



Streamlining Claims Processing Towards a Better Customer Experience

WHITE PAPER

Authors: Umesh Kumar Rai, Ram Kumar Kothandaraman

The property & casualty insurance industry is facing enormous challenges as well as opportunities. Factors including globalization, product commoditization, industry consolidation, regulatory changes, innovative distribution channels, and shrinking margins have presented the insurance industry with a new reality- securing a new competitive advantage is more difficult than ever. Today's insurers must streamline their operations and make them cost effective in an environment of overcapacity. They must recognize the breakdown of the barriers between financial sectors highlighted by deregulation. They have to differentiate their products and focus on customer satisfaction and retention, while maintaining a competitive cost structure, in order to secure market share from an increasingly demanding customer base.

For long, claims processing has been a focus area purely for achieving operational efficiency and reducing costs. However, there has been a growing realization that, claims processing is essentially the moment of truth for the insurance carriers, when the customer expects the insurer to live up to its promises. Hence, claims processing is being increasingly perceived as a tool for achieving customer satisfaction than as just a potential process for improving operational efficiency. This paper discusses the business challenges posed by the claims value chain and the necessary technology solution to meet these challenges.

Table of Contents

INTRODUCTION	3
CLAIMS PROCESSING - BUSINESS CHALLENGES	4
CLAIMS PROCESSING - MEASURING CUSTOMER SATISFACTION	6
NOTIFICATION PHASE	6
ADJUDICATION PHASE	7
NEGOTIATION PHASE	8
INDEMNIFICATION PHASE	8
RECOVERY PHASE	9
STREAMLINING CLAIMS PROCESSING	9
CONCLUSION	11
REFERENCES	12
ABOUT THE AUTHORS	12
ABOUT WIPRO TECHNOLOGIES	13
WIPRO IN INSURANCE	13

Introduction

The insurance market has been witnessing stagnation in premium growth, leading to increasing pressure on profitability. Factors including globalization, product commoditization, industry consolidation, regulatory changes, distribution channels, and shrinking margins have presented the insurance industry with a new reality- securing a new competitive advantage is more difficult than ever. Some of the key influencing factors are discussed below:

Consolidation and globalization

Consolidation of those insurers unable to improve profitability will inevitably continue. Even those firms that successfully acquire competitors will still need to address how it will differentiate itself in the marketplace.

Key challenges underlying globalization include a bewildering array of jurisdictional, regulatory, linguistic and business practices, balanced against the homogenizing pressures of global business models. Managing the balance between local requirements and global perspectives creates significant opportunities for those who can manage the “localization” of global model.

Competition

The competitive landscape is changing at an unprecedented rate. Apart from competition from new and agile insurance carriers and service providers, the industry is experiencing increased competition from established organizations in other industry verticals like banking and manufacturing. Many banks started leveraging their client base to sell packages of various financial products, including insurance. This is being further fueled by legislation like the Gramm-Leach and Bliley Act.

Changing customer preferences

Customers are demanding better service and easy & ready access to information. Changing demographics and preferences are resulting in demand for customized and simpler products. Data reveals that the increased traction of distribution sites has begun to siphon direct customer contact away from leading insurance carriers.

Regulatory challenges

Insurers are constrained by state and federal regulations, which often present a competitive disadvantage for insurance carriers competing with other financial service institutions. Several new laws are now in place in response to pressure from the financial services industry and consumer watchdogs. A significant portion of these laws and the regulations they engender focus on providing consumers with increased privacy, protection, and trusted information. Some of the new laws include, Financial Modernization Act of 1999 (Gramm-Leach-Bliley) and Health Insurance Portability and Accountability Act of 1996 (HIPAA), USA Patriot Act of 2001, Terrorism Risk Insurance Act of 2002 and Sarbanes-Oxley Act of 2002. The effect of these legislations on the insurance industry varies. It is imperative, however, that carriers embrace the modern touchstones of privacy, protection, and trust as they prepare for competition in today's financial services marketplace.

Business operations

Insurers face significant challenges in their core business operations. Insurers need to expand and enhance distribution channels and relationships, tighten up the underwriting process, streamline the back-room operations of policy production and billing, and reduce overall claims expenses to achieve operational efficiency and business success.

The above challenges have been exerting heavy financial pressures on the industry and require insurance companies to develop innovative strategies for increasing customer base and improving profitability.

Retaining/Increasing market share in a stagnant market poses a challenge that requires the insurance carriers to be more customer oriented, which will help in customer retention. Achieving high levels of customer satisfaction is a prerequisite for ensuring customer retention.

Insurance carriers are researching to identify various opportunities for increasing customer satisfaction. An analysis of customer experience shows that claims processing is essentially the Moment of Truth for the insurance carrier, when the customer expects the insurance carrier to live up to its promises.

Claims handling is often treated as a process with a potential for reducing cost. However, there has been a growing realization that efficient claims handling is not only a vehicle for cost reduction, but is also an effective differentiator that enables the players in acquiring sustainable competitive advantage in customer service.

Currently, claims process reengineering initiatives are oriented towards process optimization and not linked to the customer experience. To build an effective competitive advantage in claims processing, one needs to realign and reengineer the claims process towards meeting customer expectations. In the following section, we have set about identifying the primary factors in claims processing that affect customer experience.

Claims Processing - Business Challenges

“Claims management is not just a business process; it can be a ‘competitive advantage’.”

An analysis of the customer experience survey conducted in 2002 by International Communications Research (ICR) of 1,005 respondents representing US population about their experiences with the claims value chain reveals the following:

- Quicker resolution of the insurance claim is more highly valued than the settlement amount offered – 94% of customers rated lower cycle time for claims to be important while only 74% rated settlement amount to be critical
- Regular communication of the status of claims processing is a major concern area for the customers - 82% of customers felt that regular communication with customer was critical during claims processing
- Customers like to have a single point of contact with the insurance firm during the claims lifecycle. This provides a comfort level for the customer – 27% of customers report that they interacted with 3 or more claims handlers while the average is 2 claims handler
- Customer satisfaction is linked to settlement value though to a lesser extent when compared to the other factors described above

These four aspects are critical to a customer's claim experience and in the following pages we utilize these as parameters for analyzing the impact of various stages of the claims cycle on customer satisfaction.

The key issues/roadblocks that the insurance carriers face in addressing the above concerns in claims processing are:

High claims handling costs

Claims remain the major cost center for property and casualty insurers, accounting for up to 80%-85% of an insurer's total operating costs; even a one point improvement in its efficiencies will contribute significantly to the bottom line of the organization. Industry surveys show that insurers spend \$75 per month as administrative cost on every claim that is maintained on its books.

Extended processing time

70% of P&C claims require 4 - 6 handoffs; 48% take three weeks to process

- Forrester Research

An average P&C auto claim takes about 3 weeks to settle. An industry study of over 6000 closed P&C claims, across multiple companies concluded that over 4 % of the time spent in claims handling process is associated with routine overhead functions.

There are still prevalent manual involvement of processes which could be automated like re-keying of data, checking information on disparate systems.

The proportion of effort spent on low value adding functions like, scanning of documents, re-keying of data, manual mailing of letters, data collection from third parties, etc is very high.

High error rate

Most insurers go through 4 to 6 manual handoffs while handling each claim resulting in manual errors. Substantial human intervention due to lack of integration in systems has led to decrease in efficiency, increase in manual effort, possibility of errors, cycle time increase etc.

Storage and retrieval of paper based forms is expensive

Storing paper and retrieving it on demand is an expensive process. A number of industry studies have shown that companies spend \$20 in labor to file or retrieve a paper document and \$120 for finding a misfiled document, which averages 3% of the total.

Disparate systems involved in value chain

Most insurance systems are not integrated with one another and data requires re-keying into multiple systems like CRM, claims processing and workflow systems. Many large P&C carriers still have inflexible and modestly automated business processes for claims processing. Most of them have old, user 'un-friendly' legacy systems supporting those processes. These systems do not integrate well with vendor systems that support functions like liability estimation, bodily injury evaluation, fraud detection, litigation support etc.

Lack of standards

Different regulations in various states in the US require insurance carriers to collect different kinds of data. This has led to a situation where the insurance carriers maintain multiple formats of the same form. Some of the problems that typically arise because of these lack of standards include:

- Insurance carriers have to monitor the changes in forms due to regulatory changes in different states
- Third party service providers face difficulty in establishing a common interface for sharing form based data with different insurance carriers

A high level business process overview of the claims process is given below:

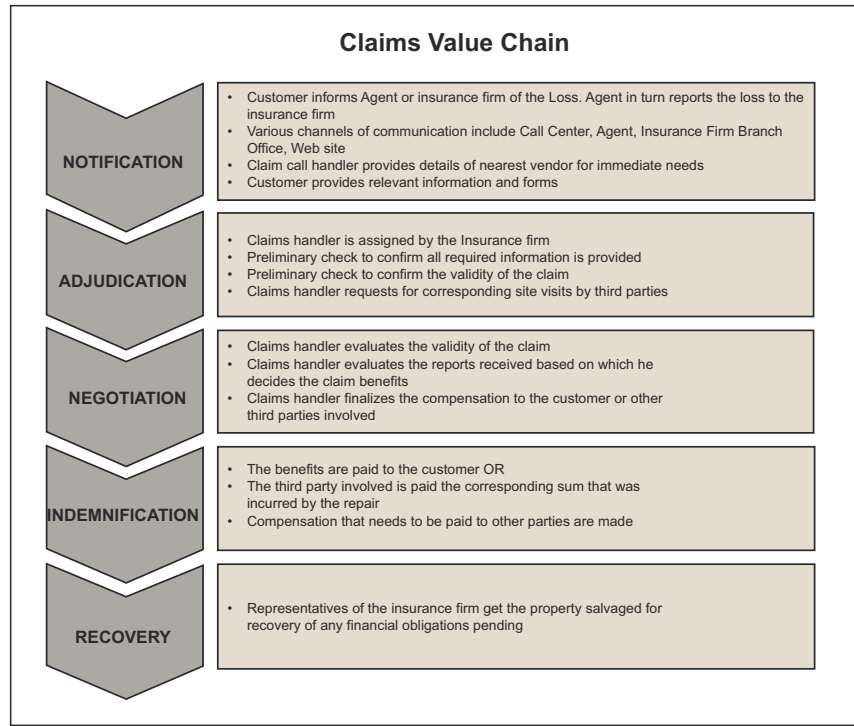


Figure 1: Claims value chain

Claims Processing - Measuring Customer Satisfaction

Notification Phase

The primary challenges in the notification phase are:

- In majority of the cases, customer has to visit the insurer’s office to submit the paper based claims form or the mail containing the completed paper based forms has to reach the insurer for initiation of the notification phase leading to extended cycle time even before initiating the claims process
- The information provided by the customer in the application form may be incomplete due to lack of guidance/collaboration. The claims handlers/customer service representatives (CSRs) need to contact the customer for getting the additional information. This would result in extended cycle time and multiple points of contact with the customer
- Paper intensive systems require re-keying of data to convert the data in paper form to electronic form resulting in errors, wasted effort, and extended cycle time
- Customer is unaware or in best cases very sparingly updated of the status of the claims request

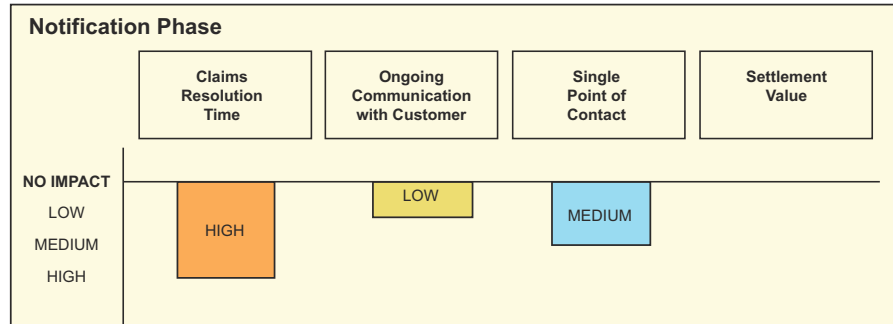


Figure 2: Notification Phase

Adjudication Phase

The key challenges in this phase include:

- The information required to generate the First Notice of Loss (FNOL) resides in different platforms. Claims handler collecting information from these sources to generate FNOL leads to:
 - Increase in cycle time
 - Possibility of errors due to human intervention
 - Increased effort and hence cost
- Forms used for FNOL are currently carrier dependent. Hence, automating the workflow for FNOL generation is complex and often not possible resulting in increase in cycle time
- Forms used for FNOL have to be in compliance with guidelines from regulatory bodies. Hence, a constant monitoring of changes in regulations is required adding to overheads in terms of efforts and costs
- Data required for information verification may reside across multiple systems in varying formats, necessitating manual intervention in most cases to review claims

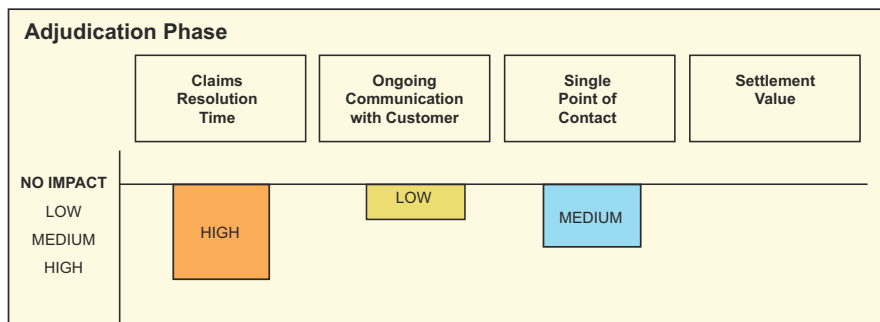


Figure 3: Adjudication Phase

Negotiation Phase

This phase pose challenges with integration with multiple third parties involved in the claims process and getting information together in various formats like photographs, evaluation reports, estimates etc. which are then manually pulled into the process leading to increased cycle time and cost.

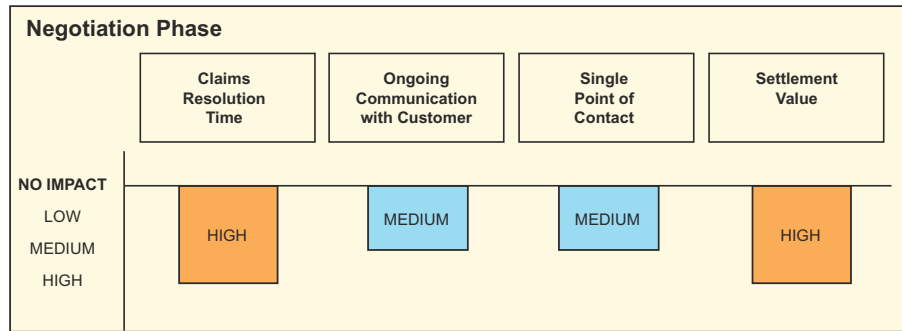


Figure 4: Negotiation Phase

Indemnification Phase

The key challenges in this phase are:

- Information on claims approval and accompanying details are in most cases handled manually and without any tracking mechanism which in turn increases the cycle time for the customer leading to dissatisfaction
- Lack of direct access to third party systems leads to increased cost and sub optimal service to customers

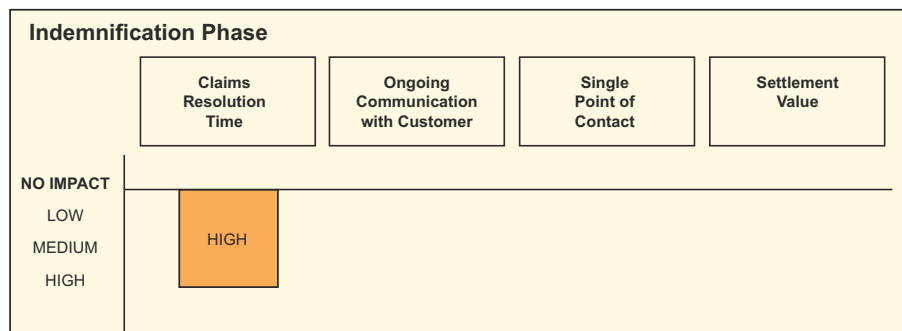


Figure 5: Indemnification Phase

Recovery Phase

Customer experience is not directly impacted in this phase, though there are process efficiencies which the insurer can benefit from through third party integration addressed earlier.

Streamlining Claims Process

There is so much cost built into the current legacy environment, and the processes are so entrenched, that radical changes like system replacement often don't bring enough benefit to justify the cost and pain of implementing them. To extract real competitive advantage and significant cost reduction from claims process, we need a much larger, radical transformation of the entire process and implement technology solutions leveraging on the existing IT infrastructure.

Wipro Technologies has gained significant experience using new technology enablers in various claims environments. As we have begun to apply new thinking and new tools to older processes, we have developed a framework for superior claims process. In this new process:

- Manual activities are eliminated, replaced with significant process automation
- Intelligent electronic templates are used for documentation based on ACORD industry standard forms
- ACORD XML/EDI-AL3 based standards are used for standardizing data interchange within the process and with external systems
- Web services based technology architecture enables the insurance carrier to seamlessly collect information from disparate internal and external sources
- Electronic forms coupled with workflow capabilities should be capable of triggering multiple delivery mechanisms like print, email, electronic archival and retrieval
- Tracking of claims status through Web or email/mobile phone alerts to the parties involved at various stages of the process
- Web services based integration to suppliers and business partners are developed and emphasized

A high level view of the streamlined process framework is shown in Figure 6.

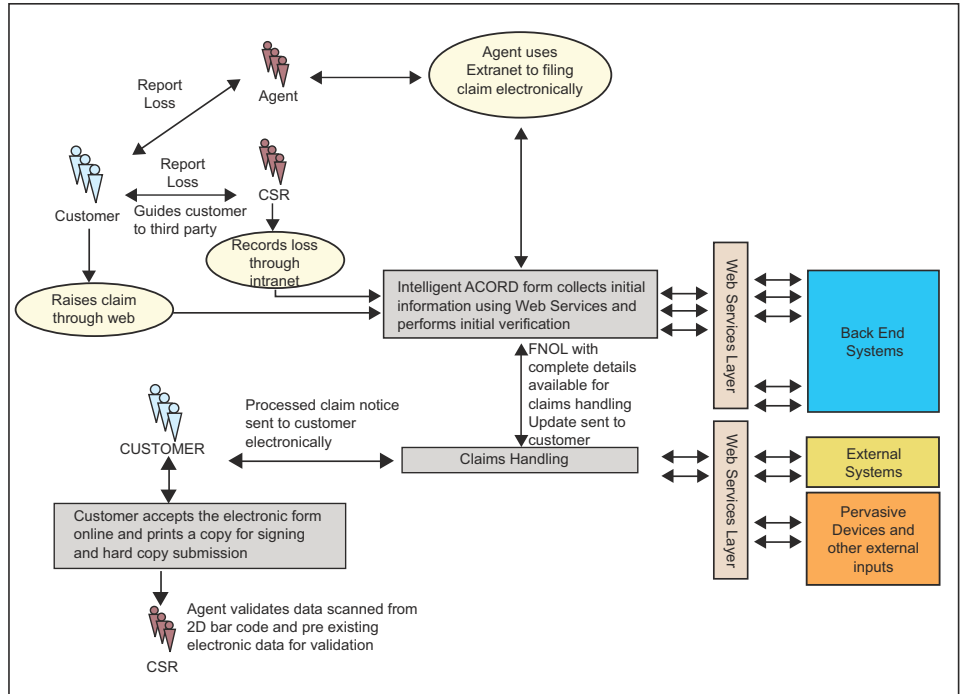


Figure 6: Streamlined process framework

Accurate data and efficient data capture are critical to efficient claims processes. So is having the right information available at the right time can speed the claims process and achieve higher customer satisfaction? First Notice of Loss (FNOL) data is captured and stored using intelligent documents with capability to incorporate features like validations, collaboration, 2D barcodes and digital signatures. The FNOL data is passed via XML and Web services through a series of business rules for evaluation. These rules might evaluate and verify coverage, claim status, claim validity, requirements for additional information, determination of initial reserve levels, and other claim attributes.

The issue of data integration is critical for all parties involved in resolving auto insurance claims. In addition to insurance companies, there are companies that depend on data to provide rental car services, supply parts, facilitate salvage processing, determine vehicle valuation and more.

With the ability to utilize XML and Web services not only does the solution streamline claims processes, it also extends and enhances the value of existing legacy systems functionality through seamless integration with outside services. And because legacy systems can access this new functionality transparently, training and support costs are minimal.

In the following section we look at challenges across various stages of the claims cycle and how the solution framework addresses these challenges. A summary of business challenges and the solution features addressing the challenges is depicted in Figure 7.

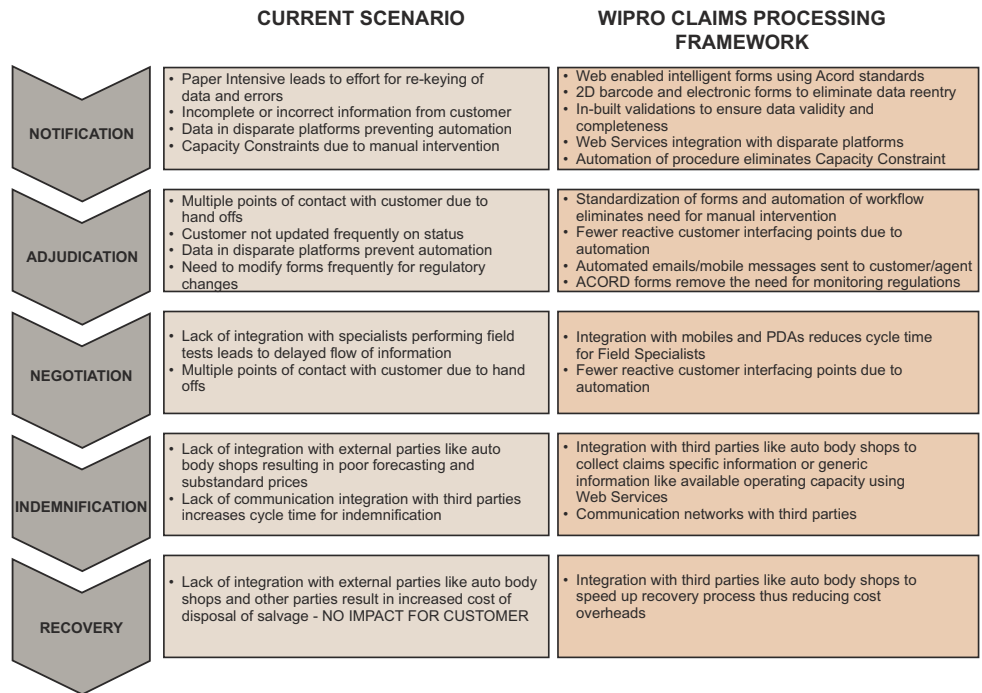


Figure 7: Business challenges and the solution features addressing the challenges

Conclusion

Wipro ROI Framework

The benefits of Wipro Claims Processing Solution Framework are:

- Significantly reduced claims-related expenses and cycle time
- Reduced loss costs through better decision making and information consistency
- Improved quality, a better customer experience and higher customer satisfaction and retention
- Leverage on existing IT infrastructure to deliver business benefits, without demanding aggressive investments

To cite an example scenario, a typical claim currently takes over 20 days to process. The majority of this processing time, about 14 days, is spent waiting for tasks or processes to be performed. What if you could reduce the idle time by 10 days! Resulting 50% reduction in processing time would directly reduce your overall process costs.

The application of these technologies will transform the processing of claims and generate dramatic increases in efficiency and effectiveness. Claims processing can be fast and efficient, drive positive customer interactions, and result in proactive control over loss cost and claims expenses.

Simplified ROI Model

Web Based Access, Intelligent Documents based on ACORD forms, Web Services Integration

Cost Savings
Eliminate re-keying of information
Reduce claims handling cycle time substantially
Reduce re-work and repetitive verification of information
Compliance savings
Revenue Enhancements
Improve quality of claims
Producer productivity
Stimulate additional revenue through service performance improvement
Reaching through new distribution channels

References

1. Customer Satisfaction Survey results, conducted by ICR for Accenture. Refer [http:// www.icrsurvey.com/ICRInTheNews/Accenture_claims.html](http://www.icrsurvey.com/ICRInTheNews/Accenture_claims.html)
2. 'The Upside of Process Improvement' by John J. Feather
3. ACORD XML/EDI-AL3 standards and ACORD forms for P&C industry
4. 'Automated processing of paper based forms', EasyLink Services

About the Authors

Umesh Kumar Rai Dip CII is a Domain Consultant in the Insurance Practice at Wipro Technologies. He has over six years of experience in the IT industry, primarily in business analysis and designing IT solutions for the life insurance industry in Europe. He brings experience from multiple disciplines and has been involved in managing and consulting many IT projects across the business functions in the Life Insurance business including analyzing impact of demutualization on occupational pensions and strategic initiatives towards customer contact management.

Umesh holds a Masters degree in Business Administration and a Bachelors degree in Electronics Engineering. He has completed Insurance Foundation Certification and Certificate of Insurance Practice from Chartered Insurance Institute, London. He is an active member of Chartered Insurance Institute (CII), Insurance Institute of London (IIL) and Member of Society of Technicians in Insurance (STI).

Ram Kumar Kothandaraman is a Domain Consultant with the Insurance Practice at Wipro Technologies. He has been working as part of the core team focusing on developing business and technology solutions for insurance and financial services firms across USA, Europe and Japan.

He completed his MBA from Indian Institute of Management, Calcutta, specializing in Finance and Information Technology.



About Wipro Technologies

Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT services company globally. Wipro provides comprehensive IT solutions and services (including systems integration, IS outsourcing, package implementation, software application development and maintenance) and research & development services (hardware and software design, development and implementation) to corporations globally.

Wipro's unique value proposition is further delivered through our pioneering Offshore Outsourcing Model and stringent quality processes of SEI and Six Sigma.

Wipro in Insurance

Wipro Insurance Solutions have helped global leaders like AVIVA, Nationwide Group, CNA, Friends Provident and Allianz develop sound business strategies for legacy systems, underwriting, claims and customer-centricity. We provide an integrated service around applications, infrastructure and business process outsourcing. Wipro also undertakes Strategic Consulting to help its clients shape their IT and business strategy to achieve their long-term goals.

Our domain experts in life & annuities, property & casualty and broking & reinsurance bring specific industry knowledge to bear on our project engagements. Our point services in New Business, Customer Servicing, Distribution Channel Optimization, Billing and Business Process Management address specific pain areas of the insurance industry.

For further information visit us at: <http://www.wipro.com/insurance>

For more whitepapers logon to: <http://www.wipro.com/insights>

© Copyright 2004. Wipro Technologies. All rights reserved. No part of this document may be reproduced, stored in a retrieval system, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without express written permission from Wipro Technologies. Specifications subject to change without notice. All other trademarks mentioned herein are the property of their respective owners. Specifications subject to change without notice.

Worldwide HQ

Wipro Technologies,
Sarjapur Road,
Bangalore-560 035,
India.
Tel: +91-80-2844 0011.

U.S.A.

Wipro Technologies
1300 Crittenden Lane,
Mountain View, CA 94043.
Tel: (650) 316 3555.

U.K.

Wipro Technologies
137 Euston Road,
London, NW1 2 AA.
Tel: +44 (20) 7387 0606.

France

Wipro Technologies
91 Rue Du Faubourg,
Saint Honoré, 75008 Paris.
Tel: + 33 (01) 4017 0809.

Germany

Wipro Technologies
Horn Campus,
Kaistrasses 101
24114 Kiel.
Tel: +49 (431) 77 55 713.

Japan

Wipro Technologies
911A, Landmark Tower,
2-1-1 Minatomirai 2-chome,
Nishi-ku, Yokohama 220 8109.
Tel: +81 (04) 5650 3950.

The Netherlands

Wipro Technologies,
Polaris Avenue 140,
2132 JX Hoofddorp,
Tel: +31 (23) 5544 630.

www.wipro.com
eMail: info@wipro.com

Wipro Technologies

Innovative Solutions, Quality Leadership