How to Choose a Digital Claims Solution

Begin by setting your strategic priorities, experts say, and then matching up system attributes with your business requirements.

The large majority of insurers—nearly two-out-of-three—are now investing in digital technology, according to market researcher Strategy Meets Action. And with 85 percent of carriers focused on creating a better customer experience, the core function at the forefront of this new wave of technology investment is claims.

"For an insurer to remain competitive, it needs a more advanced claims system to deliver higher levels of service to its clients," asserts Brian Mack, vice president of sales and marketing at insurance industry solution provider Systema Software.

Mitchell Wein, vice president for research and consulting at Novarica, is even blunter: "Without a digital claims solution," he argues "a carrier risks becoming irrelevant."

One of the chief reasons, Wein says, has to do with lowering the expense portion of a carrier's combined ratio. With a digital claims system, an insurer can deploy a straight-through process that begins with the first notice of loss and continues through the adjudication, settlement and payment of a claim. This allows the insurer to eliminate a number of manual operations and reduce its staff and operating costs. The huge scale of this opportunity is expressed in a recent study by McKinsey & Company, which finds that 70 percent of all claims activity is still manual.

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But a modern claims system also augments a carrier's ability to capture information through digital sources, such as mobile devices and third-party data providers. The additional data makes for more accurate claims adjudication, reducing the loss component of the carrier's combined ratio as well.

"A digital system lowers the carrier's loss ratio in addition to its expenses," Wein notes, "creating a claims-handling advantage for the insurer and a more positive experience for its clients."

But while the rationale for going digital is fairly straightforward, the plethora of claims systems on the market makes choosing the right solution for its business a more complex decision.

How to Compare Claims Systems

For starters, Wein says there are ten primary functions that an insurer needs to consider when evaluating claims systems against one another. These include:

1. Claims submissions
2. Diary and notes capabilities
3. Litigation management tools
4. Reserving
5. Fraud scoring
6. Adjudication and case management tools
7. Tools for setting up workflows and business rules
8. Recoveries and subrogation
9. Payments, and last but not least,
10 The reputation, financial status and service capabilities of the solution provider

Before a carrier embarks on a claims system upgrade, however, it should draw up what Wein terms a "strategic blueprint" as the basis for its modernization efforts. This document should describe the carrier's current state as its starting point and go on to articulate the overarching vision, goals, pain points and guiding principles for the business.

The blueprint also serves "as a reference architecture that the insurer will strive to implement over a number of years," Wein says, and maps out the system capabilities that the insurer will need in order to achieve its key business objectives. These can be grouped into three broad areas:

DIGITAL CAPABILITIES – such as utilizing apps or web sites that allow field adjusters and case managers to make use of their mobile device's GPS, audio and video features. Another example: Developing a paperless way for clients to submit claims.

DATA CAPABILITIES – which center around building predictive models and supporting various types of analytics. Examples include predictive fraud scoring and anomaly detection models.

CORE CAPABILITIES – including support for workflow modeling and straight-through processing. For claims, this could mean skills-based routing of incoming cases and triaged straight-through processing.

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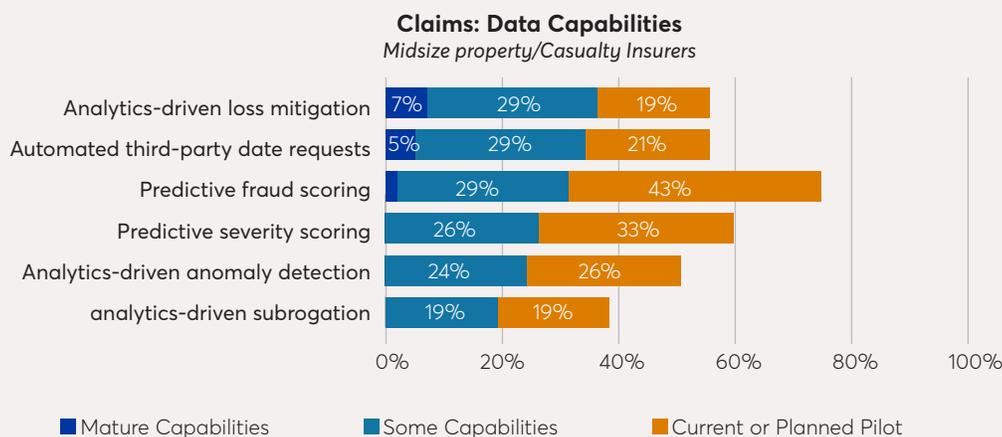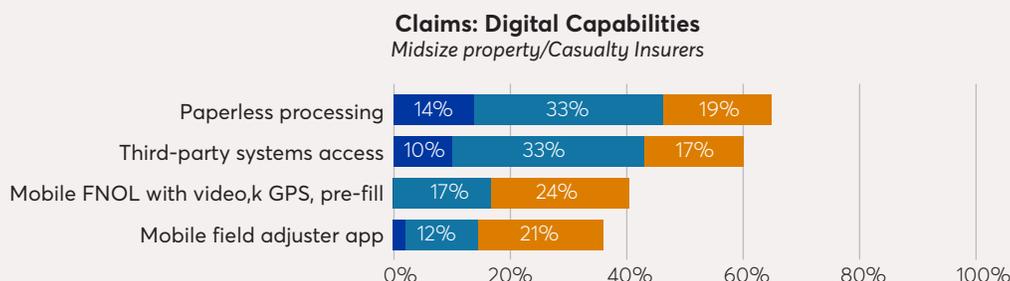
Once completed, the architecture provides a framework for determining how much weight the insurer should give various digital, data and core capabilities when shopping for a new system. The ten primary claims system functions, as described by Wein, should be scored and prioritized according to these determinations.

As part of the process of drawing up its blueprint, an insurer should also re-examine its business operations with an eye towards streamlining and reorganizing them in light of the new claims solution's capabilities. Any restructuring should also reflect the insurer's top business priorities. For instance, an insurer that needs to emphasize speed of settlement and improving its customers experience would re-engineer its procedures differently than a carrier whose top priority is to reduce its expense base.

"This is about more than just choosing the right claims solution," declares Karen Furtado, a partner at Strategy Meets Action. "The project will be an absolute failure, unless the insurer is prepared to change its business processes to take advantage of the system's new capabilities."

Her golden rule for claims system selection, Furtado says, is to "enter the process with clear goals for what the business should look like going forward. Buy for your future, not for your past."

To help set these goals, she says, insurers should spend time exploring those things that differentiate their business and make it unique. An insurer's ultimate selection of a claims system should reinforce and build on these traits.

Claims: Digital Capabilities
Midsize property/Casualty Insurers

Capability	Mature Capabilities	Some Capabilities	Current or Planned Pilot
Paperless processing	14%	33%	19%
Third-party systems access	10%	33%	17%
Mobile FNOL with video,k GPS, pre-fill		17%	24%
Mobile field adjuster app	12%		21%

Claims: Data Capabilities
Midsize property/Casualty Insurers

Capability	Mature Capabilities	Some Capabilities	Current or Planned Pilot
Analytics-driven loss mitigation	7%	29%	19%
Automated third-party date requests	5%	29%	21%
Predictive fraud scoring		29%	43%
Predictive severity scoring		26%	33%
Analytics-driven anomaly detection		24%	26%
analytics-driven subrogation		19%	19%

■ Mature Capabilities ■ Some Capabilities ■ Current or Planned Pilot

Source: Novarica Survey, 2016. n=42 midsize Property/Casualty insurers

> Some digital claims solutions run better than others on small screen mobile devices.

TECHNICAL CONSIDERATIONS

During the selection process, once the insurer's business goals have been established, Furtado says key technical considerations come to the fore. Among the most important are how easily a claims system can be configured to meet the insurer's needs; how readily it can be scaled to support growth and expanded business activities, and whether or not it is "low-code based," meaning it should require minimal coding effort on the part of the IT staff to add new features and integrate it with the rest of the carrier's core systems.

A truly flexible system should also support multiple browsers and both the Android and iOS mobile device operating systems, adds Systema's Mack. Central to an insurer's efforts to achieve straight-through processing is its ability to empower its adjusters and field agents, who increasingly rely on smart phones and tablets to conduct their investigations and file reports. But some digital claims solutions run better than others on small screen mobile devices, making this an important selection criterion.

Another important decision for carriers is whether to deploy the new claims system on premise or in the cloud. "An on-premise deployment gives the insurer absolute control," says Mack. "The system resides in its own data center, and all the security and system integration are in its own hands." A cloud deployment, on the other hand, "allows the insurer to exit the hardware business. That makes it more cost-effective."

To some extent, Mack notes, the decision is driven by the size of the insurer. Larger organizations, for example, may be more concerned about system integration issues and have the IT resources to take these on themselves. Smaller carriers with fewer resources are reluctant to spread their IT staffs too thin and are more likely to opt for the more cost-effective solution, although he adds that, depending on their circumstances, insurers of both sizes may choose either approach.

> "Anyone who will interact with the system should be part of the selection process."

SUITES VS. BEST OF BREED

Another resource-dependent decision is whether to acquire a claims system that's part of a single vendor's integrated suite or to work with a network of solution providers that each offer a core system component that is best of breed.

The current trend is towards single suite solutions, Mack observes, in part because a best-of-breed strategy requires an insurer to integrate the different system components and take on the overhead of managing multiple vendors. But choosing a suite may mean more compromise over what features are included.

Furtado agrees that suites tend to have a lower cost of ownership, but she notes that by working with an entire community of providers, an insurer may get access to more robust technology over time. Novarica's Wein takes the other side of the argument, maintaining that "an insurer should look for the best core system available that meets most of its requirements." The advantage, he says, to buying a claims system that is part of a suite is that even if the insurer doesn't use the other modules initially, they are immediately available once the business is ready to take the next step in its modernization journey.

Given that a claims system touches virtually every aspect of an insurer's operation, the selection process can have significant political overtones and should be conducted with senior management input from the get-go.

"Anyone who will interact with the system should be part of the selection process," recommends Furtado, "and the CEO and senior management team should be apprised throughout." The best practice is to bring the senior management team into the process very early on, concurs Mack. "IT and the project team don't want to get to the end of the process only to discover that management has a different set of requirements. The earlier they are brought in the better," he observes. "This leads to the best outcomes."

Wein too, agrees, noting that senior management involvement is an integral part of drawing up a strategic blueprint. Comparing the claims system selection process to a plane trip, he quips, "You would never get on a jet if you didn't know where it's going.