

Cutting Edge Claims Management

A discussion outlining the new frontiers that are to be found in claims management—and why that area is ripe for change.



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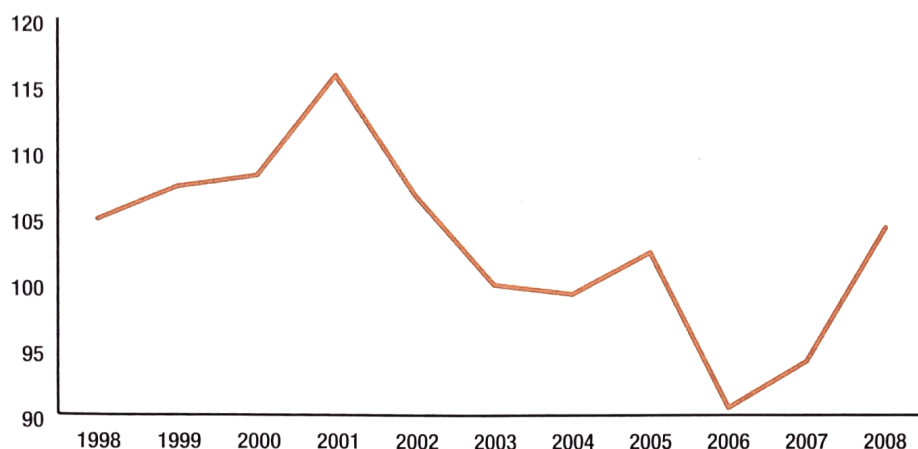
Muir is head of claims for Maiden Re (formerly GMAC Re) and has been working with clients in the reinsurance area for more than 25 years.

The *Best's Review* webcast, "Cutting Edge Claims Management," was broadcast on July 15, 2009, and attended by more than 500 viewers. This is an edited version of the webcast.

A video replay and complete transcript are available at www.ambest.com/claims09.

Combined Ratio

Total U.S. P/C Industry



State of Claims

CHORDAS: It's a tough environment for P/C carriers today. The overall combined ratio for 2008 is 105.1 and the investment side is just as bad. Are there savings and efficiencies to be had in claims? How much?

COSTONIS: In a lot of ways the discussion here is a little bit of "back to the future." We've seen this trend before where the call is out to restore profitability within an insurance operation. The issue we have now is that a lot of the escape valves just really aren't there. We cannot do what we used to do on rating, and pricing increases. The investment is definitely not there. The question becomes, "Where do I go?" Claims, obviously, is a good first step.

Our research indicates that there are somewhere between five and 10 percentage points of improvement in the claims function that's there. However, the persistency of the problem is really pointing to a new kind of playbook that's required to fix it.

MUIR: Claims are always a very important piece of the business overall. When you look at claims you have to be careful how you reserve it, how you handle it, how you recover when there's places to recover. But I would say claims is an essential part of managing and improving a company's bottom line.

Claims Automation

MCDONALD: Most companies say they're automated. How far along the road to automation is the insurance industry generally?

COSTONIS: What's interesting is the equation again of where time is being spent. The fact that half of that time is not being spent on those activities, to me that would evidence that there isn't a high degree of automation in the insurance practice, in the claims functions. A lot of time is being spent on a core administration problem or maybe in a specific functional area like first notification of loss or around specific tactical items about how do you route work around. We still see a fairly immature environment for claims automation. Looking at the administration system, some of the value-added functionality around analytics and reporting and then trying to push into straight-through processing, those are still fields that are really waiting to be tilled.

MUIR: Except for a few, most companies are significantly automated. They have first reports that are being taken on a computer system. Most clients that we visit today have a paperless system of some kind. When we visit them, we're going on a computer and we're looking. When we're asking for reports, all

of that is in the system and at the touch of a button they can print a report—I would say that for 98% of our clients. There are still a few that have to pull out a claim file, they still have to bring a piece of paper, manually, to you. But I would say the insurance industry—claims, anyway—have caught up significantly and some parts of the process are automated.

MCDONALD: Peter, as someone in the field, is there anyone here still asking you to submit by paper?

CROSA: No, actually. That's an interesting point. The answer to that is virtually no.

Claims Training

CHORDAS: Looking at training, where would additional training yield results?

COSTONIS: If you just take a step back and look at the work force—the claims work force—it's the biggest work force, typically, within an insurance organization. The challenge is that it's not attracting new talent. The question becomes: How do I extract the knowledge that is truly there within those professionals and then disseminate it? The training can fall into two areas. One is the cap-



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ture and the more effective management of that knowledge. The second is the training in the new issues. In terms of the capture of the knowledge, there really is a push to get away from the art of adjudication and turn it more into a science. Not necessarily to automate it or force it down a specific routine, but to

be able to take what exists in somebody's head and actually share it in a way that—in the middle of a transaction—to provide that support. If you take a parallel outside of insurance in the financial services area, especially where you have consultative sales—investment products—they have simulation-based training where the licensed person who's learning how to sell a product will sit in front of a simulation and say, "Tell me about the life events that you're going through. Are you getting married? Are you buying a house?" They go through a simulation of how they should be pitching the product, what responses they would get. It teaches them how to handle that type of a transaction. In parallel to that type of knowledge being pulled out from a claims perspective and being shown to new adjusters, you would say, "This is how you would adjust a garage keeper's liability claim. You need to ask this particular question, this is how coverage applies," etc.

What we're seeing is more of a focus on different delivery mechanisms. Is it delivered online? Is it delivered via self-study? Does it show up via podcast? Training is changing very much from a person-to-person type training to a just-in-time delivered electronic model where people can use it for transaction support.

CROSA: I'm not sure I hear upper management complaining about the so-called "brain drain." I like the way Michael thinks, and what I would say is where I see the lack of experience and training is in the field. That's where I live and breathe, as a field adjuster, doing the investigations from the ground up. So far we've been talking about claims management as being a process in the collection of data and processing that data. Where the career needs to be humanized is in the field and to make adjusting an interesting career, if that is the direction they want to go.

MUIR: If you're looking at it from a customer service standpoint, then the initial taking of claims, the training in that area, is very critical. You want your clients or your customers

to feel empathy toward what they're going through. That's the first basic part of training. Then, of course, you have handling the claim efficiently. I always feel that there's a line that you walk. You have to be fair to the client and you have to be fair to your employer, so there's a balance that adjusters need to keep.

Claims Subrogation

MCDONALD: What are you seeing in claims subrogation?



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MUIR: A lot of companies think they can ask the same adjuster who's handling the claim to also be the subrogation person. I find that if you look at claims today the most leakage is in not recovering and subrogation where there are opportunities to recover. The companies that are doing the best are companies that from the first notice of claim are looking toward subrogation and usually outsourcing subrogation. You have a dedicated person working toward recovery on that claim from day one. They're looking at the investigation, they're looking to make sure that you're preserving evidence, that you're looking at all areas, every corner that can be investigated for recovery is being investigated.

COSTONIS: In a lot of ways, subrogation is kind of a classic people, process and technology issue. If you look on the people side, you're absolutely correct that it tends to get down on the priority scale in terms of their activities. The challenge on the people side is, is it appropriately designed into their role and accounted for in their performance metrics

in compensation that subrogation is important. That's the people side. With that comes developing the appropriate expertise, whether it be at the desk level or in a centralized or regionalized unit that handles subrogation. On the process side it has to do with more of the distribution of work and the appropriate usage of that expertise.

On the technology side what we're seeing is a heavy use of analytics to be more predictive about what claims really create what kind of subrogation and what opportunities have a higher yield than others. If you think about it, experience should be able to dictate that if I have a claim with certain features I'll present it in a certain way, with a certain loss amount and certain circumstances. If that's going to yield recovery, I want to be able to know that as quickly as possible as opposed to relying on the person to identify that. So what we're seeing is investment in the analytics area pointed at early identification of subrogation opportunities but constantly managing what the potential yield would be to know how much effort I need to put in on a go-forward basis.

MCDONALD: What about the role of the outside adjuster in determining the possibility of subrogation. Are you seeing any changes in that regard?

CROSA: The best practice for outside adjusters is always to multitask. When you handle a claim you're always looking for possible third-party contributions. Your initial investigation, which is critical, is always with a view that after you're done settling this claim, you may be going after a third party. So your investigation has to be adequate. What condemns subro efforts to failure most of the time is the lack of initial investigation. I'll give you a real quick example. I've got a multistory condo with a water loss right now that started with a water heater. It's a covered loss. There's no question of coverage so it's just a matter of hiring an adjuster to assess the damages. We were hired. But the company did not want to incur the expense of certifiable investigation

as to the cause because they weren't worried about coverage. It was clear coverage. Once this is settled and you send out subro demands to the third party, they want to know, what proof do you have? What certifiable expert do you have that examined this water heater and told us it was our fault? If you don't have that information, six months down the road it's going to be too late.

Claims Volume

CHORDAS: What does claims volume say about an insurer's operation? Can companies overly rely on automation and lose touch with claims?

COSTONIS: We're seeing a trend that frequencies are down across the board. So the real question becomes what do operations do with the capacity they have? The primary role of automation is to remove those non-value-added activities out of the process. It's not to replace people.

I believe that redefining the role of the claims professional is important—focusing them on actual core adjudication versus processing. Automation's key job is to take out those activities that distract from providing that level of service or providing for making the decisions. Automation should not be looked at as something that will get in the way of the customer or away from the customer. It will be a black box machine making decisions. Automation should be looked at as the thing that frees up capacity so people can spend more time on empathy, spend more time understanding expectations and spend more time making better decisions.

CROSA: The insurer that has a tremendous amount of claims volume, I hope it says that they're selling a lot of policies. There is one carrier that handles the largest volume in a personal line sense and is doing probably all they can do with automation. But they are sometimes criticized for their lack of customer care, so you can't sacrifice one for the other.

MUIR: Well, that's one of the first things we ask when we're setting up

to do a review of a client. We want to know how many claim files an examiner is expected to handle. Realistically, if you have 500 files pending, everyone's not going to get the care that they should get. Volume is critical to proper management of claims. Whether some parts of it are being done by automation or the whole thing is being done by the adjuster or claims staff, we still need to recognize that if an adjuster is overwhelmed with the number of claims, then customer care will take the back end. What we look critically at is, are reserves being posted in a timely manner? If you have too many files and the phones are ringing, you're going to have your first report sitting and not getting attention. We feel volume is very critical overall.

Claims Work Force

MCDONALD: You've also reported on what we might call the brain drain or age wave. The number of people of retirement age are multiples of the people who are entering the work force age. You think that's going to hit claims hard. What's to be done and where is it going to hit?

COSTONIS: In a lot of ways it's a classic supply-and-demand prob-

lem as well as the unattractiveness of the claims professional job. If you just take a step back and look at the



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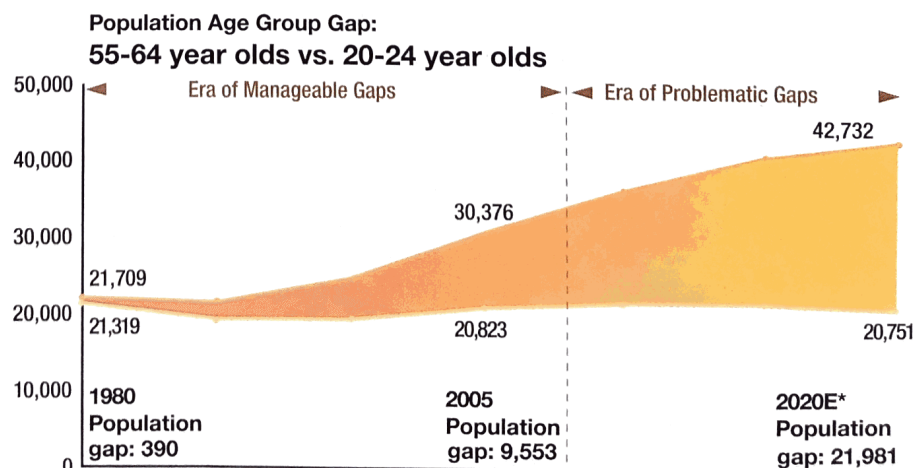
—Peter Crosa

boomers coming out of the market, there are fewer people coming into the work force than there are going out. The complicating problem for claims is that the job itself is not very attractive. It's not attractive from the perspective of entry level salary. It's not very attractive from the career progression aspect. It's not very attractive because of the tools and the way that you get to work.

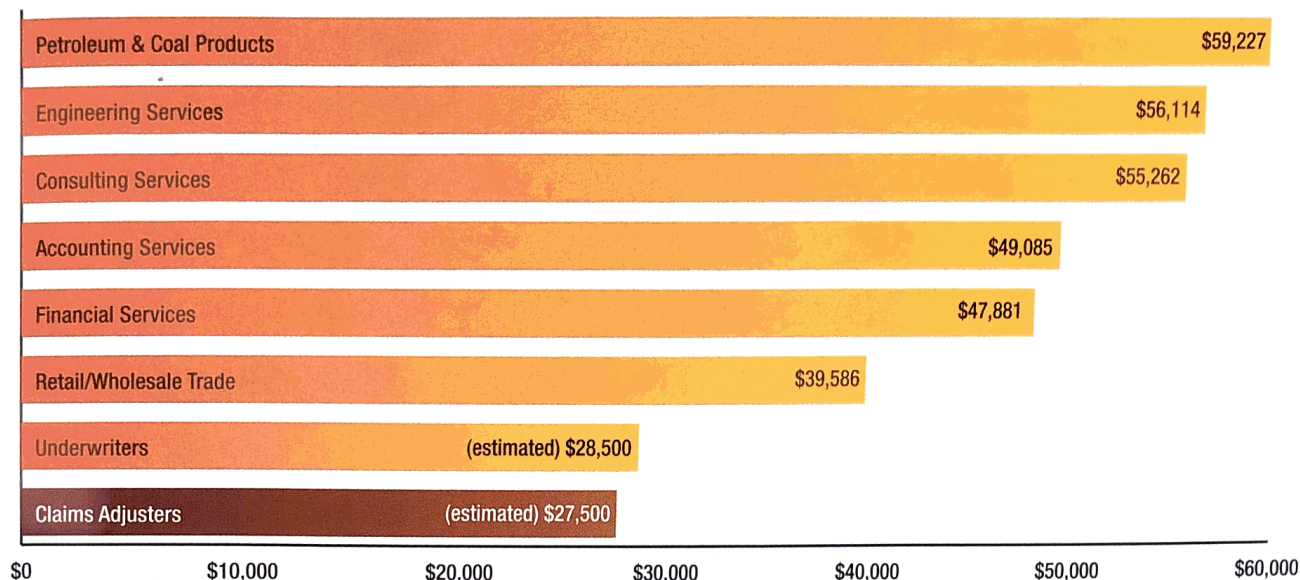
We need to get away from the processing. Put that where it needs to be, either in a system or in a low-cost processing center somewhere. Have claims professionals be claims professionals. Adjudicate claims, talk to customers, make decisions—not print checks, find claim files, re-key data.

US Population Demographic Trends

From 1980 to a projection of 2020 fewer workers ages 20 to 24 will be entering the work force than workers ages 55 to 64. This worker gap may hit the claims industry.



Top Employers/Job Functions for 2007-08 New College Graduates



Sources: National Association of Colleges and Employers' Winter 2008 Salary Survey; U.S. Bureau of Labor Statistics, 2007; Accenture analysis

That doesn't make their day attractive. Second is we need to give them the tools that make their job fulfilling. We need the right automation, we need access to the information, we need tools that, quite frankly, the new work force knows everything about: social networking, instant access to different types of media and a high degree of technology enablement. We'll be able to attract more of the incoming work force.

MUIR: Some companies do have problems in entry-level jobs. When they go to college campuses to recruit, it's a hard sell. People don't understand what a claims adjuster or claims examiner does. It's not a glamorous job. Companies are trying to do more recruiting, education and upgrading of the job. Make it more interesting for the younger generations coming in. Clients are doing very well because a lot of people that normally would be retiring are not retiring today. You're not seeing that drain that we've seen in the reports and the media. We're not seeing that yet.

CROSA: I get five calls a week from people wanting to enter the adjusting career. That could be because of the economic conditions.

I have no trouble thinking of the job of loss investigation and adjustment as being a very interesting, exciting and yes, even glamorous position. I speak a lot. I speak to young people in college groups. I tell them about what I do for a living. I'm a detective. I'm a police officer. I'm an engineer.

Independent Adjusters

CHORDAS: How are better claims operations set up to work with independent adjusters?

CROSA: Well, I would say that, ideally, you want your supervisors, people who are working with the independents in the field, to be experienced. It's always nice to be working with someone or reporting to someone who has actually been in a burned-out building or been to an accident where there've been fatal injuries. Let's say that's not the case. If you've got an insurance company adequately staffed to respond to the outside investigator's inquiries or reports, that's ideal.

COSTONIS: One of the biggest challenges working with the independents is a distribution-of-work problem and also work-product issues. It's

one thing to make a selection of an independent for a certain claim in a certain area based on a specialty, but where we see the friction costs are when you can't get the right information in the independent's hands with the right instructions that follow. So you end up with a slightly missed expectation: "I thought you were going to go find this out for me." I didn't find it out, I need to go back out and do some subsequent investigation.

MUIR: First we see that the assignment is laid out so that the independent adjuster knows what you're expecting or asking them to do. One of the critical areas is just saying, I'm assigning this claim to you, but the adjuster is not sure how deep you want them to get involved, what it is that you want them to do. We expect our clients to have some kind of format that says, this is what I want you to do for me. The main thing that we look for besides that is reporting back to the client. We expect that on a large property claim, the report back to the client will be in seven days. We don't expect them to be waiting 30 days to know what happened, because then that's not good customer service. If they don't have a report they can't settle the claim or handle the claim. **BR**