Stopping the leaks

Improve productivity, customer satisfaction and profitability through better control of claims leakage

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New and non-traditional brands are entering the market adding to an already competitive operating environment. Digital technologies are empowering consumers with greater choice and enabling aggregated marketplaces based on price. Tough economic conditions are dampening consumer sentiment and leading to a heightened emphasis on value.

In this context, reducing costs becomes a priority.

Most insurers know that claims leakage – the difference between what you should pay in claims and the amount you end up paying – is a key area for potential savings.

But many are surprised about both the extent of claims leakage and the improvements possible. The industry benchmark for leakage is about 3 per cent, but in our experience most insurers have levels well beyond that. At some insurers – particularly in the life sector – we have identified leakage of up to 25 per cent.

The good news is that while claims leakage is a complex issue, the process to improve it is relatively straightforward. And in most cases can lead to savings of between 5 and 10 per cent. For an insurer spending $500 million in claims, that translates to a bottom line improvement of $25 to $50 million.

This paper examines the major reasons behind claims leakage, outlines a process to improve performance, provides examples of strategies that can be applied and describes some typical benefits that can be achieved, including increased customer satisfaction and cost savings.

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What causes leakage?

Claims go right to the heart of what an insurer is all about. For the customer, it's the 'moment that matters'. Getting your claims process right is critical from a customer perspective as well as an economic perspective.

Claims teams are under increased pressure to focus on the customer experience, while making the right assessments and decisions with fewer resources and increasingly complex claims. This increased pressure to deliver the right customer experience with the right claims cost makes it difficult for assessors to make consistent and appropriate decisions.

The result is that insurers often end up paying more than they either needed to pay or intended to pay under the terms of their policies. And not only does overpayment directly impact claims expense, it also leads to additional costs through higher outstanding claims reserving.

Reducing leakage first requires an appreciation of its underlying causes. Our experience helping insurers lift claim performance has identified three main drivers of leakage.

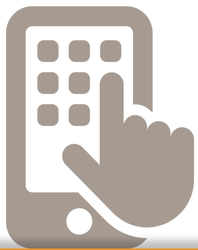
Leakage is more than just fraud. It refers to any instance where the insurer paid more than was appropriate or necessary under the terms of a policy.

People

Human error is a major source of claims leakage. It is exacerbated by over-reliance on manual process and insufficient training, leading to poor and inconsistent decision-making. KPIs that are not aligned to business strategy are also likely to lead to higher than average leakage.

Process

Claims leakage is more likely to occur when sub-optimal processes lead to inconsistencies in claims handling, case reserves and settlement values across individual claims handlers. These can be exacerbated by insufficient review processes, failure to perform and document meaningful investigations, lack of real-time monitoring over potential fraudulent or duplicate claims, and grey areas in policy statements leading to inconsistent decision-making.



Technology

Many insurers with higher leakage are operating legacy or disparate data systems, which can result in poor quality data. Often they are not making effective use of data analysis tools and available technology to support consistent and objective decision-making.

Where does leakage typically occur?

Focusing on the instances where leakage actually occurs helps insurers make changes that will have the greatest impact on claims performance.

Three of the most common we have identified include: failure to detect fraudulent or over-inflated claims, errors in payments made to claimants, and missed opportunities.

The table below identifies the typical root causes behind these common instances of leakage.

Leakage is widespread across all product offerings, however recent trends indicate that life products – particularly income protection – are particularly susceptible to leakage.

1 *Failure to detect fraudulent or over inflated claims*

Examples of root cause

- Limited effectiveness of fraud rules engine
- Failure to repudiate previous incidences of fraudulent claims
- Infrequent assessment of fraud and corruption risk
- Infrequent monitoring of ethical culture and tone
- Limited mechanisms for reporting suspicions and dealing with detected or suspected fraud

2 *Errors in payments made to claimants*

Examples of root cause

- Inappropriate/disparate/siloed data systems not connected to other systems with data reliance
- Staff inexperience and lack of quality assurance
- Excessive reliance on manual processes resulting in inevitable human error
- Lack of appropriate training provided to employees
- Employees are not following procedures, resulting in the inconsistent application of policy terms and conditions
- Assignment of claim to adjusters with inappropriate skill levels resulting in poor recognition of critical issues
- Inadequate management or inappropriate use of vendors including legal/medical professionals
- Policy holders with legacy product offerings, of which employees have limited knowledge

3 *Missed opportunities*

Examples of root cause

- Insufficient documentation following investigations, as well as poor communication with stakeholders
- Lack of proactive claim handling and resolution planning
- Inconsistencies in the approaches of individual claim handlers in setting case reserves and settlement values
- Repeated re-assignment of files across various claim handlers

Stop the leaks and lift performance

Whilst claims processes are complex, the approach to improving leakage is straightforward.

And the benefits are significant. Our experience in leakage improvement projects has resulted in reduction of loss costs in the order of 5 to 10 per cent. It also leads to improved operational efficiencies, which reduces staff and administrative costs, as well as lower underwriting reserves. From a customer perspective, leakage improvement results in protection against underpayment and a more consistent and positive experience.

We have found that the most efficient approach is based on the principles of reviewing, identifying and quantifying leakage. This will identify gaps in relation to people management, organisation structure, controls processes and technology.

We use five key steps:

1	Review policy wording and claims procedures to ensure a comprehensive understanding of terms and processes across the business.
2	Conduct a detailed financial analysis (e.g. impacts to loss ratios, claims reserves) on a statistically significant number of client claim files. This allows for the identification of cases falling outside acceptable limits, and a quantification of total leakage.
3	Identify and clarify key areas of claims leakage across people, process and technology. This helps to focus attention on areas where leakage is greatest.
4	Conduct root cause analysis in these areas and develop remediation plans.
5	Conduct financial impact analysis to determine cost savings and opportunities in both the short-term (e.g. cash flow) and long-term (e.g. balance sheet)

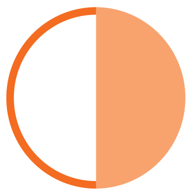
This process generates an evidence base upon which to build a quantifiable business case and a prioritisation for change. It can also become the catalyst for positive transformation in the business and lead to sustainable performance improvement.

Companies that undertake a review and remediation process such as this can expect benefits across a number of business areas. In our experience, typical improvements include:

Loss management

5 – 10 per cent
reduction of loss costs

Legal loss management



50 per cent
reduction in legal reserves

Administration

5 per cent
reduction in severity and duration of case management

25 per cent
reduction in employee costs

Customer service

3 – 8 per cent
reduction in administrative spend

What are the best insurers doing?

Like every industry there are a small group of companies that consistently beat the average when it comes to limiting losses to their business through claims leakage. Below are examples of strategies currently being used by many of these top performers.

People

- Refreshing training curricula quarterly to reflect latest industry issues, factoring in the lessons learned from the results of a claim review process
- Tightly linking compensation to performance against KPIs to promote the optimal behaviours

Technology

- Integrating self-service portals with their claims systems
- Using web enabled technology to ensure real time information is shared across key suppliers and outsourced service providers
- Adopting latest generation rules-based claims handling systems
- Applying predictive analytical techniques for real time monitoring and anomaly detection
- Automating standard correspondence generation wherever possible, including the population of all fields containing known information

Process

- Conducting periodic leakage audits to identify leakage trends, develop action plans, and monitor progress to plan
- Employing real time detection and monitoring over duplicate payments using analytics
- Applying behavioural finance techniques to influence the outcome of a claim
- Conducting real time detection and monitoring over potential fraudulent payments, with investigations driven by fraud red flag analytics
- Using efficient claim allocation workflow models to ensure the right assessors are involved early in a claim
- Engaging a panel providers to challenge treatment plans and expected claim costs
- Offshoring aspects of claims handling functions
- Adopting robust quality assurance processes for payments

Case study

An insurer in the US was experiencing worse than expected claims leakage across a range of factors, including customer satisfaction. They approached PwC to help them lift their performance.

A review process identified that many of the leakage issues were related to inconsistent or inappropriate eligibility decisions. Further analysis found the root causes to be lack of training, poor work oversight, and lack of critical decision guidelines.

The priority was to drive improvements related to key financial metrics so the root causes needed to be tackled head on. This involved redesigning key portions of the claim process and strengthening the quality assurance and oversight functions.

Critical Long-Term Care claims processes were reengineered, balancing eligibility guidelines and controls through a range of strategies including: improved control over back-end payments, introduction of new decision guidelines, and redressing case manager skills and decision consistency.

The improvement process has led to improvements across a number of metrics, including:

- Lower incidence rates
- Payouts are lower and trending down
- Claimant complains as a measure of service are down
- Duplicate payments reduced from 2 per cent to 0.1 per cent
- Staff utilization measures are up

It has also provided the insurer with the ability to take a forward-looking view of claims activity and better identify and address leakages faster into the future.

Can your organisation improve?

Better managing claims leakage represents a significant opportunity for many Australian insurers to reduce costs and improve profitability.

In today's increasingly competitive market, insurers need to take every opportunity to stay ahead of the game.

And most have room to improve when it comes to claims. Very few have complete visibility of the exact level of claim leakage, are confident they are spending exactly what they want to on claims, and know they are handling claims with optimum efficiency.

The strength of taking a specific focus on claims leakage is that the investment in time and resources required to lift performance is typically far less that the potential savings made as a result.

So it's worth asking, what have you got to lose?

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