EXCELLENCE IN
CLAIMS MANAGEMENT

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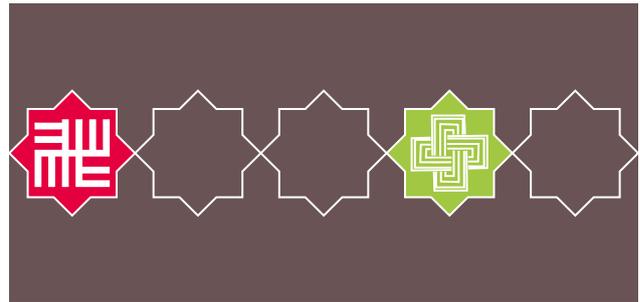
The South African short-term insurance industry is characterised by unrealised opportunities to reduce claims and operational costs and also improve customer service by enhancing core claims processes and technology.

Controlling claims costs, indemnity and operational risks is a key challenge for competitiveness and profitability. This challenge is compounded by efforts to satisfy the needs of key stakeholders such as customers, regulators, competitors and shareholders.

A large number of activities in claims processes do not add value – claim-handling time and cost is incurred unnecessarily on these activities. Many insurers are unaware of the key areas on which to target their process improvements or what best practice looks like in terms of claims technology.

Consequently, the questions for the astute insurance company are:

• What does a good claims operation look like, and how do you compare?

• How can the claims operating model be improved?

• Do you have efficient processes supported by market-leading technology?

• Are the claims processes delivering fair outcomes for customers and satisfying regulatory requirements?

• How much claims leakage is there, where in the business is it coming from and how can it be reduced?

• Is your claims supply chain best practice?

• How can you deliver excellent service while keeping control of claims costs and operational costs?

• Have you defined what good claims handling looks like and how this will be recognised and rewarded?

The answer to these questions should support the most complex claims challenges.

The key attributes of claims management best practice can be summarised as follows:

> " Ten years ago the focus of boards were more on "performance" and directing the commercial and economic fortunes of the company. Today boards concentrate on issues of "conformance". Enterprise is the disposition to engage in undertakings of risk. Business is the undertaking of risk for reward. The balance between enterprise and control has been disturbed and is likely to be further disturbed by regulatory zeal. This may in the longer term reduce returns for policy holders and lead to an increase in the cost of insurance products. "

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Organisation

- Clear & understood claims strategy
- Optimum operating model in place
- Excellence in people management
- Future people capabilities defined
- Strong people processes

Cost management

- Low claims leakage
- Structured leakage quantification
- Short claims lifecycles
- Competitive supply chain costs
- Consistent supplier service delivery

Stakeholders

- Fair outcomes for customers
- TCF embedded in the operation
- Customer satisfaction
- Consistent service delivery
- Meeting needs of trading divisions

Efficiency

- Integrated & stable systems
- Optimised IT cost structure
- Accurate & timely MI
- Process flexibility to support growth
- Non value added tasks removed

People / Claims Leakage Reduction / Operating Models / Supply Chain / Customer & Quality / Process & Controls / Regulatory & Compliance / Technology

CLAIMS

COST MANAGEMENT – LEAKAGE AND SUPPLY CHAIN MANAGEMENT

The challenge is to handle claims while working within defined operating expense budgets, delivering the required service quality and meeting regulatory requirements. Preventable overpayments exist on claims made throughout the industry. In order to achieve the savings, the leakages must first be quantified to determine the 'size of the prize', and a case for change be developed. The root causes must be understood and leakage reduction plans must be implemented. In addition, cost savings can be realised through the reorganisation of the supply chain and enhanced procurement practices. Indirectly, claims-handling costs such as query handling and complaints management will also decrease.

Experience has shown that improvements to the quality of claims notification handling have a substantial impact on leakage across the value chain. These are improvements such as better data capture, setting the claim off on the right course and reducing claim lifecycles. There is also a case here for collecting the correct details to ensure that recovery opportunities are followed through.

The cost of undetected fraudulent insurance claims has risen substantially in recent years. The identification and management of fraudulent claims is a key opportunity for cost differentiation against other insurers.

The use and quality of the supply chain is a major area for claims cost reduction, in addition to the benefits provided in terms of operational costs and service quality. Claims cost reduction can be achieved through improvements to the supply chain – where procurement and claims strategy are aligned. Supply chain costs are substantial – with sizeable spend in key areas such as approved repairer networks and the fulfilment of replacement items. Achieving the benefits is dependent on the effective use of optimum panels of suppliers and experts, together with strong performance management and the support of robust processes and technology. To achieve this, operational processes and procurement developments must be aligned to ensure the ability to maximise commercial leverage. Supply chain market intelligence must be enforced to secure the lowest unit costs and supplier compliance.

A number of common claims procurement and supply chain issues are regularly observed across the short-term insurance industry:

ISSUE	DESCRIPTION	IMPACT
High cost solutions	High replacement and repair costs	Cost saving opportunities not realised
Operational costs	Handler time spent on responding to queries and complaints	Resource directed on query handling and error correction
Inconsistent service delivery	Key suppliers not consistently providing required service quality	High complaint levels and impact on customer retention
Incorrect number of suppliers	Insurers with too many or too few suppliers in a given area	Lack of negotiating power or inability to fulfil
Absence of formal contracts	Important supply relationships without agreed contracts	Significant contractual and supply risks
Lack of management information	Poor data capture and claims cost information held on multiple systems	Low decision making support
Poor supporting systems	Multiple systems with poor hand-offs and workflow management	Unclear communications and inefficient processing
Lack of strategic procurement	Lack of strategic procurement resources and formal processes	Slow improvement or innovation and business continuity risks
Performance management	Suppliers and experts not robustly performance managed	Inability to target and improve poorly performing suppliers

Many process tasks are of no value, but add complexity and lengthen claims cycle times. Claims technology sits within a complex system of components – where data exchange and integration are critical. For example:

- Legacy mainframe technology is often unable to manage basic claims process tasks, resulting in higher cost of management and low levels of operational efficiency

- Poor data quality and inadequate management information lead to intensive data management and 'blind' decision-making

- Limited imaging capability leads to high levels of manual paper management, which results in higher costs and poor customer service

- Lack of full integration to external systems leads to manual re-keying of data

- When customer relationship management systems and claims applications are not fully integrated, customer insight is poor

- When policy data is not fully integrated with claims modules, manual intervention and local databases are required.

The following table shows how technology can support an insurers' claims goals:

CLAIMS GOAL	DEFINITION	WHY IS THIS IMPORTANT?	SYSTEM ATTRIBUTE	TECHNOLOGY SOLUTION
Effective claims settlement	• Settlement of genuine claims in the most cost-effective manner aligned to customers' expectations.	• Poor handling of claims, whether due to poor skill sets, training, processes or technology will result in cost-negative settlement • Potential missed opportunities to minimise settlement costs e.g. recovery.	• Fast track • Data analytics • Automation of authorisation controls • Flexible payment mechanisms • Automated notification and tracking of tasks based on rules • Consideration of client status when processing transactions.	• Process-driven workflow supporting early intervention and decision-making processes • Speed of claim process will limit delays in settlement – increasing customer satisfaction and limiting third party legal costs • System capability will deliver case management processes.
Reduction in leakage	• Reduction in payments over and above the genuine settlement costs.	• Cost-cutting measures have resulted in general loss of skilled technicians – leading to greater risk of leakage payments.	• Authorisation logic • Automated processing based on policy/ product rules (eg excesses)	• System-driven leakage indicators are built within the solution, eg automatic deduction of excess from payment, accommodation of VAT-registered cases, and an automatic check of cover from the policy system.
Effective fraud management	• Fraud prevention, identification and management.	• Proactive management of indicative and suspected fraudulent claims will reduce overall costs • Effective management will act as a disincentive to opportunistic claimants.	• Fraud monitoring logic – pattern analysis • Business-rule driven indicators and scorecard	• Business rule-driven fraud indicators acting as initial line of defence • Dashboard-style reporting • Effective information gathered to ensure that fraud scoring is based on appropriate data sampling.
Done once	• Capturing information once within the system • Ability to access data at the relevant stage of the claims process, irrespective of where it has been inputted.	• Carriers require data capture at the appropriate point in the process and for that data to inform all relevant business tasks and processes.	• Single point of entry for data • Ease of access for users of data • Flexible presentation layer that supports a range of user types.	• A single system application will support data entry once • Workflow, together with business rules, will drive automatic hand-offs to third parties.
Appropriate hand-offs	• Ability to support business hand-offs to experts within the organisation and to third parties at the appropriate stage of the claim • Automated rules supporting hand-offs.	• Multiple hand-offs cause delays and limit the chance of immediate decision and resolution.	• Compression of claim process steps Flexibility in process definition – based on rules and attributes (eg customer category, claim type, value limits, etc.)	• Flexibility in process definition and role-based processing will be a feature throughout the application • Security access is easier to manage in a single system.

CLAIMS GOAL	DEFINITION	WHY IS THIS IMPORTANT?	SYSTEM ATTRIBUTE	TECHNOLOGY SOLUTION
Flexibility and agility	• Efficient transactional management of claims.	• Ability to lift and drop case files to balance workloads across teams • Ability to set up, change and configure new processes to support business changes.	• Strong rules management engine • Strong workflow and process management layer • Strong configuration capability • Ability to segment different activities without 'breaking' the process.	• Speed of movement across claims process will be high • Alterations in process will need to be carefully replicated and tested across processes, but will be achievable.
Improved customer services	• Provision of relevant claims information at the right time using the right communication mechanism • Ability to support self-service.	• Growing trend to allow multi-party access to information, e.g. brokers (reporting), customers (update) • Real-time customer query management.	• Web enablement • Personalisation • Real-time data • Self-service capabilities – eg Personal Identification Numbers (PINs), tailored processing, transactional processing capability • Strong data and user authentication protocols.	• Easier integration from one claims platform to enterprise customer-facing systems, where required • Newer technology will support self-service • Inquiry functions will enable easier access to real-time data.
Compliant environment	• Avoids financial and reputational penalties.	• Ensure claims management operates within the boundaries of a compliant and legal environment.	• Compliance to regulatory environment • Audit tracking • Exception reporting and breach alerts • Data extracts for legislative reporting • Dashboard management • Operational reporting.	• Data resides in one place and supports legislative or regulatory reporting.

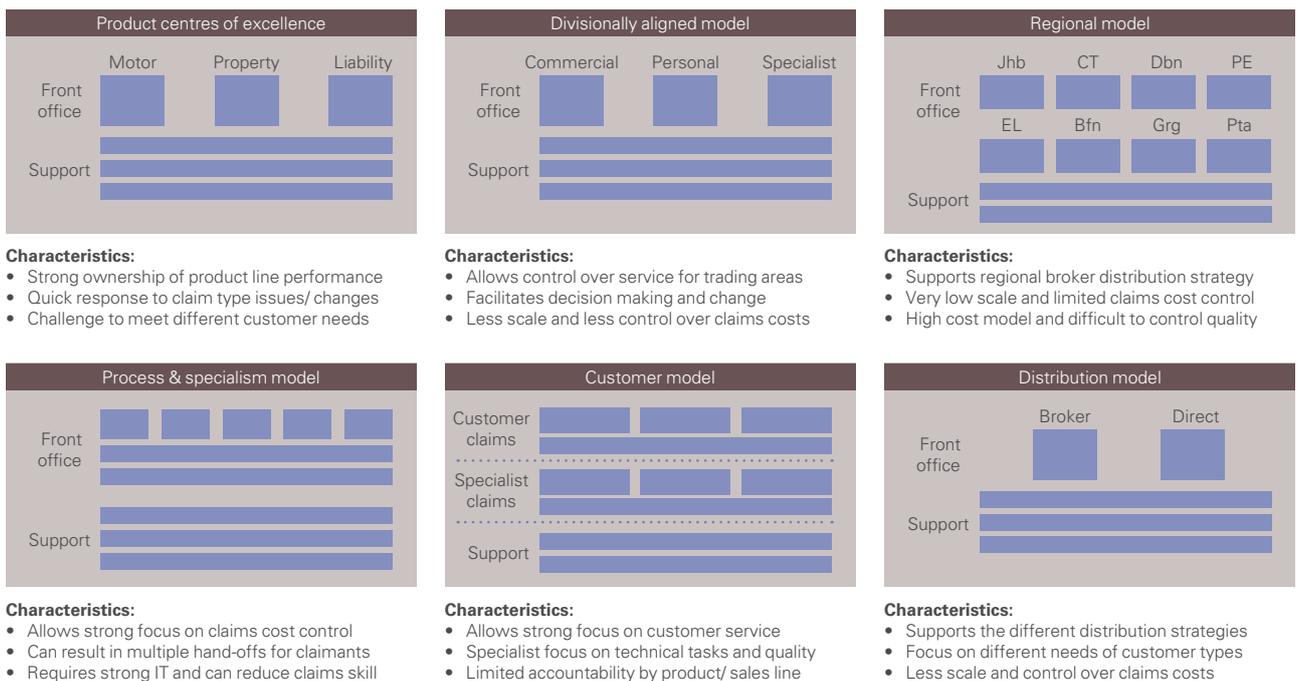| CLAIMS GOAL	DEFINITION	WHY IS THIS IMPORTANT?	SYSTEM ATTRIBUTE	TECHNOLOGY SOLUTION
Knowledge transfer across organisation boundaries	• Seamless link between all parties in the claims process • Automated information transfer – internal and external.	• Enabling all parties to access appropriate information to enable them to perform their roles effectively and in line with customer service protocols and organisational structure.	• Access to data/inquiry functions, including images and other data formats • Distribution of systems for data updates • Web-enabled • Robust security • Flexible reporting.	• Strong support for third-party management • Movement of data recorded and monitored in the system • Access controlled by security protocols.
People management	• Supporting resources to effectively perform their roles.	• Enables effective decision-making, and minimises leakage.	• Access to performance data e.g. handling time etc. • Online training modules.	• Application will provide relevant management information – supporting training identification needs.

STAKEHOLDERS

The proposed Treating Customers Fairly (TCF) regulation, with its focus on customer outcomes, is central to the Financial Services Board's (FSB) work in ensuring a fair deal for customers. Insurers must be able to demonstrate that they are consistently treating customers fairly and delivering fair outcomes. The FSB has indicated that the standard against which insurers will be judged remains high and the penalties for not complying will be tough. In some cases, customers may not be obtaining fair outcomes from claims processes, including the potential for customer detriment. Insurers need to be sure that their claims handling processes, systems, controls and oversight arrangements are adequate and effective to mitigate the risk of poor customer outcomes.

ORGANISATION

Developing the correct claims operating model is critical to positioning the organisation for delivery against the varied cost, service and regulatory challenges that it faces. The figure illustrates a range of claims operating models.

Product centres of excellence

Characteristics:
• Strong ownership of product line performance
• Quick response to claim type issues/ changes
• Challenge to meet different customer needs

Divisionally aligned model

Characteristics:
• Allows control over service for trading areas
• Facilitates decision making and change
• Less scale and less control over claims costs

Regional model

Characteristics:
• Supports regional broker distribution strategy
• Very low scale and limited claims cost control
• High cost model and difficult to control quality

Process & specialism model

Characteristics:
• Allows strong focus on claims cost control
• Can result in multiple hand-offs for claimants
• Requires strong IT and can reduce claims skill

Customer model

Characteristics:
• Allows strong focus on customer service
• Specialist focus on technical tasks and quality
• Limited accountability by product/ sales line

Distribution model

Characteristics:
• Supports the different distribution strategies
• Focus on different needs of customer types
• Less scale and control over claims costs

Strategically developing the people capabilities in claims handling can deliver transformational change that will enable individuals and teams to work, interact and behave in a vastly enhanced way. Defining the capabilities required of team leaders and claims handlers, is the first step to developing superior performance. This depends on:

RECRUITMENT STRATEGY: high-performance organisations develop their recruitment strategies around future capability definitions.

TALENT DEVELOPMENT: a robust approach to managing talent, the retention of talented staff and succession planning are crucial to keeping ahead of competitors.

LEADERSHIP DEVELOPMENT: investment in leadership development improves not only individual performance but also team performance.

JOB DESIGN: a clear understanding of the accountabilities and responsibilities of claims teams is essential for governance and decision-making. Effective job design supports a good organisational structure and operating model.

PERFORMANCE MANAGEMENT: this is the critical link between delivering the claims strategy and performance behaviours. Individuals must have clear goals. A transparent process for managing underperformance must be in place. The process must inform the training and development required.

CAREER PATHS: these drive the development of technical and behavioural capabilities needed to support the achievement of business goals.

REWARD: compensation and incentive schemes have the biggest single impact on performance and behaviour.

Achieving claims excellence is a challenge. In times where growing the top line is becoming increasingly difficult, be it due to market saturation or the inability to differentiate insurance products, many insurers are adopting a new focus – a focus on controllable claims costs. To some, it is vital to the sustainability of their businesses, while it is a means to improving profitability to others. Whatever the reasons are, and despite the challenges in improving claims operations, the benefits for any insurance organisation are far reaching.

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Regulation, driven by a perceived need to enhance the protection of consumers whilst at the same time ensure the financial security and sustainability of insurers has been a key driver in the industry and has transformed a number of aspects. The industry is also paying significant attention to our ability to spread insurance protection to previously excluded communities, particularly low income and rural communities.

A more recent challenge is for the industry to use its influence and connection to raise South African society's responsiveness to risk from a reactive stance to proactive stance. Systemic issues influence risk on the ground significantly for insurers and need to be managed along with the more traditional insurance risks. This is a most significant new challenge and it stands to profoundly reshape the market once again.

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