Claims transformation

Riding the wave to sustainable results
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For years claims organizations have been cutting costs. To become stronger and leaner, they have worked with whatever resources they had to keep expenses in check. This cost cutting has come at a price. Despite years of mergers and operational improvements, many claims teams are still challenged by optimization and expectations for higher performance. While they have focused on cost efficiencies and aligning business with operational strategies, many now view the customer experience in claims as the next level of competitiveness.

The claims process remains a critical moment of truth in the insurance value chain. It is time to think about making this leaner environment more sustainable. This will require strengthening the claims value proposition and providing the essential support functions to impact the front-end customer experience. Managing a complex network of disparate systems will no longer be enough. Insurers will need to attain a new level of sophistication in technology that leverages analytics against robust claims data and contributes to a more profitable book of business.

Within the last three years, insurance companies have started reinvesting in claims and making changes in scale and scope. Typically, organizations have bought the technology platforms or focused on some immediate areas to give them optimization and save costs. They have renegotiated supplier and claims handling arrangements, for example, and have made ongoing investments in technology change and, to a lesser extent, in digital front-end processes. Now that expenses are down, how can insurers move the needle of claims performance to position their company for future growth?

This next wave has to extend above and beyond what claims organizations thought of before — tailoring initiatives and talent management to an enterprise strategy that considers wider scale and broader change. Raising the bar to a whole new level will require redesigning core business processes, enhancing data analytics and predictive modeling capabilities and harnessing the power of digital and mobile to reach the customer. Those companies that get it right will see greater efficiencies across the board and a positive financial impact on their bottom-line results.

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Many factors are influencing the claims landscape and driving broad-based transformation. These range from an explosion in data volume and a proliferation of data sources to outdated technology infrastructures that limit the ability of claims organizations to gain integrated customer views and provide responsive service. Most legacy claims operating models and systems have not been sufficient to keep pace with dramatically increasing consumer expectations.

In looking at global industry trends and their implications for claims organizations, five common themes emerge: cost and pricing pressures, technology and data excellence, customer centricity, regulatory scrutiny and talent management.
1. Cost and pricing pressures
   ▶ Trend: Respond to increasing competitive pressures with strategic cost management and laser-focused pricing. Maintaining good profit margins in a slower premium growth environment will require insurers to focus on long-term cost reduction, redundant operations, customized pricing and segmentation strategies.

   ▶ Implications: Weighing expense reductions against potential investment returns, priorities and performance inconsistencies will help claims organizations achieve greater optimization and efficiency. Insurer expansion into new markets and distribution channels will increase pressure on claims to be nimble, flexible and responsive.

2. Technology and data excellence
   ▶ Trend: Engineer an enterprise data excellence strategy that simplifies systems, processes and organizational structures. Policy administration and claims are often managed through other systems with significant compromises and a lack of integration. Mission-critical information needs to be more accessible to enable data-driven decisions.

   ▶ Implications: Analytics is an essential tool to better inform underwriting and detect claims fraud. Advances in digital and analytical capabilities will reduce overall claims costs and expenses, bolster underwriting practices and enable greater consistency in business processes. More robust data analytics and predictive modeling will also help pinpoint new growth opportunities, reduce the claims leakage associated with longer claims cycles and optimize claims outcomes. Overall, this will enable the insurance company to make more profitable and competitive decisions.

3. Customer centricity
   ▶ Trend: Improve customer connectivity by expanding distribution and customer service. Insurers have inconsistent levels of service across multiple channels – and service is not always perceived as a differentiator. Most companies have no single 360-degree view of the customer, and the only customer contact is at the time of claim or renewal.

   ▶ Implications: Insurers need to better understand the customer and offer a seamless multichannel experience. Claims should be acknowledged as the key customer touch point; yet, few companies feature the claims value proposition in sales materials. The customer experience and relationship in the claims space can help build a choice of propositions that differentiate levels of service for specific customers. Moreover, there are steps that insurance companies can take in the claims process to “win-over” the customer. These changes will have a positive impact on the efficiency and effectiveness of the claims-handling process.

4. Regulatory scrutiny
   ▶ Trend: Proactively address multiple regulations and tax considerations, rather than responding with a siloed approach. The volume and complexity of regulation is compelling insurers to invest in technology, data analytics and enterprise risk management capabilities. The high price tag associated with inefficient, manual data-gathering can lead some companies to choose between paying fines or investing in new systems to address data compliance.

   ▶ Implications: Increased regulatory intervention and scrutiny will require claims organizations to have greater transparency in the information they provide, better reporting capabilities and more interaction with other operating functions. Streamlining compliance and eliminating the risk of fines or penalties are two tangible components of the business case for claims transformation.

5. Talent management
   ▶ Trend: EY’s claims talent survey 2014 identified four primary drivers that are influencing the ability of carriers to acquire and retain new talent in the insurance industry: new technology, automation results, customer sophistication and a changing workforce. The survey highlights the pervasive gap and talent shortage, as well as the need for greater skill specialization, training and development.

   ▶ Implications: An aging and maturing workforce is causing a shortage of talent in an insurance marketplace where claims experts are retiring with no suitable successors. Companies lack formal plans for recruitment and specific claims training programs. The claims skill sets required, such as more analytical thinking and advanced tools, are becoming more complex. This talent shortage in claims – and the need for progression options and change management leadership – presents an opportunity for insurers to rethink future resource requirements to remain competitive.
The case for transformation

In the past, claims efficiency and performance levels were not where they needed to be for insurers to effectively compete. Larger carriers achieved baseline success in their initial transformation programs by looking beyond increased speed quality and efficiency in claims processing to enablers such as technology, digital capabilities, analytics and advanced business intelligence. Those companies that focused largely on upgrading core claims processing platforms – without building a longer-term foundation – had mixed results. While these programs have been successful, they tend to be incremental. Transformation usually goes beyond that – both in terms of scale and complexity.

Claims transformation raises performance to the next level by helping position a company for growth, accurate claims payout and a high quality customer experience through analytics and key metrics to measure success. In seeking to improve outcomes and enhance productivity, insurers can replace legacy claims platforms, reduce operational costs and boost overall process efficiency and governance.

Since not every claims experience is the same, insurers need a clear understanding of where current processes fall short and where improvement will provide more flexible consumer options. As they develop a business case, insurers need to consider the level of investment for specific process improvements and tailor initiatives to a comprehensive and holistic enterprise strategy.

While companies are undertaking these activities, they should be building the foundation for future claims transformation. They need to think differently about the various dimensions (customer centricity, talent management, technology enablement and data excellence), viewing each one from the perspective of how it will complement the transformational agenda. Typically, many of these initiatives have been driven by cost structure.

Many carriers have purchased core claims technology to kick start their next generation initiatives. In coming years, the primary focus will be to build on this claims transformation investment. This will give the customer greater self-service and mobility options and enable the company to leverage the wealth of claims information they now have in contemporary claims platforms.

Potential claims complexity will result in more sophisticated management systems that will require integrated, multichannel, flexible and rules-based processes. Performance will necessitate significant executive leadership and deploying effective communication at all levels of change management.
Diverse and tailored service offerings deliver outcomes

EY has studied numerous claims management models across countries and businesses to develop a best practice model. Dedicated insurance and claims specialists have the technological and analytical insights that drive superior claims outcomes, effective cost management and sustainable benefits.

Claims change, in general, is a process that follows a path from performance analysis and maturity assessment to a transformation road map that identifies short- and long-term solutions. By focusing on claims effectiveness and efficiency, the approach impacts the entire structure and design of organization, as well as the change management process.

Our multiphase approach evaluates the full claims operating model and benchmarks current processes and capabilities against industry-leading claims practices. Most importantly, it helps clients determine their holistic vision for their future claims organization.

Insurance companies have different levels of sophistication in their claims capabilities, and one solution may not fit all needs. We can provide assistance in specific areas or end-to-end transformation. Our offerings range from developing a claims strategy, evaluating the current operation and identifying opportunities for improvement to defining how the required capabilities will be delivered through people, processes, governance and technology.

Executing a full claims transformation will require a tailored implementation plan design and delivering a sustainable program of risk and change management. Setting the right priorities will depend on in-house skills, resources and investment considerations.

We have extensive experience assisting insurance carriers, claim administrators, state insurance funds and loss sensitive organizations in identifying financial improvement opportunities through improved claims management performance.

Many insurance companies look to EY for end-to-end solutions that span the full life cycle of a large-scale transformation. Our strategic implementations provide a real-world experience for insurers to manage costs, improve claims management efficiency and realize growth potential. One specific solution – “insurance in a box” – uses Guidewire software to define the best target operating model to improve the efficiency of the claims management process and lower operational costs.
EY can provide assistance in end-to-end claims: transformation offerings deliver outcomes

1. **Claims target operating model and organizational design**: redesigning processes, governance and technology to align to business and operational strategies; focusing on performance, process excellence, skills set, shared services and continuous improvement to yield sustainable, bottom-line results.

2. **Claims transformation and business case development**: establishing priorities based on industry experience and defining quantifiable metrics that will deliver the best return on transformation investments.

3. **Claims capability and maturity assessment**: identifying gaps and inefficiencies needing improvement through independent reviews; comparing current processes and capabilities against industry-leading claims practices to determine which programs offer the most compelling value proposition.

4. **Claims analytics and predictive modeling**: applying techniques and insights to identify drivers of unexpected claims development, improve decisions based on timely and accurate data and prioritize processes via loss mitigation strategies.

5. **Claims fraud investigation, detection and controls**: combining advanced analytical fraud detection methods and effective fraud operating model design has proven to reduce claims spend and handling times – leading to significant business benefits.

6. **Claims customer experience**: driving market differentiation and multichannel consistency by tailoring the customer experience to strategic initiatives.

7. **Claims technology enablement**: leveraging the components of the claims system with the skills and knowledge of technical claims professionals to achieve a holistic transformation.

8. **Claims change management**: integrating stakeholder engagement, effective communication and human factors (i.e., training and career path development) to achieve new behaviors and sustainable change management results.

9. **Claims quality and leakage assessment**: analyzing quality assurance programs, including assessment of claim financial leakage; identification of root cause claim activities driving adverse financial performance, quantification of the exposure, and prioritized roadmap of actionable strategic improvement opportunities.
**Case study**

**Increasing employee engagement during a major transformation**

A US-based property-casualty insurance carrier was limited in its ability to optimize claims performance and had not upgraded its legacy claims technology in a decade. The company identified a core set of objectives, including enhancing the customer experience, boosting analytics capabilities and improving claims process efficiency. Change management was its number one concern.

EY’s change management professionals played a key role in designing a strategy and implementation plan to deliver a multiyear claims transformation program. The insurer deployed a new claims management platform, redesigned its core business processes to focus on the customer experience and restructured the claims organization with new leadership. In the process, they actually boosted employee satisfaction and stakeholder engagement during a time of significant change. Effective communication, training and career path development enabled new behaviors and sustainable change management results.

**Case study**

**Target operating model design and implementation**

A global multiline insurance company needed to redesign its claims operation to improve outcomes and manage costs. The company wanted a new structure to handle claims segments in a different way (from high to low complexity) for all commercial lines - and new segmentation rules to support processes and roles. Moving to a global structure with regional claims by line of business would mean lowering individual caseloads by redistributing less complex claims and activities to near or offshore centers.

EY provided key resources, leadership and program management across 14 European countries. Local country project managers worked alongside the insurer’s claims managers to lead the overall change agenda in their countries. The program included developing a global segmentation model and core claims processes, which have now been embedded across Europe. People and change management activities formed an essential component in sustaining change and creating a new organizational structure that includes Centers of Excellence. The insurer benefited from the development of a target operating model and consistent implementation approach that it is now deploying globally.
Improving claims first notice of loss performance

A top 10 US personal lines property-casualty insurance carrier identified significant improvement opportunities within its first notice of loss (FNOL) program as it moved from a regional business structure to one based on line of business. Previously, it had relied on a FNOL model utilizing aging technology and a decentralized management structure. The carrier’s FNOL methodology was negatively impacting claim severity as well as customer experience.

EY designed a multidisciplinary team, including subject matter resources from claims operations, workforce management and customer experience, to work with the carrier on a strategy to re-engineer its FNOL process that would support its adoption of standard claims work. The carrier underwent a complete redesign of core FNOL operations, focusing on efficiency and technology to support all lines of business while allowing for improved claim severity and customer experience. These efforts were implemented through alignment with quality assurance, training, performance management, and supported by key metrics to assess organizational and individual progress towards identified benchmarks.

Case study

Claims operational review, quality and leakage assessment for state workers’ compensation fund

This workers’ compensation carrier is the largest insurer in its state, with over 55,000 customers, and maintains a strong focus on continuing improvement. The carrier was looking to analyze its claims management operations and execution, including identifying and quantifying adverse claim financial development. Ultimately, the carrier’s goal was to identify opportunities to improve its claim operations and positively impact financial results.

EY conducted interviews, workshops and detailed review of selected claims to evaluate adherence to industry and leading practice claim management principles, and the presence of any claim financial leakage. We provided specific recommendations to improve claim severity performance, including a series of quick wins based on leakage analysis, as well as the claims operational review. Recommendations were prioritized based on level of effort, risk and short and long-term financial impact.

In the 18 months since completion of this engagement, there has been significant improvement in claims operational and financial results. The carrier experienced a material impact on claim costs, rate filings, surplus and ability to strategically implement new capital management alternatives.

EY differentiators

- Global capabilities: assisting with claims on six continents
- Insight: people with deep industry skills who understand and can help expedite the claims process; these are complemented by dedicated professionals in analytics, customer experience and change management practices dedicated to insurance claims
- Scalable approach: a nimble and flexible advisory practice – capable of handling claims of all sizes and complexities
- Objectivity and fresh perspective: as a trusted advisor, EY applies its knowledge to educate internal and external stakeholders, increasing the efficiency with which the claims process is handled
- High-touch, relevant services: objective analysis and knowledge of industry trends enhance our risk management capabilities
- Thought leadership: our practice routinely develops and presents thought leadership and content on best practices to claims and risk professionals
Claims transformation: Riding the wave to sustainable results
What’s next for claims?

In three to five years, many insurers will have a contemporary claims platform that will deliver the basis from which to transform their operations. An important driver of performance will be the increased focus on customer expectations and demands. Customer centricity has become synonymous with competitive advantage and market leadership – and this is where claims transformation initiatives offer the greatest value as a strategic differentiator.

In our view, there are three factors insurers should consider as they pursue their future claims strategy. First, the use of data, mobile technology and analytics will enable companies to rise to the next level and improve their performance in tangible ways. This can only be achieved by the second factor, harnessing digital capabilities and embedding them into the claims culture. And finally, the right skills and people will be needed to support this effort and provide leadership for successful change management.

Insurers seeking fundamental improvements in their claims operation need to answer these critical questions:

- How do claims organizations take advantage of the wealth of data and technology?
- How does the claims function contribute to the overall data and analytics capabilities of the organization to improve the insurance company’s performance?
- How do you enhance the customer experience by making the customer a more integral part of the claims process?