



SOLUTION BRIEF

STRAIGHT THROUGH CLAIMS PROCESSING

Insurance companies make money one of two ways. The first is underwriting profits. That is, when premiums collected from customers, exceed the cost of claims and operating expenses. The second method is investment income. Investment income is derived by investing premium dollars in the markets. Historically, insurers came to rely heavily on investment income, looking at underwriting dollars as simply a way to fuel the investment income engine.

The financial crisis brought an abrupt halt to the investment cash machine and despite a recent recovery in the economy, investment income remains under pressure. This has forced insurers to look inwards for profitability, focusing more attention on making better underwriting decisions and becoming much more effective and efficient at claims processing.

CLAIMS PROCESSING IS LARGELY A MANUAL PROCESS RELYING ON THE INTUITIVE KNOWLEDGE OF EXPERIENCED CLAIM HANDLERS. THIS IS PROBLEMATIC.

Claim handling requires a number of interactions with internal and external systems and providers. There are multiple handoffs and a vast array of sources of information. Despite years of automation attempts, it is still largely a paper-based process with many still relying on transcribing information into online systems. **It can take days for information to move between carriers, third-parties, and claimants, resulting in a process that is slow, inefficient, and error prone.**

Because of the disjointed nature of this process, **the industry has come to rely on the experience and intuitive reasoning of seasoned claims handlers** who leverage years of experience to identify fraud, establish reserves (money earmarked for the eventual payment of the claim), estimate damages, and ensure that each individual task associated with processing a claim is completed and performed accurately.

THIS APPROACH FALLS SHORT FOR TWO PRIMARY REASONS:

- **The process is too slow to meet the demands of today's digitally connected consumer** who has come to expect near real-time responsiveness a superior customer experience from the institutions with which they do business.
- What is referred to as the **"greying of the industry"**. In the UK, from 2015 to 2017, the average age of an insurance employee had risen to 39 from 36.5, and the young adults employed in the industry had dropped from 18% to 10%. While in the US, insurance workers over the age of 45 make up almost half the total workforce. Even more troubling is that 70% of claim handlers are over the age of 40. What this means is that the knowledge the industry has come to rely on, and that is locked away in the heads of its workers, is flooding towards the exit door.

MANY INSURERS ARE LOOKING TO “STRAIGHT THROUGH PROCESSING” (STP) AS A MEANS TO ADDRESS THESE CONCERNS:

REDUCING EXPENSES & INCREASING PROFITABILITY



Straight through processing allows insurers to apply rigor and best practices to the process of claims handling with the goal of turning what has historically been an art, into a science. Insurers have already experienced the benefits of STP for claims related to windshield damage, as well as car rental and towing reimbursement. They are also applying STP to other simple claims as well. That is, claims whose financial outcomes would not be dramatically impacted one way or the other by the physical involvement of a claim handler. By reducing or eliminating human touch points, insurers can reduce overall costs while focusing those resources on more complex claims such as those involving bodily injury. More work gets done with fewer resources, and those resources can focus more of their attentions on more complex claims.

MEETING CUSTOMER EXPERIENCE EXPECTATIONS



Simply put, customer experience and speed of service rule the day. Today's hyper-connected consumer no longer distinguishes customer experience expectations by industry. A superior customer experience provided by one industry is now expected across all products and services they receive. Today, all industries must contend with the “Amazon Effect”, and claims processing is no different. Digital consumers expect claim settlement times and communications with their insurers to be on par with the responsiveness of today's digital retail giants, and they have little tolerance when those expectations go unmet. In fact, 83% of customers will switch insurers if they feel they have had a negative claims experience. With some unconventional insurers such as Lemonade touting “instant everything”, and “3-minutes to get paid”, straight through processing is the only scalable manner in which traditional insurers can meet customer expectations and maintain their competitive advantage.

INSTITUTIONALISING BUSINESS KNOWLEDGE



The intuitive nature of claims processing is the result of decades of personal experience and trial and error in handling thousands of individual claims. Capturing this knowledge has never been more imperative to insurers than it is today as the rate of retirees greatly outpaces the number of new entrants to the insurance workforce. As the level of experience diminishes, so does the quality of the claims decisions being made. Shortcuts get taken, fraud goes undetected, investigations are overlooked, all leading to insurers paying out more in claims than they should. By implementing straight through processing, insurers can begin to capture that knowledge and build on it year after year in business rules and artificial intelligence-based algorithms that result in better, faster, and more consistent business outcomes while at the same time reducing touchpoints and cost.

CONCLUSION

Today's digital consumers consistently complain about the lack of communication and transparency into the claims process. They also express frustration with the amount of time it takes to settle a claim and the fairness of the settlement. With pressure to increase profitability, higher customer experience expectations, and a talent crisis at hand, insurers must look to straight through processing as the only scalable way to match the retail experience consumers have come to expect, and accelerate the end-to-end process without sacrificing business results.

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