff.”

According to Costonis, outsourcing claims can:

- Lower the cost of claims management by 20 to 30 per cent
- Reduce avoidable overpayment by 50 to 75 per cent
- Decrease information technology costs
- Improve customer satisfaction as a result of quicker, more accurate settlement
- Allow skilled administrators to concentrate on high-severity claims
- Provide a more professional interface with customers and intermediaries
- Enhance financial predictability through variable pricing.

However, these improvements are possible only by partnering with the right adjusting firm.

“More often than not, the business case for business-process

outsourcing is built almost exclusively on expense reduction through labour arbitrage,” said Costonis. “Our experience indicates that successful claims business-process outsourcing requires a partnership across all elements of claims performance—severity management, service and processing cost. This requires not just a low-cost provider, but one with knowledge of world-class claims processes, along with the tools and technologies to deliver that performance on a continual basis.”

For high-volume, low-value claims, the tools include:

- Around-the-clock operation—24 hours a day, seven days a week, 365 days a year
- Bilingual customer contact (English and French), with the ability to translate calls from other languages
- Timely dissemination of incident reports
- Protocols to meet escalation needs

- Online client and supplier access to developments on all claims through a claims management system that also provides data tracking and claims resolution information
- A comprehensive training process.

The provider must also share the client’s corporate philosophy and its approach to handling claims, according to John Sharoun, chief executive officer of Crawford & Company (Canada) Inc. “Otherwise, there just won’t be a good fit,” he said.

A bad match can make for very dissatisfied customers, especially for insurers that have built excellent reputations on fulfilling service delivery commitments.

The recent experience of one Toronto family illustrates the importance of a good fit between insurer and provider. In the fall of 2006, the husband was parked waiting to pick up a passenger when a taxi plowed into the side of his car. In February of 2007, the wife was stopped at a red light when an SUV crashed into the back of her car.

Both drivers were insured with the same company, and neither was at fault. Both cars were repaired at the same body shop and received excellent service there. However, the insurer’s in-house staff handled the husband’s claim, while a small independent adjusting firm handled the wife’s. The in-house service was very professional and met all timeline commitments. The wife’s claim was the exact opposite: not only did the adjuster not call her within the specified time frame—he never



Javier Pirelli/Photodisc/Getty Images

called her at all. She had to initiate every contact, and each time, he put the phone down on his desk (not on hold) while he rustled through papers for several minutes looking for her information. Nor did he ever follow up on outstanding issues, such as the refund of her deductible.

In the follow-up survey, the woman learned that the insurer had changed its preferred independent adjusting firm and that claims are now being handled more efficiently and professionally.

“Such experiences highlight the importance of outsourcing to a claims service-provider that cares about the insurer’s reputation and focuses on hiring, training and retaining top-notch staff who can enhance policyholders’ opinions of the firm,” said John McHugh, vice president, Claims Operations of Crawford & Company (Canada) Inc. “The insurer and the adjusting firm must share the same corporate philosophy, then they must put it into action by focusing on the same priorities and goals and placing the same emphasis on teamwork, quality, customer service, innovation and career development.”

“As the complexity of claims has increased, so too has the level of sophistication needed by claims handlers to master their jobs,” said Accenture’s Michael Costonis in the December 2005 edition of *Best’s Review*.

Furthermore, attracting and keeping good staff is becoming more difficult, and more important, as labour market shortages appear.

“Firms need to create the ability to map out positions, job descriptions, requirements, skill sets and other factors that will guide employees from the time they walk into the company to when they move into management positions,” said Steve Anderson, Crawford’s & Company (Canada) Inc.’s senior vice-president, Corporate Markets and Administration. “Individuals should be able to see at any time where they are, where they want to go and what they need to do to get there.”

Companies have a competitive advantage if they offer solid development plans that include hiring young talent, educating them through the CIP/FCIP program, training them, and providing them with a bright career future that includes a “promote from within” strategy.

Some independent adjusting firms have even created their own in-house “schools.” For more than 10 years, Crawford & Company (Canada) Inc. has been providing comprehensive training in a variety

of topics. Its five-day claims school, open to Crawford employees and clients alike, is designed to explore all fundamental aspects of claims adjusting. It provides students with hands-on experience dealing with issues such as insurance contracts, cognitive interviewing techniques, liability principles, property claims handling and scene diagramming. The firm also offers specialized courses in accident benefits, casualty claims and bodily injury reserving.

Technology

Whether claims are handled in-house or outsourced, technology plays a growing role in enhancing service while achieving cost savings.

The use of technology runs the gamut from giving adjusters digital cameras and laptop computers with wireless internet connection; to enabling claimants to adjust their own simple claims through websites; to developing highly sophisticated analytics that schedule assignments and



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allow adjusters to screen claims for potential fraud, likelihood of litigation, or escalating complexity.

“The challenge of field appraiser productivity is one that the entire industry is wrestling with,” said Joe McKendrick, an author and consultant specializing in information technology, in a recent article published by *Insurance Networking News*. “With mobile technology . . . on-site estimating time can be cut to 30 minutes, and the computer time can be cut by 60 minutes, for a total savings of one to two hours a day,” he said.

For further economies, if a company is sending an adjuster or appraiser to one part of town, and then more assignments arise in that area, the technology exists to send him those assignments, making his workday even more productive. What’s more, installing wireless cellular modems in employees’ laptops gives them instant access to valuation information and allows digital photographs and estimating data to be transmitted to the office immediately, so that staff there can start the settlement process.

Some claims shouldn’t require any work on the part of claims personnel. Others should be automatically sent into the appropriate workflow stream.

“Very simple claims, for example, should be auto-adjudicated without the need for human intervention at any point,” said Accenture’s Jeffrey Weiss, writing in the June 2004 edition of *Best’s Review*. For other claims, “The claims technology platform must be able to accurately identify claims that have



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similar characteristics and require similar handling, quickly and accurately route similar claims to the appropriate and available resource, seamlessly connect to vendors and outside service suppliers, effectively adjudicate claims, continuously evaluate claims during their life cycle to determine if new conditions warrant reassignment to a more experienced handler, and readily move work between units as conditions change or assistance is needed.”

On legitimate claims, such systems can cross-check expenses against predetermined criteria to eliminate overpayments, access a variety of valuation data bases, track financial performance, make sure that compliance issues are being met, and allow appropriate in-house and outside staff to monitor progress.

“Data analytics is identifying the individual drivers of claims se-

verity, down to the level of individual materials and adjuster practices, and helping carriers to develop strategic actions to duplicate best practices and change inefficient or unnecessarily costly claims choices,” said Klaas Westera, business manager of Marshall & Swift/Boeckh at the “Applying Best Practices” conference held in Mississauga in January 2006.

Equally important is the technology’s ability to spot potentially fraudulent claims. According to the Insurance Bureau of Canada, home, car and business insurers paid out an estimated \$500 million for claims containing elements of fraud in 2001. And more than 26 per cent of all personal injury claims contained elements of fraud. Identifying even some of these claims translates into tremendous savings for the industry and its policyholders.

“Fraud identification technology ranges from the very simple to the very sophisticated. Available technology and tools include: red flags, predictive modelling, neural networks, profiling, claims databases, identity matching, link analysis, and investigation management,” said Donald Light, author of Celent’s report, *Insurance Fraud Mitigation Technology: Beyond Red Flags*. “A good fraud mitigation program will combine several technologies and methods, using vendor-supplied tools and working with vendor professional services groups.”

Once potentially fraudulent claims are identified, they can be routed to adjusters with expertise in that area for closer scrutiny.



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