

# The Increasing Importance of Claim Management to Insurers

By Michael Kelly, CEO,  
FINEOS Corporation

For a long time the main priority of insurers in deploying information technology was to reduce the cost of policy administration and the claim department was largely ignored. This IT Cinderella status of the claim department was highlighted in a report prepared a number of years ago by Deutsche Bank. The report observed that US Property and Casualty (P&C) insurers spent \$23 billion employing 150,000 claim professionals and 300,000 support personnel but when it came to IT, the staff were operating in the "ice age."

While administrative efficiencies continue to be a valid benefit of IT projects and lie behind the current interest in Straight Through Processing (STP) the claim function in insurance companies is changing from having a processing focus to a management focus. This change in the priority of the claim function has been reflected in an increasing interest in, and demand for, software that enables companies to actively manage claims.

Celent, a research firm focused on the global financial services industry, has analysed 1,405 software deals involving purchases by insurance companies in North America during 2005 and 2006. Of these deals, 773 involved P&C companies. Full and partial policy administration systems accounted for 14 percent of software deals, while claim management systems represented almost 12 percent of the total. Celent divided the software deals into 30 different categories, two of which involved claim management, i.e., Comprehensive Claims

Solutions and Focused Claims Solutions.

Insurance claims range from straightforward domestic building and contents claims that are settled within days of notification to complex bodily injury claims that remain open for many years. Given the wide range in complexity, it is essential that a claim management system is easily configurable. The business rules appropriate for the complex bodily injury claim are fundamentally different to the business rules used to settle a claim for a broken window. A truly effective claim solution should be able to handle both.

Moreover, a claim management system should support best practice. An excellent summary of claims best practice was provided by the Australian Productivity Commission in their review of liability insurance. The commission summarised good claim management as being "proactive in recognising and paying legitimate claims; assessing accurately the reserve associated with each claim; reporting regularly; minimizing unnecessary costs; avoiding protracted legal dispute; dealing with claimants courteously and; wherever possible, handling claims expeditiously".

The key elements of a modern claim management system that can process all claim types should include a case management component along with the ability to calculate and process complex reoccurring payments. The system must be able to track and control the progress of each claim, enforcing quality control and best practice procedures at each step in the process. The system will also have fully integrated document management and workflow capability and real-time status reporting to enable

claim handlers to manage to service levels. Modern claim systems also need to provide web-based access for a range of parties including policy holders, claimants, brokers, medical providers, solicitors, and adjusters.

FINEOS Claims® supports best practice in claim management by offering a claim management solution that puts the emphasis on the claimant rather than the claims. This is achieved by a total solution that encompasses fully automated claims and case management for automated electronic transaction handling and workflow; integrated customer management for single view of the customer, and comprehensive financial management for integrated reserving, payments, and billing.

The business benefits to be gained from improved claim management explain the strong revival in interest in claim management software packages. FINEOS, for example, can point to documented benefits at some of the world's leading insurers, bancassurers, and government institutions including:

- ▶ reduction in claims cycle times by 40 percent
- ▶ reduction in reserves by 2 percent
- ▶ increased customer retention by 20 percent.

What is becoming increasingly clear is that with today's claim systems, the claim management function has certainly shed its Cinderella status. ■

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