FINEOS

White Paper

Building the Business Case for a New Life Claims System

A compelling business case is needed to provide the motivation and prioritization to introduce a new claims management system in any organization. The approach to such a business case involves assessing current business processes and performance, designing future processes, identifying the business benefits, calculating the IT system and related savings that can be made by retiring legacy software and finally calculating the ROI. Many companies have already started to see substantial returns from replacing outdated legacy systems with modern claims technology. This white paper will help you to build your own business case and estimate the kinds of returns your organization could achieve.

Challenges Facing Today's Life Claims Operation

Let's begin by taking a look at some of the challenges facing claims operations. Historically, options for specialist claims systems for life insurers have been limited. Insurers have had to use the claims capabilities of their policy administration systems, which have proven to have limited functionality and are relegated largely to creating and tracking payments. Other life insurers have worked on legacy life claims systems (only two of which we are aware), which lack customer-centricity, workflow, flexibility and configurability. In addition, neither of these older platforms would pass the due diligence imposed by today's Insurer IT departments for assessing a new system. Another option for life insurers has been to build systems in-house that are either silo'ed by line of business or shared. There are document workflow based systems. And then there is no system where all claims are processed manually. In most cases, insurers will have experienced either one or a combination of these options.

Claims processing is typically supported by a variety of technologies, processes and practices with legacy systems at the core. These have varying degrees of functionality, but usually encompass claims recording and transaction history, and perhaps the ability to schedule payments. Generally, claims operations have created a whole range of supporting technologies, methods, procedures and practices that have evolved over time. The diagram below represents the world of the claims examiner.

These disparate technologies, processes and workarounds will usually encompass:

- Spreadsheets, on which important calculations, such as beneficiaries' share of claim, are done. A recent study by Accenture (A Foot in Today, A Leap into tomorrow for P&C Claims Functions, Accenture November 2012), revealed that 80% of US insurers relied on offline data from spread sheets and Access databases
- Separate databases of third party suppliers, such as medical practitioners
- Manual diaries or manual entries in Outlook
- Printed lists of validation limits, tax bands, authority levels etc. hung in claims examiners' work spaces
- Email, which is probably used independently of the claims system
- Scanned documents that come in to support claims, again used independently of the claims system
- Word templates obtained from a central repository to send letters to claimants, medical practitioners, etc.
- In addition to the paper files and folders, Post-It notes and printed checklists, examiners often have to log in to other (and sometimes multiple) policy administration systems.

All of these items have evolved to support the claims process, and they probably work quite well in getting the job done because that's what claims departments do. But if we were able to think beyond getting the job done we might also consider

- How difficult is it to sustain good customer service is in this environment?
- How difficult is it to introduce and push **new practices**?
- How easy is it to **implement changes** in practices and procedures?

- If you have to push out new calculations, how can you be sure that everyone is using them if there are unknown numbers of variations of spread sheets doing the job that need replacing or updating? This is a recognized problem in the industry increasingly referred to – especially by the CIO and team – as **"Shadow IT".** There's IT out there doing the job, for now, but no-one really has a handle on it.

Often these various technologies are quite functionally rich and capable in and of themselves, but they are not integrated. For example, it can be very difficult to discover all that has happened to a claim in a given time period. There is no single view of the claim and all involved parties. There is no audit trail. Spread sheet and desktop calculations are frequently found to be inaccurate, and since they are untraceable, it is hard to discover anomalies. Data is not connected and related so it can be difficult to build a coherent and valid picture of all that is happening across not only a single claim, but across the whole portfolio. There is no one version of the truth making it difficult to use the data effectively and also enforce consistency. Finally, this diverse technology and systems environment will not support the claims professional in the digital insurance business environment that customers are coming to demand from their insurance providers.

The defining characteristic of the world inhabited by most claims examiners is complexity, and unfortunately current systems and processes tend to enforce this complexity instead of enabling and empowering examiners. Despite this, Life claims tend to receive low prioritization for replacement projects due to the perception by some management that the life claim is a one-time event, with existing staff able to manage changes in rules, requests from the Department of Insurance (DOI), etc. There is also the sense that no alternative exists.

However, an alternative solution does exist. Opportunities to better manage unusual claims are being missed. An increase in state requirements and scrutiny around escheatment is bringing to light the inadequacies of existing systems (poor auditability and consistency, difficulty in compiling necessary information in line with state deadlines, etc.). Now, more than ever, there is a reason to move life claims to the top of the project prioritization list.

Introducing FINEOS Claims

In contrast to all of the complexity we discussed earlier (shown in diagram 1), we introduce FINEOS Claims for Life.

All of those disparate, unrelated and unconnected technologies can now be replaced by a single, comprehensive application that knits all these activities together in a single system. It replaces "Shadow IT", manual processes, and desktop calculations with integrated, fully controlled business function.

It brings accuracy and consistency to your claims examiners, providing an audit trail of every action, with all actions now connected and related. There is also a full, accurate calculation trail and an electronic claims view.

FINEOS Claims doesn't seek to replace business standard tools such as email, scanned documents, word processing, Policy Administration Systems, Expert systems, etc. It does, however, incorporate their usage by providing a single, common access point. The claims examiner does not use them in isolation, but as part of their work within the claims system. No separate logging in, no re-keying of data, no searching for scanned documents that are associated with a claim, no looking for relevant emails or letters – everything is accessible from within the single electronic claim file.

Having a single comprehensive electronic claim file provides a number of benefits:

- There is a single version of the truth
- Fully integrated information covers all aspects of the claim: claim details, claimant details, third parties, all activities, all calculations, all transactions and payments, all documents and emails, all correspondence – all available in one place, under one user interface and one technology
- Complete audit trails of all actions
- Security of processes and access
- Better privacy and security than paper files, you can control who sees what
- Richer data for operational insight
- All notes, communications, calculations, workflow steps, payments, participants are integrated and visible.

Complex calculations are carried out automatically by the system. Benefit payments, tax calculations, recalculations, and rebates – all the calculations required for DI claims are fully automated within the system.

It simplifies the complex with accuracy and consistency and brings control, transparency and auditability to processes. It allows for best practice to be identified and embedded within the system – and allows for that best practice to evolve and improve over time. You can roll out new practices and calculations with confidence.

Beyond this, there is real benefit to be gained by making processes more efficient and accurate. By automating what can be automated, claims examiners are freed up to focus on improving claims outcomes for the claimants.

FINEOS Claims was specifically built for life claims and incorporates all these components:

Group Life

- Individual Life

Covering all benefits

- Waiver of premium
- Accidental death and dismemberment
- Living benefits

Handling all processes

- Claims intake
- Claims assignment and management
- Contestability appeals reviews
- Automated correspondence

With full governance, compliance and payment controls

- State interest calculations
- ERISA
- Beneficiaries management
- Funeral home assignment
- Fraud controls

Building the Business Case

So where do you begin when putting together a business case for a claims system replacement? Ideally**,** by quantifying a return on investment. There are a number of potential opportunities with varying levels of metrics available that we will discuss:

- Improved customer service
- Reduced operation costs/external expenses
- Increases agility
- Reduced business risk
- Reduced reserves
- Reduce leakage
- Reduced fraud
- Improved reinsurance management
- Improved underwriting decisions

Improved Customer Service

Having instant access to all the information your claimant needs, particularly at such a sensitive time, makes the entire process for the customer more bearable, allowing you to give the best customer service possible. Claimants demand faster and more responsive and consistent treatment regardless of how they have contacted you, via what channel, or in what context. Claims examiners must get it right the first time, as this is their most important interaction with you.

Insurers must have pre-determined control and provide direction on how to deal with the claimant, broker, plan administrator, etc., and there must be tailored access for all delegated authorities dealing with a claim.

Metrics for Business Case

- Customer and Channel Satisfaction uplift by ‘n’ points
- Reduction in number of complaints from ‘x’ to ‘y’
- Reduced effort to maintain compliance
- SLA tracking/reporting which proves performance vs. SLA

Reduced Cost/Expenses

Reduced costs/expenses are a business driver for any organization. For a life insurer, this can be done by eliminating multi-keying, reducing data entry time with improved data quality, staff efficiency keeping pace with business growth, reducing training costs, faster induction, staff turnover, producing high quality documents, and a controlling hand-offs.

Metrics for Business Case

- Increased throughput drives operating cost reduction by ‘y’%
- Exceed SLAs by ‘x’% (performance bonus)
- Removal of Quality Audits saving ‘x’ FTE
- Reduced recruitment, training and ramp up fees

Increased Agility

Flexibility is needed to respond to regulatory, business, product, and other structural changes. Enhancing workflow, adding new product claim structures and, in the group insurance realm, delivering complete and comprehensive program information to group plan sponsors are vitally

important. Changes to processes and procedures need to be made dynamically. A new life claims system also helps with:

- Flexibility of staff deployment
- Removing the dependency on IT for business change
- Eliminate siloes
- Enhanced career opportunities

Metrics for Business Case

- Reduced hiring of 'x' FTE temps during business peaks
- Increased staff retention, reduced hiring costs by $'x'
- Faster deployment of change = earlier payback in $'y'

Reduced Business Risk

With business logic rules 'wired' into the system (and not people's heads!), you can attain more consistent and predictable outcomes. You also remove critical staff dependency in certain, more specialized, roles. You will reduce the number of single points of failure, and be assured that no claims go lost or forgotten.

Metrics for Business Case

- Improved service availability
- No loss of data
- Reduced paper consumption with electronic Case Files and electronic documents to and from involved parties = $'x' savings in printing, storage, recovery, shipping, re-printing, etc.

Reduced Reserves

To achieve a reduction in reserves, claims need to be processed and concluded in shorter time periods with reserves set earlier on in the process. You will have a potentially narrower contingency if values are more precise. Overall, there will be greater confidence in the reserving competency based on a more consistent processing.

Metrics for Business Case

- % reduction in actual reserve requirements = release of $'X'

Reduced Leakage

The potential for claims leakage is drastically reduced with a modern claims system, due to:

- Higher quality, validated, error-free data input
- Correct and consistent application of policy terms and conditions
- Close adherence to limits, excesses, etc.
- Best practice applied to all claims
- Removal of opportunity for claim to be processed twice!

Metrics for Business Case

- % reduction in claims payout = $'X'

Reduced Fraud

A new claims system helps you to identify and eliminate potentially fraudulent claims, such as faked death claims.

Metrics for Business Case

- % reduction in claims pay-out = $'X'
- Identification and successful prosecution of 'y' offenders

Improved Reinsurance Management

A new system will allow you to build and foster closer relationships with key reinsurers and implement more rigorous process/auditing toward recoveries.

Metrics for Business Case

- Benchmark current recovery levels $'X' versus what reinsurance agreements have forecasted $'Y'

Improved Underwriting Decisions

Broader, deeper claims knowledge will now be readily available to underwriters on which to base their judgment and decisions

Metrics for Business Case

- More precise underwriting – with appropriate and fair usage of exclusions, etc.
- Better qualified risk and quantified exposure
- More profitable, better quality business

We have developed a high-level interactive ROI calculator for your use, which is available at www.FINEOS.com/roicalculator

We also have a very sophisticated, in-depth ROI tool that we can bring into your organization to help you further build out your own business case. Simply email info@FINEOS.com to set up an appointment.

The FINEOS Claims system can be installed onsite or hosted by FINEOS. It can be deployed out of-the-box or can be tailored to your specific processing needs utilizing our team of system implementation and integration experts. Once in production, FINEOS Claims is supported by our world-class support team, while ongoing enhancements to the system ensure your investment will continue to reap dividends for years to come.

Find out why FINEOS Claims for Life is the solution of choice for life insurers globally at www.FINEOS.com or contact us at info@FINEOS.com.