More Data, Earlier: The Value of Incorporating Data and Analytics in Claims Handling

Data makes all the difference.
LexisNexis® research shows that carriers can reduce severity payments by up to 25 percent.

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Executive Summary

The squeeze is on. Claims departments are feeling pressure to reduce expenses, identify and battle fraud, and enhance customer service—while also coping with a shrinking workforce of claims adjusters, limited IT resources and constrained budgets. Today’s market pressures require carriers to move past the traditional claims-handling process, to enable a more nimble, flexible claims process.

While many property and casualty (P&C) carriers have incorporated third-party data and analytics into their application and underwriting processes, few have integrated data deeply into their claims process. To assess the effect of having more data earlier in the claims process, LexisNexis® conducted a study of more than 10 million features from A.M. Best’s top 20 carriers. The results showed that having more data, earlier, had considerable benefits to claims outcomes.

For third-party bodily injury settlements, the study found that more data earlier resulted in:

• 15–25 percent lower severity payments*
• 25–49 percent lower attorney involvement
• 5–15 percent shorter cycle times

Similar results were obtained for third-party property damage claims:

• 10–15 percent lower severity payments
• 8–15 percent shorter cycle times

This study demonstrates that having more data earlier in the claims process is beneficial. Carriers that incorporate third-party data and analytics into the claims lifecycle can achieve competitive differentiation and increased profitability—through greater efficiency, reduced costs and increased customer satisfaction.

Introduction

At other points in the insurance policy lifecycle, P&C carriers have implemented real-time data and analytics to enhance risk management, streamline processes and reduce costs. Yet historically within the claims function, data and analytics have mostly been isolated to the special investigative unit (SIU).

LexisNexis believes that carriers should use data and analytics as an operational tool first, and an investigatory tool second. We conducted a study to investigate the effect of having more data earlier in the claims process and found that claims with more data are resolved faster, with lower overall costs.

Challenges in claims

Many P&C carriers are feeling heightened pressure from:

• A persistent low-interest-rate environment has negatively impacted carriers’ investment income, this increasing the need for the claims function to rein in expenses in an effort to solidify profits
• A staffing shortfall, as experienced adjusters retire and few new recruits (particularly college graduates) fill their places¹
• Inefficiencies in the claims handling process—in particular, adjusters are spending a significant part of their day on manual activities that do not directly affect the resolution of the claim, resulting in multiple case touches, higher costs and longer cycle times
• The cost of fraud (estimated at $30 billion)², partly due to sophisticated fraud ring schemes that are difficult to detect without data from across industries

Sources

*Ranges reflect variations by state.
Based on this study, incorporating more data earlier into the claims process can enable carriers to decrease cycle times, reduce costs and improve the customer experience. Importantly, our calculations demonstrate that there is a noteworthy return on investment (ROI) for carriers that invest in increasing up-front claims data.

**Key findings**

LexisNexis completed a study of more than 10 million features from A.M. Best’s top 20 personal auto carriers. The dataset included 400,000 third-party bodily injury features and 1.8 million property damage features. Claims were reported between January 1, 2011 and October 31, 2012, and must have been closed by December 31, 2012. Entire claims were excluded if the coverage was comprehensive, glass only, tow only or roadside-assistance only.

Features were segmented by the availability of certain data elements immediately after completing the claim reporting process and before assignment: name and address, phone, plate/state or vehicle identification number (VIN). Subsequently, they were divided into two categories:

- **Less Data** features included a telephone number and only one additional data element, or had no telephone number but all other elements
- **More Data** features included a telephone number and two or more other data elements

**Results of having more data on third-party bodily injury claims**

A comparison of the bodily injury settlements between Less Data and More Data groups shows that having more data earlier in the claims process results in lower average severity, expenses paid, attorney involvement and cycle time.

**More Data: Impact on third-party bodily injury claims**

![Chart showing impact of more data on third-party bodily injury claims](chart.png)

Figure 1. Impact of incorporating more data earlier in the claims process on third-party bodily injury claims. Ranges reflect variations by state. Results shown here are based on the records available to LexisNexis. A carrier’s results may vary based on loss or settlement state, business model and other factors.
On average, bodily injury claims in the More Data category were resolved with:

- 15–25 percent lower severity payments
- 25–49 percent lower attorney involvement
- 5–15 percent shorter cycle times

To address concerns that the Less Data claims were more complex—and therefore more likely to involve an attorney—we also examined only the claims involving attorney representation. The results were consistent with those of the broader dataset, with average payments in the More Data group 16 percent lower and cycle times 6 percent shorter than the Less Data group.

More Data: Potential savings for third-party bodily injury claims

<table>
<thead>
<tr>
<th>Bodily Injury</th>
<th>Average Loss</th>
<th>Average Attorney Representation Rate</th>
<th>Average Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Data</td>
<td>$7,359</td>
<td>27%</td>
<td>116 Days</td>
</tr>
<tr>
<td>Effect of using More Data</td>
<td>-15%</td>
<td>-25%</td>
<td>-5%</td>
</tr>
<tr>
<td>Projected results with More Data</td>
<td>$6,255</td>
<td>20%</td>
<td>110 Days</td>
</tr>
</tbody>
</table>

Total number of Less Data records = 132,299

Potential reduction in severity by moving just 10 percent of records (13,230 records) from Less Data to More Data = Approximately $14.6 million

Subsequently, we examined the financial effect of having more data in the claims resolution process. In the Less Data category, the average bodily injury loss was $7,359; having More Data in the claims process reduces the average loss by 15 percent, to $6,255. With 132,299 records in the Less Data category, we estimate that by moving just 10 percent of these records to the More Data category, the reduction in severity could save a carrier with similar payment trends $14.6 million.
Results of having more data on third-party property damage claims

Similarly, third-party property damage claims benefited from the availability of more data earlier in the claims process.

More Data: Impact on third-party property damage claims

![Figure 3. Impact of incorporating more data earlier in the claims process on third-party property damage claims. Ranges reflect variations by state. Results shown here are based on the records available to LexisNexis. A carrier’s results may vary based on loss or settlement state, business model and other factors.](image)

On average, third-party property damage claims in the More Data category were resolved with:
- 10–15 percent lower severity payments
- 8–15 percent shorter cycle times

More Data: Potential savings for third-party property damage claims

<table>
<thead>
<tr>
<th>Property Damage</th>
<th>Average Loss</th>
<th>Average Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Data</td>
<td>$2,920</td>
<td>41 Days</td>
</tr>
<tr>
<td>Effect of using More Data</td>
<td>-10%</td>
<td>-12%</td>
</tr>
<tr>
<td>Results with More Data</td>
<td>$2,628</td>
<td>36 Days</td>
</tr>
</tbody>
</table>

Total number of Less Data records = 252,887

Potential reduction in severity by moving just 10 percent of records (25,288 records) from Less Data to More Data = **Approximately $7.4 million**

Figure 4. Estimated financial impact of incorporating more data earlier in the claims process on third-party property damage claims. Results shown here are based on the records available to LexisNexis. A carrier’s results may vary based on loss or settlement state, business model and other factors.
And what is the financial result of incorporating more data into third-party property damage claims? In the Less Data category, the average property damage loss was $2,920; with More Data, the average loss is 10 percent less at $2,628. With 252,887 records in the Less Data category, we estimate that supplementing just 10 percent of these records with more data can reduce severity and save a carrier with similar payment trends an estimated $7.4 million.

Discussion

This research shows a clear distinction between claims with Less Data (telephone number plus one other feature, or all other features but not telephone number) and More Data (telephone number plus two or more features). By incorporating more data into the claims process—and earlier in the claims process, ideally at first notice of loss (FNOL)—carriers can improve efficiency, reduce losses and increase customer satisfaction.

Improve efficiency

The ideal case for claims handling is one where the right claim gets to the right person at the right time. In having the right information up front, carriers can provide claims adjusters with as complete a file as possible, reducing the need for an adjuster to chase down information and touch a file multiple times. In addition, it also enables claims departments to more accurately and consistently triage claims, identify potentially fraudulent files and capitalize on subrogation opportunities. Notably, the Coalition Against Insurance Fraud (CAIF) pegs the cost of fraud to the P&C industry at $30 billion annually. An industry-wide dataset is needed to identify the subtle schemes used today by opportunistic fraudsters.

Reduce losses

An additional benefit to heightened efficiency is the ability to close claims faster—which in turn can help reduce excessive losses. For bodily injury claims in particular, having more information increases the likelihood that an adjuster can contact an involved party earlier to build rapport. As a result, the adjuster can assure the claimant that the claim will be resolved appropriately, thus reducing the likelihood of attorney involvement. For property damage claims, earlier contact with a claimant can dramatically reduce vehicle storage or rental costs—which, in some jurisdictions, can be substantial.

Increase customer satisfaction

Across all industries, unsatisfied customers are more likely to switch providers than satisfied customers. Consequently, it is imperative for carriers to deliver an exceptional customer experience, especially during the claims process. Previously, carriers were able to offer discounts to make up for sub-par service, but today’s investment returns no longer permit that.

Customers—not unreasonably—expect prompt contact, effective investigation and timely, fair claims resolution. Additionally, carriers can potentially win business from third parties by being more responsive and closing claims faster. Our study shows that carriers are more likely to meet these customer expectations if adjusters have quality, actionable data early in the claim cycle.
Case study: The ROI for Smart Claim Insurance Co.

Smart Claim Insurance Co. is a hypothetical, mid-size carrier with $2.2 billion in annual premiums. Its claims department employs 225 adjusters, who process an estimated 400 claims per day—for a total of 146,000 claims each year.

Smart Claim Insurance Co. decided to incorporate more data into its claims process. The carrier wanted a single entry point with access to big data and analytics, such as public records data, contributory databases and more. Smart Claim Insurance Co. also wanted a configurable solution that would monitor its active claims files, and send alerts as new information was developed so they could continually triage claims to the most appropriate handler.

With these criteria in mind, Smart Claim Insurance Co. connected with a solutions provider that offered these capabilities. Within 12 weeks, with help from the solutions provider, the carrier had integrated these external data sources into its claims workflow. Claims leaders at Smart Claim Insurance Co. were relieved that they had finally been able to incorporate a big data strategy into the claims function.

Twelve months after integration, Smart Claim Insurance Co. examined its book of business, focusing on property damage, with the aim of understanding how more data in the claims process led to improved claims—and financial—performance.

Property damage
Smart Claim Insurance Co. found that incorporating more data allowed adjusters to close claims faster—reducing claims losses by nearly $1.5 million on stored (non-repairable) units, and more than $2.2 million on repairable units. When the carrier included the cost associated with staff time, the total savings on physical property claims was just short of $4.5 million.

Police reports
Smart Claim Insurance Co. dug a bit deeper. Previously, the carrier had been ordering some police reports as a source of contact information for involved parties. However, by incorporating public records and other third-party data into the claims process, Smart Claim Insurance Co. reduced the number of police reports ordered by 70 percent, saving just over $51,000. In addition, while it used to take nine days to obtain a police report, the new claims data solution could often provide the same information at FNOL. Smart Claim Insurance Co. calculated a reduction in unallocated loss adjustment expense of $686,500, for a total savings of $737,900 in police report expenses alone.

Repeated order processing
Next, Smart Claim Insurance Co. determined that 45 percent of its claims required adjusters to complete multiple data searches in order to develop all needed information. The new solution reduced the need for multiple searches on 70 percent of those claims. Considering the time that adjusters used to spend ordering reports, the carrier estimated the cost savings at just over $120,000.

Annual cost savings
Finally, Smart Claim Insurance Co. realized that because it had already incorporated big data into their claims process, it now ordered 85 percent fewer additional data reports than before—saving approximately $223,000. Adding the cost savings together, Smart Claim Insurance Co. saved more than $5.5 million that year.
**Return on investment**

Smart Claim Insurance Co. handles 146,000 claims per year, and 90 percent of them were bolstered by its claims data solution.

Reviewing all the results, Smart Claim Insurance Co. realized that the claims data solution had not only paid for itself—but it had also saved the company nearly $4 million dollars that year, for a return on investment of approximately 2.8 to 1.

Note: The case study illustrated here is a hypothetical example based on the records available to LexisNexis.

A carrier’s results may vary based on loss or settlement state, business model and other factors. LexisNexis can complete an ROI analysis to help customers determine how incorporating more data into their claims processing can help them reduce costs.

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**What to look for in a claims data and analytics provider**

Leading market solutions can integrate directly with a carrier’s claims management system (CMS), minimizing IT workload while delivering real-time data and analytics throughout the life of the claim.

In addition to ease of integration, carriers should look for solutions that can:

- Offer a configurable, single point of access that allows adjusters to initiate searches with minimal data, such as name and address, phone number or license plate number

- Provide sequential ordering, which streamlines the process and provides maximum information with minimum effort

- Return data in structured format, to enable downstream analytics and maximum utility for fraud models

- Automatically score claims at FNOL—and continually monitor claims for new information or indicators that they may need additional attention

- Draw from extensive data sources that include structured and unstructured data, public records information and more, and link disparate pieces of information to derive insight

- Provide access to industry-wide data, typically through a contributory database; access to the industry-wide dataset is critical for effective identification of organized fraud

- Offer non-FCRA data solutions, to minimize regulatory requirements
Conclusion

As P&C carriers face a slew of industry challenges, they must look at the efficiency and effectiveness of their claims function. Simply put, traditional claims-handling processes do not offer the comprehensive insight, responsiveness or flexibility that is needed to compete in today’s market.

The solution is to incorporate real-time data and analytics throughout the claims process, and particularly at FNOL. Having more data in the claims process can help carriers streamline and optimize their claims-handling processes—to help ensure that the right claim gets to the right person at the right time.

P&C carriers are no strangers to using data and analytics—indeed, most carriers have incorporated data and analytics into their onboarding and underwriting processes. However, those that extend those capabilities into the claims lifecycle can achieve a competitive advantage through lower costs, better talent management and enhanced customer service—and will be well positioned to respond to changes in the marketplace.

About the authors

Ash Hassib is Senior Vice President and General Manager, Auto and Home Insurance, for the risk solutions business of LexisNexis®. He is responsible for business development and partnerships that strengthen the organization’s auto and home insurance offerings, including marketing, point of sale, underwriting, renewal and claims. Hassib joined LexisNexis in 2002, became part of the insurance leadership team in 2005 and was named general manager in 2010. Hassib has led several product management teams that manage mission-critical products, such as LexisNexis® PolicyWatch, LexisNexis® Motor Vehicle Records (MVRs) and LexisNexis® Current Carrier®, which benefit the insurance industry. He has also been involved in shaping the company’s position regarding legislation and regulations that affect the auto insurance market. Hassib earned a bachelor’s degree in computer science from Alexandria University.

Todd Fannin is Director, Vertical Markets, for the risk solutions business of LexisNexis®. He is responsible for gathering market feedback from customers and prospects, then working with the LexisNexis product development team to create the solutions that help customers improve claims workflow processes and manage their bottom line. He joined LexisNexis in January 2012. Previously, Fannin served as director of both technology and the claims process at Esurance. He also served as manager of the company’s claims process. Fannin earned his bachelor’s degree in accounting from Shorter College.
For more information:
Call 800.458.9197 or email insurance.sales@lexisnexis.com.

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