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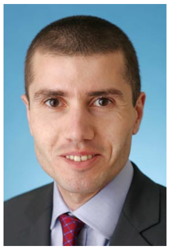

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Delta Lloyd's New Claims Management Model Brings Operational Efficiency

by Ricardo Arruda
with Cliff Condon

EXECUTIVE SUMMARY

European insurers have battled with inefficient claims management processes for years, suffering from disparate information systems used to collect client records and deficient data management. Delta Lloyd, a member of the international insurance group Aviva and one of the leading financial services providers in Benelux and Germany, has for years used an inefficient claims handling process, causing high expenses, customer dissatisfaction, and heavy staff losses. To address this issue, the insurer has implemented an innovative Web-based claims automation and management reporting information system, scalable to all its general insurance divisions. The Dutch insurer's experience holds important lessons for insurers across Europe that want to streamline claims process efficiency and improve customer satisfaction while leveraging solutions across different geographies.

TARGET AUDIENCE

Business process professional, information management professional

CLAIMS MANAGEMENT IS ONE OF THE BIGGEST CHALLENGES FOR INSURERS

The claims function is the single largest and most onerous overhead in an insurance company, accounting for 75% to 90% of total administrative costs.[1] Wasted resources in the claims function drive these costs: Many processes are still based on old legacy or manual systems, and insurance workers spend a large proportion of their time on associated routine interactions that have little or no impact on the outcome of a claim. The use of old, legacy-based claims systems creates a series of obstacles and challenges to European insurers:

- **Most importantly, multiple claims systems increase turnaround times dramatically.** Most large insurers in Europe still deal with different product claims systems for single product lines: It is not uncommon to see small insurance departments using 20 or more different claims systems at the same time for motor insurance alone. Having such a multiplicity of systems to deal with is a barrier to efficient claims turnaround times: The amount of time claims handlers spend on reporting, registering, reserving, and paying cases increases dramatically. For example, Winterthur, one of the largest European insurance groups, still takes an average of 35 days to process a motor insurance claim from inception to final payment.

FORRESTER®
Headquarters
Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617/613-6000 • Fax: +1 617/613-5000 • www.forrester.com

- **Other severe operational blockages result from the use of old claims systems.** Another common problem that insurers using multisystem claims management models face is the inefficient use of operational staff. For example, insurance employees using old, paper-based claims systems in practice end up spending valuable time doing administration instead of adjudicating claims. This leads to customer and internal dissatisfaction and, consequently, high staff turnover levels. In addition, staff training costs are substantially higher than necessary due to new staff having to learn so many disparate systems.

- **Legacy claims systems also bring severe deficiencies in customer relationship management.** Traditional paper-based claims processing systems frequently lead to high redundancy and inconsistency in data across systems and, with it, high error rates in customer claims handling. In addition, most of the prevalent claims systems are inefficient at analyzing client claims information for patterns, trends, and strategies to better address customer complaints. All of this contributes to declines in customer satisfaction and perceptions of customer advocacy — bad news for an industry that is already plagued by low customer endorsement. Several industry-leading names, such as Prudential in the UK and Generali in Italy, have suffered significant customer satisfaction setbacks due to persistently inefficient claims systems.

- **Existing and new regulation only makes matters worse.** Back-office application systems are the repositories for claims adjudication and insurance policies systems. These back-office systems are very complex because of their need to comply with various industry rules and regulations, which only compound the already heavy operational problems of old claims processes. New Europewide insurance regulation like Solvency II, which requires insurers to have higher capital available and a closer segmentation of individual risk profiles, puts pressure on European insurers to rationalize and urgently modernize their extremely capital-intensive claims systems.[2]

Delta Lloyd Addresses The Challenge With A Groundbreaking Claims Solution

Delta Lloyd, a subsidiary of the Aviva Group, is one of the key players in the Dutch and German insurance markets. It operates in the life, pensions, savings, investments, and mortgage markets, working exclusively with intermediaries. Its staff includes 6,990 employees, a substantial proportion in its own internal claims management department.

- **Delta Lloyd and FINEOS launched a partnership in 2005.** Delta Lloyd suffered for decades from the same claims system inefficiencies as other European insurers. As part of its drive to improve operational efficiency, Delta Lloyd established a contract with FINEOS in 2005 for the implementation of a new automated, Web-based claims management system, replacing all the previous multiple claims subsystems scattered across the group.[3] The FINEOS solution is entirely Web-based and allows all client contacts, claims workflow, and management to be centralized under one single system, scalable to all insurance units of the group. Implemented over a nine-month time frame, the innovative solution also provides intelligent tracking of tasks and data to insure that internal and external service levels are met.

- **The level of functionalities of the FINEOS system is unique in the market.** The FINEOS Claims Management system helps insurers automate and manage every single interaction in the claims process. It provides a Web-based workflow model, with integrated task engines generating automatic to-do lists of action on a case for all parties involved: claims departments, insurance agents, and end customers. All the parties involved in an insurance claim can follow the process online with real-time access to administration, underwriting, and other legacy systems; the time taken previously to obtain legal and expert opinions is also streamlined. All forms for updates, claims intake, and related activities are electronic, eliminating all photocopying and mailing of files, extremely common until now in the industry. Finally, secure customer identification and authentication is guaranteed throughout.

- **The new solution is already bringing tangible business improvements to Delta Lloyd.** One of the biggest benefits of the adoption of the FINEOS solution was a substantial improvement in the accountability of the Dutch insurer's claims process. Previously, Delta Lloyd's disjointed claims systems frequently issued double or multiple payments to the same claims. By consolidating fragmented claims systems into a single solution and improving the reliability of its prediction systems, Delta Lloyd expects to reduce claims expenses by 1% in the current business year — equivalent to €2 million to €3 million in savings. These savings are likely to grow in the future: Faster claims settlements reduce the compound interest paid by insurers as well as legal fee expenses, as claimants are less likely to hire a lawyer if their claim is settled quickly and more reliably. Delta Lloyd is also obtaining financial benefits at another level: Staff turnover in the claims department has dropped considerably, leading not only to reduced hiring and training costs, but also increased productivity.

- **Standardization and better risk assessment are two of the strongest benefits.** The FINEOS solution is based on a scalable architecture that can be applied simultaneously across many users and multisite processes. This has allowed Delta Lloyd to standardize best practices in claims management across its entire organization: Claims handlers are no longer obliged to make their own judgment in a case because they can easily find previously settled cases on the FINEOS system. This also helps improve customer service, with different customer segments receiving highly tailored service levels; the results of this are already evident, with a 20% increase in customer retention. Finally, the adoption of FINEOS also helped Delta Lloyd dramatically improve its risk assessment model. With access to better management information, the insurer is now able to determine which risks are too heavy and should be priced at a higher premium — or should be dropped altogether from the premium rates.

- **The Delta Lloyd case is a best practice for most European insurers.** Some European insurers have started making moves into Web-based claims management systems. However, most of their strategies are piecemeal — few have understood the importance of a total online system covering all elements of the claims process, from capture to case management to best-practice recording. Delta Lloyd's new online-based claims administration system is a case study that European insurers should follow carefully. The Dutch insurer understood very clearly two key advantages of Web-based claims models when it launched its new claims administration solution: First, these solutions radically improve internal operational and financial efficiency; and second, and perhaps most importantly, they significantly increase the quality of customer service levels. Other European insurers still battling with the pains of manual-based claims management should follow Delta Lloyd's pioneering path.

ENDNOTES

1 An insurance claim is the actual application for benefits provided by an insurance company. Policy holders must first file an insurance claim before any money can be disbursed to the hospital or repair shop or other contracted service. The insurance company may or may not approve the claims, based on its own assessment of the circumstances. In general, the insurance claim is filed with a local representative of the insurance company. This agent becomes responsible for investigating the specific details of the insurance claim and negotiating the payment from the main insurers. Many times, a recognized authority (doctor, repair shop, building contractor) can file the necessary insurance claim forms directly with the insurance company. However, sometimes the policy holder may not want to file an actual insurance claim if the damage is minor or another party has agreed to pay out of pocket for their mistake.

After an insurance claim is filed, the insurance company may send out an investigator called an adjustor or appraiser. The insurance adjustor's job is to objectively evaluate the insurance claims and determine if the repair estimates are reasonable. This is to prevent possible fraud by contractors who may inflate their bills for additional compensation. Insurance companies tend to accept the adjustor or appraiser's evaluation as the final word on the insurance claim. An insurance claim is the only way to officially apply for benefits under an insurance policy, but until the insurance company has assessed the situation, it will remain only a claim, not a payout.

2 Solvency II is a new insurance regulatory framework promoted by the European Commission. The framework for enhanced European insurance solvency rules is currently under preparation and a draft EU directive is expected to be published in mid-2007. The new EU solvency framework is based on a three-pillar approach, similar to the Basel II accord designed for banks. The EU insurance project addresses several key areas of regulatory compliance, including risk management and disclosure. The project also tackles the issue of asset and liability valuation, and links to the accounting treatment of insurance contracts under International Financial Reporting Standards (IFRS). As a risk-based solvency regime, Solvency II encourages the use of internal models. Some countries, such as the UK and Switzerland, have anticipated such a risk-based solvency framework and already started to implement Solvency II-type regulatory requirements.

3 FINEOS software provides integrated solutions and specialized product components for front and back office, with a special focus on customer relationship management, business process automation, and policy and contract management solutions. It already works with some of the industry's foremost companies, including Allianz, Aviva, Eureko, Fortis, Skandia, and the Zurich Financial Services Group.