



strategy matters

driving claims to the next level of performance

Message from the CII and Ernst & Young

The changing landscape has brought an unprecedented level of challenge for the insurance industry. The fragile economy and increasing financial performance expectations has led insurers to more closely scrutinise their claims function and the contribution it makes to company objectives and bottom line.

The CII and Ernst & Young have worked in partnership to examine how the claims industry is planning for the future, in particular, how they are setting their strategy for claims. Drawing on the results of interviews with senior claims professionals across insurers, loss adjusters, claims handling organisations and brokers as well as canvassing the views of CII members, we have investigated how well claims functions are preparing and what changes the market is already expecting.

We are positive that the report will be a source of informative insights on the future of the claims industry and help claims leaders prepare their teams for the change ahead.

We are delighted to be working together on a third successful project delivered by the CII and Ernst & Young. We would like to thank everyone involved in producing this research report, particularly industry leaders we interviewed and CII members who have provided their insight and time.



A handwritten signature in black ink that reads "A Emms".

Tony Emms
Chair
Claims Faculty, CII



A handwritten signature in black ink that reads "Imran Ahmed".

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Executive summary

If the insurance industry truly believes that claims service is a differentiator, it follows that claims functions should have a well thought out strategy that is linked to capability development. Our research suggests this is not the case. Many companies face pressure on profitability and a range of external challenges such as claims inflation and Ministry of Justice reforms. This research demonstrates that there is the opportunity for a well prepared claims function to play a pivotal role in creating competitive advantage and delivering value to the bottom line.

Managing costs has always been imperative for the claims industry, but it would appear this has intensified due to the poor economic environment and the soft market conditions. With the claims function controlling the largest amount of spend in an insurance company, there is pressure from corporate boards to understand how claims can contribute more to the financial objectives of the company.

It is against this backdrop that this survey was conducted to understand how industry participants in the UK are planning for the future and setting their strategy for claims. What are the changes they have seen across their operations in people, process and technology and what do they anticipate needs to change in the future to meet these challenges?

The survey was carried out in the 4th quarter in 2009, we undertook 36 face to face interviews with senior claims professionals, across insurers, loss adjusters, claims handling organisations and brokers (representing some 78% of UK claims expenditure). This was supplemented by 714 online questionnaires from the wider Claims Faculty membership.

Our survey confirmed that the market is expecting continued change for claims functions. Cost pressures and changing customer demand are seen as being most critical along with a range of claims specific issues such as referral fees, fraud and the changes to court procedures. These combine to create the need for claims managers to have in place a robust process for translating these considerations into changes to the operating model and its underpinning capability.

The development and articulation of the business strategy is the starting point to set the business improvement agenda. Typically organisations will drive any capability build from this high level direction. When we interviewed senior claims staff, around 90% stated they had a documented strategy. However, it was clear that in many cases, critical elements of a robust strategic plan were still missing.

To understand the planning process and quality of thinking we asked a number of questions around the inputs and drivers for the strategy development. In the case of some organisations, the strategy was well articulated and backed up by clear logic linking back to the internal business and external drivers of change. In many cases, however, organisations were unable to clearly describe their strategy and how it was responding to these pressures. This is a disappointing finding but one which the authors believe presents a clear competitive advantage to those organisations that are more structured in their thinking, and the opportunity for others to invest in further improvements in claims capability.

Whilst respondents recognised the changing environment it is surprising to see that 20% of interviewees only refresh their strategy once every 2 years or longer. There is a strong case to suggest that an annual update is the minimum necessary to keep pace with developments. In addition, whilst 80% of interviewees felt claims had an adequate voice in their company, in many cases the senior claims role no longer has a seat at the board room table with fewer than 45% reporting to the Chief Executive Officer (CEO).

With fewer voices in the board room, and for many a less than rigorous planning process, it could be argued that the claims community are not making a strong enough contribution to the companies' objectives.

Changing customer demand and choice has been at the forefront of driving improvements in many industries and presents a particular challenge to insurers. Customer expectations in insurance are not only being set by their experience within the financial services industry but from outside as well.

Customers who are now used to online shopping, or business managers who track orders and delivery in real-time online systems are looking for a similar experience elsewhere. In this environment it is surprising to see that less than 50% of respondents gathered customer insight monthly or more frequently.

Many of our interviewees agreed that people and people initiatives will be crucial to achieving claims strategy. However, despite this, the range of support available and investments in attracting and retaining the right talent into claims continues to be an issue. This becomes particularly acute when one considers the changing nature of skills required for an effective claims function in the future. Skills in areas not traditionally invested in, such as commercial acumen, data analytics and technology, present a real challenge to the industry. This gives a clear message to organisations that there is much more to do in this space.

Many respondents highlighted the need to reconcile the tensions between the technical challenges of claims and managing a high volume of claims handling. These two aspects require different approaches to skills development, processes (including outsourcing and off-shoring) and technology. There have been numerous companies who have undergone large scale (over £200m) technology changes in the past 3–4 years, this is set to continue with over 50% of respondents anticipating a technology change during 2010. Additionally, at least 50% of respondents expected continued changes at every stage of the value chain over the next 3 years.

Across the claims value chain there is considerable outsourcing and off-shoring of activity today. The highest proportion of outsourcing is seen in the notification and triage area for Lloyd's and London market insurers and for claim validation and reserving for Retail insurers. Going forward we note an increased desire to bring activity back in-house and on-shore. Typically, when questioned respondents cite the desire for greater control of the claims value chain. This poses a challenge to third party claims handlers who will have to innovate to stay relevant in tomorrow's marketplace.

What can the industry do and what is the prize?

Navigating through the challenges will be difficult and those with a rigorous plan through to capability development process will be better positioned to make the key medium and long term decisions required.

How the plan is reflected in the operating model will depend on individual companies' circumstances but there are common themes. For most there is a need to develop capability to implement new technology and change claims processes. This change will need strong planning, direction and robust execution but for those that succeed there is a substantial prize.

Overall we believe there could be a saving of between £650m and £1bn across the industry for non-specialist classes of business, through effective planning and linking this to focused capability enhancement – this should be set in the context of the 2008 underwriting loss of £245m (non specialist classes). It is clear this could be transformational to the industry.

The claims community must ensure the level and type of training and development stays appropriate to the challenges claims professionals will face, as well as coming together to tackle the industry wide issues such as fraud.

For the claims community taking a lead in addressing these challenges relies on developing a coherent response to them, one that links the business strategy to the claims capability required. For those organisations that get this right the substantial prize is an advantage in managing and reducing ever escalating costs.

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