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Insurance Megatrends:

The need for speed in insurance claims processing

A Think Piece produced in partnership with Sutherland Global Services

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Welcome from Sutherland Global Services and welcome to our first joint white paper with Oxford Economics looking at Insurance Megatrends and focused on the issues involving the need for speed in insurance claim processing.

The report draws upon detailed data from vetted organizations, together with observations of the leading practices that drive top performing insurance organizations.

Sutherland comes to this study with the advantage that we provide front-office and back-office business transformation and technology enabled BPO services to a diverse client base of Life and P&C entities in the US, UK, Canada, Mexico, Chile, Columbia, Panama and India. We rank in the top 1% for "Superior Customer Service."

We have the domain expertise, established synergies and adjacencies, and the service delivery and technology infrastructure to leverage in delivering service excellence.

We service over 3 Million members of our 15 Insurance partners, service $500M in premiums across multiple product lines domestically and internationally and process over 10 Million transactions annually. We have executed on our strategy to provide end-to-end services to insurance carriers so that we may add value to both their revenue growth as well as cost reduction initiatives. To that end, we provide new customer acquisition, customer service, policy administration, underwriting support services, claims administration, database management, information exchange, and analytics including fraud detection and prevention. Additionally, we provide actuarial support including loss modeling and catastrophic modeling and industry specific finance and accounting services including reinsurance accounting. In addition to the major insurance carriers we support, we provide BPO services to reinsurers and the Lloyd's market, specifically in the back office arena.

While we maintain a strong global footprint with significant offshore presence, our ability to support opportunities utilizing our Insurance Center of Excellence in Chesapeake, VA separates us from our competition. The onshore center is dedicated to insurance and houses our licensed agents for every US state providing services in both English and Spanish, as well as our domain experts for quality management, supervision, and process optimization. The Chesapeake Insurance Center is providing services to companies such as Aflac, Mutual of Omaha, ACE, Hiscox, Argo, MetLife, The Standard and Hanover. This dedicated insurance center originally opened in Virginia Beach in 2004. The growth of our operations dictated a recent move to a larger facility in Chesapeake where it continues to be the home of our onshore insurance business. The center's proximity to Naval Station Norfolk provides a unique recruiting pool of Navy veterans, their families and the families of active Navy personnel. 10% of the center's employees currently come from the veteran community.

Once you have read this report, I personally invite you to reach out to me and my team to share with you in greater detail any of the examples cited in this study and to discuss what we might be able to accomplish for your organization.

Vikram Renjen

Vikram Renjen
Global Head, BFSI
Sutherland Global Services

Mother Nature offers a wakeup call

When Superstorm Sandy—a tropical storm unlike any other—blasted across the Eastern US in October 2012, it served as a howling wake-up call for many insurance carriers, as well as for consumers and their state insurance regulators.

The scale of the disaster—159 lives lost, at least 650,000 homes and 250,000 insured vehicles damaged or destroyed and more than 300,000 business properties shut down for weeks and even months—tested the ability of many insurance carriers to rapidly address property and automotive losses from one of the worst disasters to ever strike a significant population center. Even the nation's largest and most financially secure carriers felt the strain on their resources.

Even 16 months after the storm, insurance customers in the Northeast "are expressing their relative dissatisfaction with the claims process**."**

When the storm passed and the flooding subsided, tens of thousands of unhappy policyholders felt they weren't getting the attention they deserved—or had paid for—and complained vehemently to their elected officials. Insurance companies are supposed to deploy assets instantly when trouble strikes; many thousands, especially in New York and New Jersey, felt abandoned. A customer satisfaction survey released by J.D. Power in February 2014 found that even 16 months after the storm, insurance customers in the Northeast "are expressing their relative dissatisfaction with the claims process."[1]

A powerful combination of state regulatory demands, rising customer expectations, and a rapidly changing and increasingly tech-enabled marketplace is making the "need for speed" in the insurance sector more important than ever before.

As a result, insurance carriers today are responding to intense pressure to expedite their **claims** processes in order to retain their customer base and gain market share. A powerful combination of state regulatory demands, rising customer expectations, and a rapidly changing and increasingly tech-enabled marketplace is making the "need for speed" in the insurance sector more important than ever before.

Regulators step in

The aftermath of Hurricane Sandy triggered a series of regulatory changes that forced insurance carriers to sharpen their game, especially in New York State, where Governor Andrew Cuomo invoked new rules that cut the time insurance adjusters would be given to inspect an insured loss (from 15 to 6 days). New York also demanded data from insurance companies so that it could publish a "scorecard," allowing consumers to judge for themselves how well their providers measured up to the challenge posed by closing claims after a major catastrophe. It didn't stop there either: the state also launched investigations against at least three insurers it said failed to process claims in a sufficiently timely manner.

New Jersey also took steps to prohibit insurance companies from imposing large hurricane deductibles on state homeowners, and to speed reimbursements by allowing carriers to distribute claims payments directly by debit card or electronic funds transfer. Like New York, it also demanded that insurers provide data to the state showing the rate at which it processed storm claims. And the

[1] http://www.jdpower.com/press-releases/2014-property-claims-satisfaction-study, February 28, 2014.

trend spread: Massachusetts officials demanded compliance data from insurers after the 2013 Boston Marathon bombings to gauge insurers' responsiveness.

Changing consumer expectations

It isn't just regulation that's causing insurance carriers to ramp up claims efficiency. Increasingly, customers have come to expect it. "In the age of Amazon.com, I think our customers now expect immediate access to almost everything. They want it now," says Lisa St. Onge, assistant vice president at Amica Insurance, the Rhode Island-based carrier that consistently tops customer service rankings in J.D. Power and Associates surveys. "These days, our customers look at us to raise the bar in terms of our service delivery. They don't see insurance as being different from any other service."

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In an increasingly competitive insurance landscape, carriers are using customer response time and reliability as defining characteristics in the marketplace. Right after disaster strikes, many of the largest carriers advertise on TV and radio, promising to "make good" on their commitments to policyholders, as a way to differentiate their brands. In the rapidly expanding digital universe, the power of online and social media amplifies the voice of the individual consumer as never before; as a result, savvy insurers are not only interacting more frequently with customers via social media, they are also monitoring social media sentiment on a consistent basis to identify potential risks or issues that may affect their brand.

94% of insurance respondents rated the risk organization as "critical" or "important" for managing reputation among stakeholders.

Oxford Economics' own research corroborates this trend. In a recent survey of insurance executives, conducted in collaboration with the consulting firm Accenture,[2] 94% of insurance respondents rated the risk organization as "critical" or "important" for managing reputation among stakeholders.

Fig. 1: The risk organization is critical in managing reputation for insurers

[2] Accenture 2013 Global Risk Management study: Focus on findings for the insurance sector.

A tech-enabled marketplace

The rapid adoption of new technologies by customers is also putting additional pressure on carriers to deliver in a timely and effective manner. Today's insurance policyholders can document losses and other incidents immediately with photos and videos taken directly on their smartphones and emailed within minutes to their insurance provider. Many of today's youngest insurance customers have come of age expecting rapid responses to their queries.

New technologies are critical to processing claims faster. The advent of sophisticated, secure cloud computing standards allows carriers to give their field adjusters more powerful "on the ground" tools like proprietary tablets or smartphones equipped with special software applications that allow them to accelerate their field reporting.

"64% of non-life insurers say they need to create a corporate culture that encourages rapid digital innovation."
—Vikram Renjen, Sutherland Global Services

There is significant evidence, however, that insurers are often lagging behind their customers when it comes to carrying out a rapid digital transformation. A recent study by EY[3] showed that only 12% of global non-life carriers saw "insufficient customer demand" as an inhibitor of digital growth, while 88% cited the constraints of legacy technology. In addition, some 64% of non-life respondents cited the need to create a corporate culture that encourages rapid innovation as a key challenge to becoming more digital

Speed wins in the race for market share

Surveys show that consumers will punish insurance carriers that don't take the claims process seriously enough or do not communicate rapidly and effectively with their customers. In its 2012 study of consumer satisfaction with insurers, J.D. Power and Associates found that claimants in the lowest satisfaction tier were more than three times as likely to have already switched insurers after their claim was settled, compared with those in the "medium" tier. Likewise, less-satisfied claimants who haven't switched insurers are also twice as likely to shop for a policy in the next 12 months.

A negative claims experience is also likely to affect word-of-mouth referrals—more than 50% of claimants in the low satisfaction tier have shared their negative experience with friends or co-workers, J.D. Power found, telling five people, on average. Even 20% of claimants in the "medium" satisfaction tier make negative comments, underscoring the importance of delivering an exceptional claims experience.

A more recent survey released by the American Customer Satisfaction Index (ASCI) in December 2013 found that respondents rated insurers very highly in terms of "courtesy and helpfulness" in answering questions or in renewing polices, but far lower in terms of "speed with which most recent claim was processed and completed."[4]

[3] EY Global Insurance Digital Survey, 2013: *Insurance in a digital world: the time is now*.
[4] ACSI Finance and Insurance Report, December 2013.

If insurers can be punished for lackluster service, they can also be handsomely rewarded when their responses are timely. Speedy claims processing can be "a powerful differentiator to retain renewal business as well as to attract new customers and increase market share," says Vikram Renjen, global head of insurance and financial services for Sutherland Global Services, which develops and manages outsourcing services for leading insurance companies.

Another J.D. Power study established a clear connection between "timeliness" of a claim and the likelihood that a customer will escalate a claim to a supervisor. "If the settlement terms are provided to the claimant within one day of first notice of loss (FNOL), only 6% of customers escalate the claim," J.D. Power found. "The rate of escalation increases to 13% if the claimant is informed within one week, and to 18% if it takes more than one week." Again, younger policyholders appear to have greater expectations of speed: The same survey found that nearly one-fourth (23%) of Gen Y claimants escalated their claim to a supervisor, compared with 8% of Baby Boomers.

"It is in the back office where the battle to make claims processing more efficient is won."
—Vikram Renjen, Sutherland Global Services

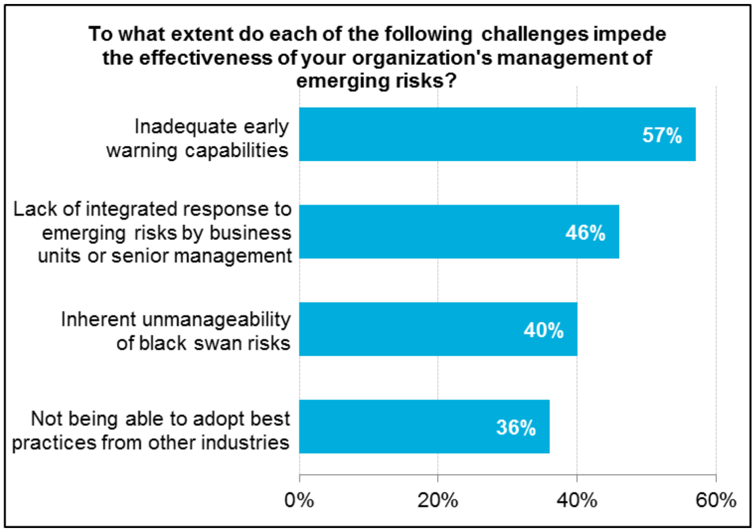
Ripple effects from the need to speed claims processing

This growing "need for speed" in claims processing increases the pressure on people, systems and processes, and can ripple across the organization—both in the front and back offices of insurance providers.

After Sandy, many companies are boosting their investments in technologies and mobile assets to anticipate when natural disasters may strike, and are learning how to get field staff, especially adjusters, into place before a storm does strike. Insurers are now moving aggressively to incorporate aerial and satellite imagery as well as geographic information services (GIS) to route field adjusters quickly and respond in close to "real time" as on-the-ground conditions change.

The Oxford Economics study conducted in partnership with Accenture showed 57% of insurance carriers believe that inadequate early warning capabilities substantially impede their organization's responsiveness to emerging risks.

Fig. 2: Lack of early warning capabilities affects insurers



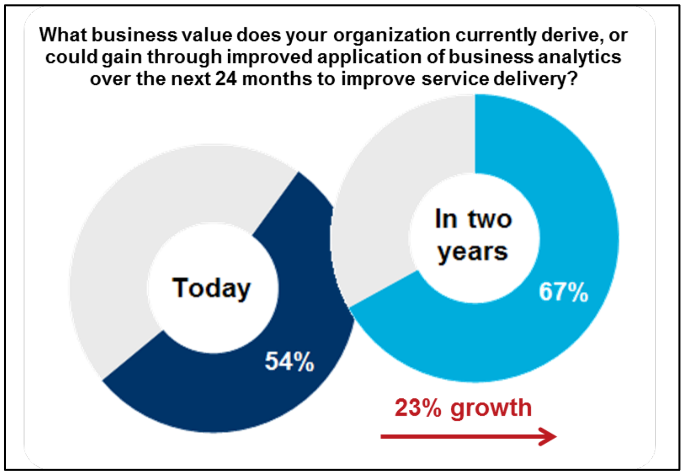
One in four insurance carriers (23%) expect to increase their investment in business analytics over the next two years to improve service delivery.

Ultimately, however, it is in the back office where the battle to make claims processing more efficient and resolution of claims more immediate is usually won. When a major catastrophe strikes, extra pressure is shouldered throughout the enterprise, not just by contact centers and field adjusters. More documents need to be indexed, more letters need to be sent to both claimants and state officials—even the number of checks that will be printed and mailed will rise exponentially. All these drains on resources can occur simultaneously, and without weeks of advance warning or logistical planning.

To meet rising customer expectations, insurance carriers must boost the productivity and decision-making capabilities of their desk adjusters and compliance staff. They can do this, in part, by hiring new personnel and training existing staff to become more efficient, and by developing software and other analytic systems that help claims processors set up claims faster and resolve them sooner.

Many insurance carriers are heeding this message. In another study conducted in conjunction with Cognizant Technology Solutions, Oxford Economics found that one in four insurance carriers (23%) expect to increase their investment in business analytics over the next two years to improve service delivery.

Fig. 3: Business analytics can boost service delivery for insurance carriers



A logical and cost-effective response to the need for greater speed for many carriers will be to create partnerships with service companies that possess deep insurance expertise to help develop end-to-end adjusting and processing solutions.

Once a decision regarding a loss is made, speeding up payment is also important. Many companies are actively adjusting their systems to allow electronic funds transfers (ETFs) for paying off a claim—rather than writing and mailing checks—and are developing new systems to accept claims data from a customers' mobile phone or tablet.

This is why many carriers are investing more rigorously in sophisticated analytics. For example, Oxford's survey with Cognizant found that 29% of insurance carriers experienced both a "gap between IT and business operations" and a "lack of ability to connect analytical findings with the real-world business context"—and these factors constituted serious or significant obstacles to deploying business analytics more deeply in their operations.

Leveraging partnerships to boost efficiency

As a result, a logical and cost-effective response to the need for greater speed for many carriers will be to create partnerships with service companies that possess deep insurance expertise to help develop end-to-end adjusting and processing solutions. These processing experts can offer insurance carriers variable capacity to expand their desk adjusting, analytics or processing capacity when—and only when—they require these additional resources. They offer trained staff that can boost a carrier's responsiveness, and can work with a company to develop deeper analytics, actuarial and claim administration software and other upgrades that can boost the efficiency of adjusters. If a sustained relationship is nurtured, the carrier and the service firm can jointly develop artificial intelligence and other software upgrades that can make completion of routine back-office tasks, or even analysis of complex business risks, more efficient.

These companies distinguish themselves by being are able to respond quickly to changing circumstances, so that additional resources are deployed only when they are needed. Creating such alliances can not only improve customer satisfaction as claims responses become timelier, but can also significantly decrease processing costs for the carrier. Recent cases have shown that employing an outside service company can reduce operational costs as much as 40% and can reduce the time needed to offer a routine quote for new business from as many as 30 days to as few as four.

"The key is adding variable capacity on a just-in-time basis," explains Mr. Renjen from Sutherland. "That's the beauty of it. It is not only variable, but it is also timely, and I think those two components together are the very powerful mix of value creation that companies are looking for."

Calls to action: Are you ready for the next calamity?

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—Vikram Renjen, Sutherland Global Services

There once was a time when customers may have been more patient with their insurance carriers during extreme weather emergencies or other catastrophes, especially if carriers could demonstrate they were "trying as hard as they could" in adverse conditions.

But traditional excuses no longer pass muster in a world where consumers are better informed than ever before, and are empowered, thanks to social networks, to make or break reputations. Carriers today are now expected to perform as well—if not better—during emergencies than they do under normal conditions, or face the wrath of customers and regulators. Guaranteeing reliability under extreme conditions means properly planning ahead. As a consequence, insurance carriers should take the following steps:

1. **Assess your ability to perform to customer expectations in stressful times.**

When the next Superstorm Sandy strikes, will you be able to handle the exigencies? Do you know which aspects of your technology are vulnerable to failure? Are your systems scalable? Do you have lots of systems and operations situated in one geographical location, and can you still service your clients if that site is no longer functional? Conducting a hard-nosed audit of your systems to determine potential failure points is a critical first move.

And it isn't just about your systems. What about your people? Will "contingent workers" be available if all your competitors are also seeking claims processors or adjusters to work on short notice? Are they adequately trained? Understanding where your systems may encounter failure is the first step in creating organizational resiliency.

2. Develop a comprehensive response plan

Having measured your firm's strengths and weakness, have you developed a realistic plan to act on what you've learned? Are there systemic weaknesses that need to be addressed? Can these shortcomings be overcome with internal resources, or do outside experts or highly skilled third parties have a role to play in helping you improve your responses to an emergency? Will the potential failure points already identified in the audit be properly addressed?

3. Educate and mobilize your employees

Does everyone in your organization understand their role when a crisis strikes and what will be expected of them? Will additional training be required? Carriers need to ensure their personnel aren't "flying blind," but have received adequate instruction and coaching to understand how to operate—and what priorities will unfold—in a stressful emergency. Are they aware of new rules that can affect the claims process in certain states?

4. Stress test your process

You've made changes to overcome weaknesses you've identified. But conducting a realistic "stress test" will help you determine whether your "fixes" are sufficient, or whether more needs to be altered or improved. As part of this stress test, carriers should determine how disruptive a response plan that relies solely on internal personnel and resources may be to other parts of their business operations. Companies need to understand well in advance what plans and strategies they will adopt, so they can pull the right triggers when an emergency takes place.

> Employing an outside service company can reduce operational costs as much as 40% and can reduce the time needed to offer a routine quote for new business from as many as 30 days to as few as four.

5. Document your processes and plans

A complete guide to dealing with a catastrophe needs to be continually refreshed and updated. Processes and procedures need to be reviewed on a regular basis so there is no room for doubt when a crisis unfolds.

6. Make the right strategic choices

Some carriers are completely confident that they possess adequate in-house resources, in terms of system, equipment and personnel, to handle any eventuality. Others aren't so sure.

Carriers should carefully think through their capabilities long before a catastrophe appears on the horizon, to determine whether using a third-party administrator or developing a relationship with a Business Process Outsourcing (BPO) provider, who can offer variable capacity and specialized services to insurance carriers, makes good sense. While a BPO firm can offer a rapid "ramp up" in terms of back-office support, it can't do that without having first established a commercial relationship with the carrier.

Carriers that want to build their reputation around rapid claims processing and excellent customer service understand that they can't wait until disaster strikes to develop the proper response systems. The right strategic assessment, planning and strategic agenda can help today's carriers build customer loyalty, improve their reputation and expand their market share in the future.

About Sutherland Global Services

Established in 1986, Sutherland Global Services is a global provider of business process and technology management services offering an integrated portfolio of analytics-driven back-office and customer facing solutions that support the entire customer lifecycle. It is one of the largest, independent BPO companies in the world serving global leaders in major industry verticals. Headquartered in Rochester, N.Y., Sutherland employs over 30,000 professionals and has 41 operations centers in the Philippines, China, India, the United Arab Emirates, Egypt, Bulgaria, the United Kingdom, Canada, the United States, Mexico, Jamaica, Malaysia and Colombia.

For more information, http://www.sutherlandglobal.com