

February 8, 2007

# The March Toward Insurance Claims Automation

by Ricardo Arruda and Benjamin Ensor

TRENDS

# TRENDS

February 8, 2007

## The March Toward Insurance Claims Automation

by **Ricardo Arruda and Benjamin Ensor**

with Michelle de Lussanet, Alyson Clarke, and Ashara Giordanelli

### EXECUTIVE SUMMARY

Insurers have been using old, legacy-based, and highly paper-intensive claims systems for years — and suffering severe operational deficiencies as a consequence. New technology means this old model is slowly fading: New Internet-based claims solutions allow broader functionalities, greater service efficiencies, and easier integration across increasingly complex organizations. North American insurers Progressive Insurance and CIGNA were the first to start changing their claims process by means of systems automation. In spite of some localized resistance, the claims market will now benefit from an intensified drive toward business rationalization by European insurers. The new Internet-based insurance claims market introduces both extended opportunities and challenges for insurers. In a market where misconceptions still abound, only the savviest insurers will know how to exploit the new claims solutions optimally for greater business and customer benefit.

### TABLE OF CONTENTS

#### 2 **Business Inefficiencies Take Insurers On The Search For New Claims Solutions**

New Web-Based Claims Solutions Are The Future

New Web-Based Models Bring Benefits Across The Entire Insurance Market

#### 6 **North American Pioneers Set The Path For Global Claims Change**

The Pace Of Claims Rationalization Is Set To Increase In Europe

#### 9 **The New Web Insurance Claims Market: The Challenges And Opportunities Ahead**

#### RECOMMENDATIONS

#### 11 **Claims Automation Needs A Savvy Mix Of Technology And Strategic Insight**

#### 13 **Supplemental Material**

### NOTES & RESOURCES

Forrester interviewed vendors, including DSTi, FINEOS, IBM, and Wipro, and users, including CIGNA, Delta Lloyd, Progressive Insurance, and Skandia.

#### **Related Research Documents**

["Delta Lloyd's New Claims Management Model Brings Operational Efficiency"](#)  
August 8, 2006, Best Practices

["How Insurers Should Pick Business Rules Engines"](#)  
April 7, 2006, Trends

["Selecting And Implementing P&C Claims Systems"](#)  
February 2, 2006, Trends

## TARGET AUDIENCE

Strategy professional

## BUSINESS INEFFICIENCIES TAKE INSURERS ON THE SEARCH FOR NEW CLAIMS SOLUTIONS

The claims function is the single largest and most onerous overhead in an insurance company, accounting for between 75% and 90% of total administrative costs.<sup>1</sup> 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 amount of time on associated routine interactions that have little or no impact on the outcome of a claim. The use of multiple, old, or legacy-based claims systems creates a series of business inefficiencies and challenges to European insurers. The most important are:

- **Increased turnaround times.** 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. Dealing with such a multiplicity of systems is a barrier to lowering claim turnaround times: The amount of time claims handlers spend on reporting, registering, reserving, and paying out on cases slows 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.
- **Severe operational blockages.** 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 end up spending valuable time doing administration instead of adjudicating claims. This leads to customer and staff dissatisfaction and, consequently, high staff turnover. In addition, staff training costs are substantially higher than necessary due to new staff having to learn so many disparate systems.
- **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 handling customer claims. In addition, most of the current claims systems are inefficient at analyzing client claims information for patterns, trends, and strategies to better address customer complaints. All of this contributes to declining customer satisfaction and poor perceptions of customer advocacy in an industry that is already plagued by low customer endorsement. Several industry-leading names, such as Generali in Italy, have suffered significant customer satisfaction setbacks in the past due to persistently inefficient claims systems.

- **Lack of compliance with new insurance regulation.** Back-office application systems are the repositories for claims adjudication and insurance policy systems. These back-office systems are very complex because of their need to comply with the 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 more capital available and have a closer segmentation of individual risk profiles, puts pressure on European insurers to rationalize and modernize their extremely capital-intensive claims systems even further.<sup>2</sup>

### New Web-Based Claims Solutions Are The Future

Insurers are slowly replacing the old claims technology — involving different layers, handoffs, and an enormous number of manual processes — with less-dated systems that have higher levels of or total online functionality and that are easier to integrate and maintain. This process is driven both externally by technology vendors as well as internally by insurers looking to address severe inefficiencies. These emerging Web-based claims systems (see Figure 1):

**Figure 1** The Requirements Of Efficient Claims Systems

Requirement	Necessary features
Claims processing functionality	<ul style="list-style-type: none"> <li>• Completeness of functionality</li> <li>• Integrated components</li> <li>• Breadth of lines supported (e.g., life, health, auto, home)</li> </ul>
Architecture	<ul style="list-style-type: none"> <li>• .NET or Java/J2EE</li> <li>• Consistency with enterprise architecture</li> <li>• Scalability</li> </ul>
Rules engine	<ul style="list-style-type: none"> <li>• Enterprise versus native rules development</li> <li>• Business user interface for rules development and maintenance</li> <li>• Rules can be applied to all aspects of claims</li> </ul>
Usability	<ul style="list-style-type: none"> <li>• Online help</li> <li>• User interfaces for different user groups</li> <li>• Role-based security</li> </ul>
Ease of implementation	<ul style="list-style-type: none"> <li>• Clear and concrete project management and interface development methodology</li> <li>• Tools for code and data migration and interface development</li> <li>• Track record of on-time, on-budget implementations</li> </ul>
Claims insurance experience	<ul style="list-style-type: none"> <li>• Track record in the insurance industry</li> <li>• Number of certified experts</li> <li>• Size of supporting product groups</li> </ul>

- **Allow a broader set of functionality.** Either developed by vendors such as FINEOS and IBM or internally by insurers themselves, the most modern insurance claims systems provide easily configurable, complete, and Web-enabled solutions. In life or general insurance, this high level of configuration should include functionality such as first notice of a loss, assignment, third-party management, online notes, settlement, and litigation management — all the key components of the claims process. New Web-based claims systems are easily configurable, complete, support the required lines of business, and are available out-of-the-box as a package or as a set of easily integrated components.
- **Easily integrate with other internal and external systems.** Claims systems must interface with internal and external systems. Internal systems provide services like policy administration, payments, and document management; services from external systems include claim history, fraud management, settlement, and repair. These interfaces are often built as one-offs, requiring extensive custom development and testing. Maintenance is particularly challenging, as upgrades require recoding.<sup>3</sup> The new wave of Web-based solutions allows the integration and articulation of these different claims systems and facilitates the management of the claims process by insurers, agents, and consumers.
- **Are based on service-oriented architecture.** The new Web-based claims systems appearing at insurers such as Progressive Insurance in the US and Delta Lloyd in the Netherlands are built on service-oriented architectures (SOA) — typically Microsoft's .NET or Java/J2EE. SOA is generally more desirable than mainframe or client/server architecture: It interfaces with other systems more easily, supports a greater variety of operating systems, and is simpler to maintain in an environment of regionally distributed organizations.<sup>4</sup>
- **Are supported by rules engines.** Within insurance firms, most business rules are hard-coded into mainframe and client/server systems, making it nearly impossible to support rapid product changes. But this is changing. Insurers are increasingly using SOA-based rules engines to automate claims management.<sup>5</sup> In addition, the leading claims systems vendors, such as Accenture, CSC, and FINEOS, are building rules engines specific to their claims solutions. A rules engine provides the ideal development environment for automating claims processes that reduce fraud, enforcing policies, and automating time-consuming manual procedures.

### New Web-Based Models Bring Benefits Across The Entire Insurance Market




The new Web-based models bring numerous benefits to insurers, consumers, and vendors (see Figure 2):

- **Insurers gain cost efficiencies and enhanced customer advocacy.** The automation and rationalization of claims systems addresses two crucial problems that European insurers face. First is the need for improved efficiency and accountability in the insurer's claims processes —

the ability to track exactly where a claim is in the payment cycle and the identity of the client behind a claim. Second, faster and better claims settlements is also expected to reduce the compound interest that insurers pay in the form of legal fees, as claimants are less likely to hire a lawyer if their claim is settled quickly and more reliably. All of this leads to improved customer advocacy, a crucial strategic concern for financial firms.<sup>6</sup>

- **Consumers gain simpler and better insurance processes.** With new automated models for claims handling and answering, different customer segments will be able to receive better-tailored services. For example, new online claims services that allow the filling in of a claim form and subsequent claim management are extremely well suited to the Self-Directed consumer segment.<sup>7</sup> Most importantly, the new claims models address the all too frequent errors in claims attributions — both excessive and reduced payments as well as duplications in customer identity. This crucially gives consumers greater trust in insurers and their products.<sup>8</sup> Policy pricing can also be fairer and more transparent: With better management of customer information, namely an analysis of claims patterns, insurance underwriters are now better able to determine insurance premiums in line with the risks that each customer represents.

**Figure 2** Claims Rationalization Creates Stakeholder Benefits

<p><b>INSURERS</b></p> 	<ul style="list-style-type: none"> <li>• Lower costs due to replacement of old staff-intensive claims processes with new electronically based systems</li> <li>• Enhanced customer advocacy due to more reliable and transparent claims systems and improved customer analytics</li> <li>• An opportunity to eliminate a multitude of old legacy systems</li> </ul>
<p><b>CONSUMERS</b></p> 	<ul style="list-style-type: none"> <li>• Access to seamless, transparent, and simplified insurance process — from policy purchase to claim filing, claim tracking, and final payout</li> <li>• More robust online enrollment/self-service capabilities</li> <li>• Faster response times from insurers for claims processes</li> <li>• Greater transparency for claims follow-up</li> </ul>
<p><b>VENDORS</b></p> 	<ul style="list-style-type: none"> <li>• An opportunity to define the next generation of insurance systems — replacing legacy-based systems with new Web-based ones</li> <li>• An opportunity to establish in-house partnerships as well as external alliances with smaller vendors</li> <li>• An opportunity to prove capabilities in consumer analytics and sell relevant solutions</li> </ul>

40546

Source: Forrester Research, Inc.

- **Vendors have a “once in a generation” business opportunity.** Any one claims system is used by a variety of internal and external groups, including claimants, agents, brokers, adjusters, service suppliers, and claims handlers. The current opportunity to define the next generation of insurance claims systems is a business goldmine for vendors like IBM and FINEOS. Not only do they establish their credentials as a supplier, but the complexity of the tasks involved in claims automation requires them to establish partnerships with smaller vendors and internal insurance departments. Shared services management appears, therefore, as the second greatest benefit from this change for vendors. Finally the most astute companies, such as Accenture, will develop state-of-the-art capabilities in the extremely sought-after area of predictive customer analytics; in the medium term, they can provide consulting services in this area to other vendors and insurers.

#### NORTH AMERICAN PIONEERS SET THE PATH FOR GLOBAL CLAIMS CHANGE

For years, global insurers were reluctant to automate their claims systems; they were mostly scared of or ignorant about how to overcome the challenges that this change would involve. Expected sharp reductions in staff numbers and the need to train vast swathes of handlers and agents in the new claims systems were particularly strong reasons for insurers’ lag in updating this crucial part of their systems.<sup>9</sup> It took the work of two North American pioneers — Progressive Insurance and CIGNA — to overcome these fears of internal and external costs and to set the path for future global claims change.

- **Progressive Insurance was the pioneer of claims automation.** The North American insurer started to update key areas of its claims systems in the early 1990s. The firm made the change sequentially: First, it started to update its internal motor insurance claims processes, replacing claims handlers’ manual files with electronic filing. Pioneering electronic billing for selective panels of consumers followed. Finally, it developed shared services partnerships for training and developing IT/business-focused claims handlers, placing heavy emphasis on predictive customer analytics and enterprise content management skills.
- **CIGNA followed suit, introducing key process innovations . . .** The insurer has a multinational business split: The US is responsible for 50% of its claims business, and the other 50% comes from across the world. Since the early 1990s, CIGNA has progressively automated areas of its claims systems, driven by the need to lower costs. Its European Eurocare platform was the first to be automated partially in the early 1990s, followed by a complete claims automation rollout in the US in January 2001.<sup>10</sup> Some of the innovations that CIGNA introduced with great success were currency exchange automation across global claims contracts and electronic consumer billing.

- **... and breaking new ground with online claims enrollment.** CIGNA launched this key innovation in the US, allowing its US customers to submit insurance claims in any policy lines in one step: by filing an online claim. Each customer enters his information into the insurer's online claims system, available on its public Web site. This system immediately shows the customer the specific steps that will follow for his particular claim, based on a database of similar consumer and insurance event profiles. The use of predictive analytics and pricing models significantly streamlines the number of steps required in the overall claims process. The impact has been immense: CIGNA US has reduced its paper reporting needs by 45% and has significantly reduced the number of specialized claims staff.

### The Pace Of Claims Rationalization Is Set To Increase In Europe

European insurers have been substantially slower than their American or Asian counterparts in rethinking claims systems in the context of a new Web-enabled and customer-centric business environment. New heavy regulatory compliance requirements, such as Solvency II, concentration on acquisitions to build a Pan-European presence, or pure resistance to change are some of the reasons for this. Here's what is happening with insurers around Europe.

- **Some of the largest insurers in Europe are still resistant to change.** In the emerging Web-enabled business environment, insurance players like Winterthur, Allianz, and Generali are notoriously absent from the drive toward claims rationalization. In markets such as Germany, Switzerland, Austria, and Italy, the concepts of claims automation, shared services partnerships, and outsourcing are, at best, deemed avoidable. These markets still view upgrading old legacy systems and introducing new and slicker enterprise management systems as a threat to strategic information control rather than as an opportunity for enhanced business efficiencies. In comparison, markets like the UK, Sweden, France, and the Netherlands are far more advanced in the move toward Web-enabled claims architectures (see Figure 3).
- **Meanwhile, CIGNA is striking out strongly and introducing radical change . . .** The North American insurer is preparing to migrate its old European manual claims management systems to a new Web-based SOA architecture in 2008. CIGNA's claims project, the broadest and most ambitious project ever undertaken in Europe in this area, is being developed in Scotland and will be implemented throughout the insurer's European offices. CIGNA intends to create a truly pan-national claims platform and estimates that it will achieve a 60% reduction in claims staff by doing so.<sup>11</sup> More importantly, the change will go beyond technology and affect the profile of employees: CIGNA intends to replace the traditional role of claims handler with broader business analysts, supported by state-of-the-art predictive analytics and a shared services environment.



**Figure 3** The Pace Of Claims Rationalization Varies Across Europe

Country	Status of move to claims rationalization	
<b>France</b>	Progressing	Large national insurers are in the advanced stages of claims rationalization, but regional players are still heavily reliant on legacy systems; the BPO and shared services market is increasing.
<b>Germany</b>	Lagging	An extremely slow-moving market with few large-scale claims rationalization projects; shared services partnerships and outsourcing remain taboo.
<b>Italy</b>	Lagging	It lags behind most other European markets; it still has paper-based claims systems with the highest degree of customer data error in Europe; poor customer claims complaints record; it still has reduced BPO momentum.
<b>Netherlands</b>	Leading	An early pioneer in claims automation; a leader in new analytical-IT claims staff; it is late on claims processes outsourcing/shared services, though — it is still mostly internally driven.
<b>Spain</b>	Progressing	It has made significant progress on claims automation; there is increasing outsourcing of claims processes.
<b>Sweden</b>	Progressing	Most insurers are already in the midst of substantial claims rationalization projects; it still lags behind in outsourcing.
<b>Switzerland</b>	Leading	It is still predominantly a legacy-based claims market; it's extremely slow and reticent to adopt claims outsourcing; it has a good track record in customer data management, though.
<b>UK</b>	Leading	Leader in the European claims market; most insurers already have a high level of Web-enabled claims systems; buoyant outsourcing; shared services market.

40546

Source: Forrester Research, Inc.

- **... and Delta Lloyd is also giving new impetus to European claims renewal.** The Dutch insurer suffered for decades from the same claims systems inefficiencies as other European insurers. As part of its drive to improve operational efficiency, it signed a contract with FINEOS in 2005 to implement a new, automated, Web-based claims management system.<sup>12</sup> This new claims system replaced all the previous multiple claims subsystems scattered across the group. The solution is entirely Web-based and allows all client contacts and claims workflow and management to be centralized in a single system, scalable to all of the group's insurance units. All of the parties involved in an insurance claim can follow the process online, with real-time access to administration and underwriting; it has also streamlined the time taken to obtain legal and expert opinions.<sup>13</sup>
- **Proven benefits will convince others of the attractiveness of claims automation ...** The new Web-based claims architecture has allowed Delta Lloyd to standardize best practices in claims

management across its entire organization in just one year: Claims handlers no longer need judge a case on their own because they can easily find previously settled cases on the FINEOS system. This has also helped improve customer service: The insurer has started using a more tailored approach to different customer segments — the results of this are already evident, with a 20% increase in customer retention across the company in just six months. Another visible result of Delta Lloyd's claims initiative has been a dramatic improvement in its risk assessment models. With better customer information management, the insurer is now able to better determine which risks are too heavy and should be priced at a higher premium — or should be dropped from the premium bands altogether.<sup>14</sup>

- **... and to join the claims rationalization march — beginning with Skandia.** After struggling for years with claims processes built around mainframe legacy systems and paper-based processes, the Swedish-based insurer embarked on a major automation drive in 2006. In conjunction with Wipro, it started an initiative to integrate Web-based claims processing systems with a new customer relationship management solution, using Siebel as the enabling technology. This new CRM platform allows Skandia to have a common customer view across agents, call centers, and claims underwriters. One of its most striking features allows the insurer to electronically store, index, and retrieve all the documents pertaining to a claim. Another innovation of the new system is the connection of both its network of independent underwriters and end customers to this platform via the Web. Both Skandia's authorized agents and claimants can now view and directly manage online claims data, loss reporting, and claims adjustment.

## THE NEW WEB INSURANCE CLAIMS MARKET: THE CHALLENGES AND OPPORTUNITIES AHEAD

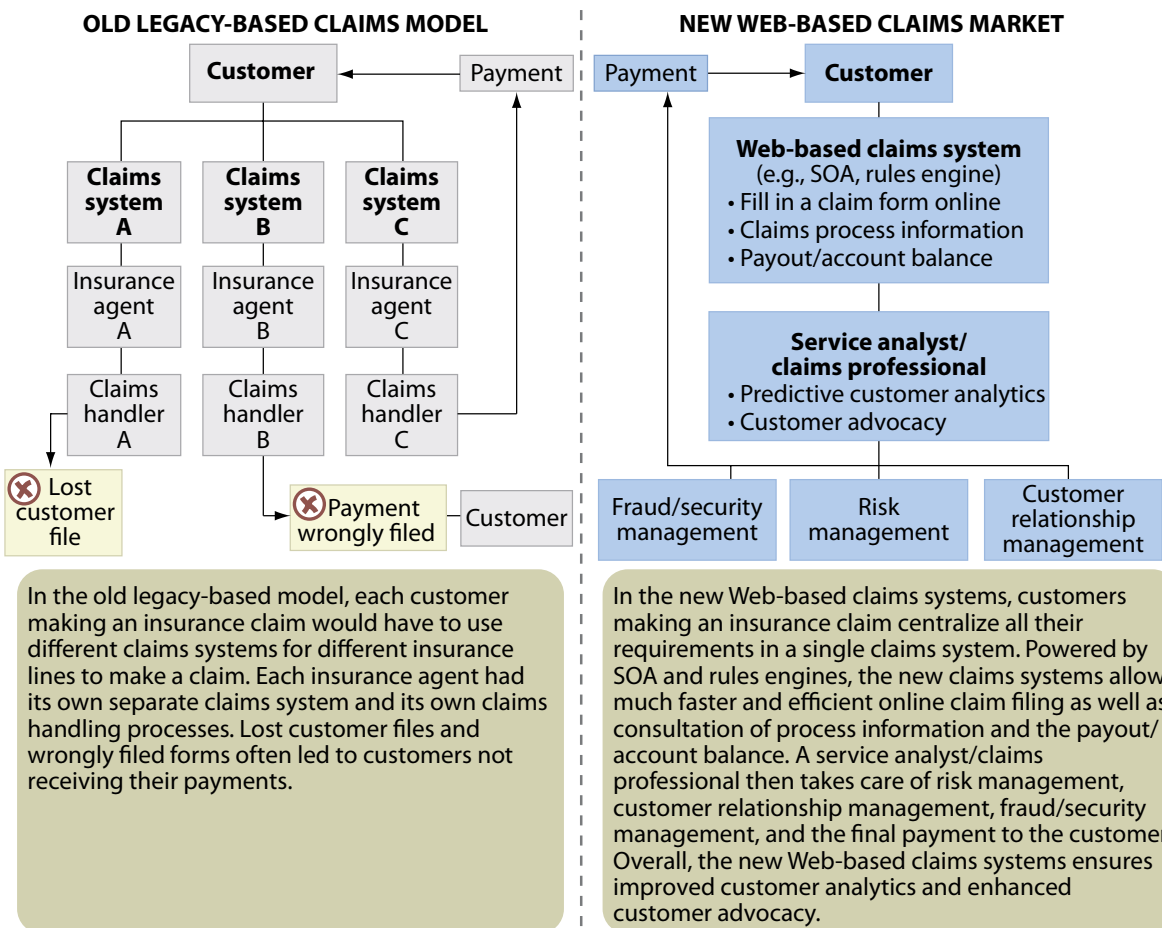
Forrester believes that the drive toward claims systems automation sweeping European and global insurance companies is more than just a purely technological change. We think that it points to where insurance organizations are moving in the future: greater transparency for customers, business processes based on enterprisewide rules, new analytical staff profiles, and increased outsourcing and shared services (see Figure 4). Here's how the market will change in the next five years:

- **Insurers will face a renewed challenge for greater accountability.** The new emerging Web-based claims processes will bring noticeable improvements in the accountability of insurers' management of customer information. Previously disjointed systems will become integrated, and customers will also have greater, direct access online to their own claims process information. The frequent losses of customer identity files and frequent filing of payments to the wrong customer will gradually become unheard of, and claims disputes will decrease substantially. However, along with the benefits, insurers will also face greater demands. Customers will: require even faster claims payment cycles; monitor every single item of information pertaining to their cases, from accident to claim payment; pursue more interactions

with customer service staff; and, more importantly, will start using Social Computing methods to compare their claim experiences with those of other customers.<sup>15</sup>

- Legacy claims systems rationalization will require business rules engines . . .** In the move toward Web-based claims, insurers will need to instill cross-divisional program management discipline if they want claims automation and systems migration to succeed. To achieve this discipline, insurers will increasingly use SOA-based rules engines to automate key claims systems. Insurers can choose between two categories of rules engine products: 1) embedded business rules platforms included in external applications, or 2) independent single-purpose platforms.<sup>16</sup> Insurers will increasingly choose embedded platforms over independent ones: They solve business process problems faster, are cheaper, and present the lowest-risk ways of solving problems. This is especially true for claims, policy issuance, and underwriting process rationalization.

**Figure 4** A New Web-Based Claims Market Aids Efficiency Across The Insurance Claims Value Chain



- **... and a new claims staff profile.** With Web-enabled software steadily replacing manual claims processes, claims staff will no longer need to focus on pure process administration. In best-practice insurers, a new type of claims handler will emerge instead: Striking a balance between IT and customer advocacy skills, this will become the age of the service analyst claims handler. Among other requirements, new claims handlers will have to: make savvier use of predictive analytics to study consumer claims patterns; develop simpler and more transparent customer relationships; and constantly improve their use of technology to tackle issues such as fraud management, billing, identity protection, and risk management.
- **Outsourcing is the next frontier of claims rationalization.** Despite persistent challenges and denials from European insurers, business process outsourcing (BPO) will become crucial in the coming years in the drive toward increasing claims automation.<sup>17</sup> Markets like the Netherlands, the Nordics, and the UK are expected to see the steepest increase in BPO spending in Europe. Growth of BPO has been slower in markets like Italy and Switzerland, due to complex legal and taxation systems, language barriers, and heightened cultural sensitivity.<sup>18</sup> However, even the most reticent markets have realized that selectively choosing outsourcing providers can bring unique advantages — namely, saving money in the complex claims analysis process and standardizing the quality of customer claims service across different markets.

## RECOMMENDATIONS

### CLAIMS AUTOMATION NEEDS A SAVVY MIX OF TECHNOLOGY AND STRATEGIC INSIGHT

The next two years will see an intensification in the number of insurers replacing old legacy-based claims systems with new-generation Web-based ones. Large insurers like CIGNA and Skandia have realized that the problems caused by old claims solutions — declining customer advocacy, low staff productivity, and general business inefficiency — far outweigh the costs of replacing the old platforms. Insurers looking to sustain a competitive edge in the claims automation race need to move quickly, with the appropriate balance of technology, business and process strategy, and innovation. Strategy professionals must:

- **Determine a clear implementation methodology to start.** Deploying a claims system requires robust tools and processes. First create and document a detailed implementation methodology that focuses on project estimates, project management, data migration, and interface development and that includes knowledge transfer from client to vendor and vice versa. Include tools for code and data migration and interface development. And because nearly all implementations require consulting from the system vendor, select a vendor, such as IBM, whose previous implementations have largely been on time and on budget.
- **Establish very concrete functionality requirements.** The best claims systems should be easily configurable, complete, support the required lines of business, and be available out-of-the-box as a package or as a set of easily integrated components. Pay close attention to

components that require a greater deal of customization to provide basic claims functionality and that aren't supported by regular updates — these are the ones that will greatly increase implementation and maintenance efforts. For example, the choice of combined software modules instead of an already integrated claims package will always be more expensive and troublesome — as you will need additional people to troubleshoot and maintain upgrades to each of the individual system pieces.

- **Decide which rules engines are best for their organizations.** A rules engine provides a development environment for automating claims processes to reduce fraud, enforcing policies, and automating time-consuming manual procedures. Some claims systems include native rules engines as extensions of the claims system. However, all leading claims systems can interface with an enterprise rules engine like CA's Aion. First, decide between an enterprise rules engine and a native one. Enterprise rules engines are more complex and expensive; however, they can provide a single development environment across the company. Native rules engines are tightly integrated with the claims system, are easier for nonprogrammers to use, and often come with libraries of rules specific to the claims process. Once you have made this choice, look for the following key characteristics: applications that can be developed and maintained with minimal programming expertise; support for large rule sets; and the application of the engine to a wide range of claims functionality, including segmentation, assignment, and reserve setting.
- **Consider the needs of the different stakeholders involved.** Key users of a claims system include adjusters, agents, claimants, policyholders, and managers. These groups vary in both expertise and information needs. Independent agents and policyholders, for example, are infrequent users and need an intuitive and consistent user interface with extensive online help. Experienced customer service representatives, however, are more transaction-oriented and need a streamlined interface with keyboard-only navigation. Overall, the look and feel needs to be intuitive and provide both mouse and keyboard-only navigation. The system needs to provide online help, error correction, and interfaces customized to different user profiles, complemented by role-based security specific to the different groups.
- **Use outsourcing when needed to extract broader business benefits.** Insurers have been extremely reticent about outsourcing key parts of claims renewal projects, fearing that it would ultimately mean relinquishing business control. That is not a wise and sustainable position. The selective choice of outsourcing providers can bring unique advantages, namely, cutting the costs of the complex claims analysis process and standardizing the quality of customer claims service across different markets. Insurers like Pearl have proved that outsourcing brings higher process efficiency without diminishing strategic control. Vendors like Tata Consultancy Services and Accenture have developed best practices for efficient and collaborative, rather than disruptive, outsourcing. As insurers strive to differentiate themselves by the quality of their claims processes, only those that adopt a more open attitude to outsourcing and balance it with proprietary in-house solutions will shine as best practices.

## SUPPLEMENTAL MATERIAL

### Companies Interviewed For This Document

CIGNA	FINEOS
Delta Lloyd	Skandia
DSTi	Wipro

## ENDNOTES

<sup>1</sup> An insurance claim is the actual application for benefits provided by an insurance company. Policyholders 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 claim, 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 policyholder 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 adjuster or appraiser. The insurance adjuster's job is to objectively evaluate the insurance claim 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 adjuster 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.

<sup>2</sup> Solvency II is a new insurance regulatory framework promoted by the European Commission. The framework for enhanced European insurance solvency rules is currently being prepared, 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 have already started to implement Solvency II-type regulatory requirements.

<sup>3</sup> Fraud management, for example, is hampered by poor integration of internal systems with external rating services that score claims based on the history of fraud.

- <sup>4</sup> Service-oriented architecture (SOA) is a style of design, deployment, and management of software infrastructure and applications to create a more flexible digital embodiment of business. Characteristics of SOA include modular access to applications according to business units of work, shared services, standards-based protocols and infrastructure, open access via loose technology coupling, and flexible implementations via policy-based configuration. The emergence of Web services has sparked a rapid expansion of interest of SOA in recent years. See the May 26, 2006, Topic Overview “[Topic Overview: Service-Oriented Architecture](#).”
- <sup>5</sup> Insurance firms are increasingly interested in automating business processes. To make this move, they’ll need to choose between embedded and independent rules engines. The embedded engines that are included with applications like policy administration and claims processing are tightly integrated with these applications, cost less, and provide simpler development environments. Independent rules platforms, on the other hand, cost more, provide richer development tools, and are rapidly adding insurance-specific capabilities. See the April 7, 2006, Best Practices “[How Insurers Should Pick Business Rules Engines](#).”
- <sup>6</sup> Trust, transparency, benevolence, and fairness are the cornerstones of customer advocacy. Customer advocacy is the perception that the firm does what’s best for its customers, not just what’s best for its own bottom line. Firms that demonstrate the four components of customer advocacy — simplicity, benevolence, transparency, and trustworthiness — enjoy the most important fruits of loyalty: customers willing to consider the firm for future purchases. See the August 1, 2005, Forrester Big Idea “[Customer Advocacy: The Secret To Loyal Financial Consumers](#).”
- <sup>7</sup> Consumers’ financial behavior is changing fast as a result of new channels like the Internet. As consumers’ choices have widened, their behavior has become more diverse, increasing complexity for financial services firms. Financial firms need an attitude-based segmentation to understand the resulting changes in consumers’ needs, preferences, channel behavior, and choices of provider. Our analysis of consumer attitudes shows that financial consumers can be divided into four distinct types: Self-Directed, Validators, Avoiders, and Delegators. See the January 13, 2006, Best Practices “[Segmenting Financial Consumers](#).”
- <sup>8</sup> In a recent Accenture survey, two-thirds of policyholders said they think it is important for their insurance companies to provide the ability to check the status of claims online. These infrequent, untrained users will demand simpler and more intuitive interfaces. See the February 2, 2006, Best Practices “[Selecting And Implementing P&C Claims Systems](#).”
- <sup>9</sup> On the surface, sharp reductions in staff levels due to claims automation would be a driver for change with insurers, as it would allow them significant cost savings. However, insurers across Europe have workforces with extremely high trade union membership, making any staff reductions extremely costly and lengthy. Another specificity of many insurance companies is that they reward employees with pension schemes that require fewer years of work for entitlement to extensive payouts. All in all, it is a sector where redundancies are always an extremely complex and difficult issue, regardless of the cost efficiencies that may be associated with them.
- <sup>10</sup> In the US, CIGNA has established a partnership with Perot Systems, a company based in Texas, to develop, implement, and roll out the new automated claims systems.



- <sup>11</sup> In its new Web-based claims platform, CIGNA will introduce, among other things, multicurrency claims payments, enhanced agent functions, direct customer online claim enrollment, a fully automated back-office end, and international payment facilities.
- <sup>12</sup> 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.
- <sup>13</sup> All forms for updates, claims intake, and related activities are electronic, eliminating all the photocopying and mailing of files that has been extremely common in the industry until now. Finally, secure customer identification and authentication is guaranteed throughout.
- <sup>14</sup> 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. 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. See the August 8, 2006, Best Practices ["Delta Lloyd's New Claims Management Model Brings Operational Efficiency."](#)
- <sup>15</sup> Technology and social changes are creating a mix of forces that will transform the way all businesses operate, create products, and relate to customers. Forrester calls this shift Social Computing; we define it as a social structure in which technology puts power in the hands of communities, not institutions like banks or insurers. See the June 22, 2006, Trends ["Social Computing's Impact On Financial Services."](#)
- <sup>16</sup> An example of the first is CSC's Exceed Claims and The Innovation Group's Insurance Design Studio. ILOG's JRules and Fair Isaac's Blaze Advisor are examples of independent single-purpose platforms. See the April 7, 2006, Best Practices ["How Insurers Should Pick Business Rules Engines."](#)
- <sup>17</sup> According to Forrester, financial services back-office spending (including claims insurance processes) will increase at a CAGR of 10.4% from 2006 to 2011. See the September 26, 2006, Trends ["European Business Process Outsourcing Spending Forecast: 2006 To 2011."](#)
- <sup>18</sup> In Europe, other challenges like value-added tax (VAT) — which calls for insurers to pay VAT on the services that outsourcing companies provide — dog vendors trying to get a foot in the door.



# FORRESTER®

Making Leaders Successful Every Day

## Headquarters

Forrester Research, Inc.  
400 Technology Square  
Cambridge, MA 02139 USA  
Tel: +1 617/613-6000  
Fax: +1 617/613-5000  
Email: [forrester@forrester.com](mailto:forrester@forrester.com)  
Nasdaq symbol: FORR  
[www.forrester.com](http://www.forrester.com)

## Research and Sales Offices

Australia	Israel
Brazil	Japan
Canada	Korea
Denmark	The Netherlands
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
India	

*For a complete list of worldwide locations,  
visit [www.forrester.com/about](http://www.forrester.com/about).*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866/367-7378, +1 617/617-5730, or [resourcecenter@forrester.com](mailto:resourcecenter@forrester.com). We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice about technology's impact on business and consumers. For 22 years, Forrester has been a thought leader and trusted advisor, helping global clients lead in their markets through its research, consulting, events, and peer-to-peer executive programs. For more information, visit [www.forrester.com](http://www.forrester.com).