

WHITE PAPER



More data, earlier: The value of incorporating data and analytics in claims handling

LexisNexis Risk Solutions research shows that carriers can reduce claims expenses by up to 25%.

MAY 2018



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 Risk Solutions conducted a study of more than 10 million features from A.M. Best’s top 20 carriers.

Results showed having more data — earlier — had considerable benefits to claims outcomes.

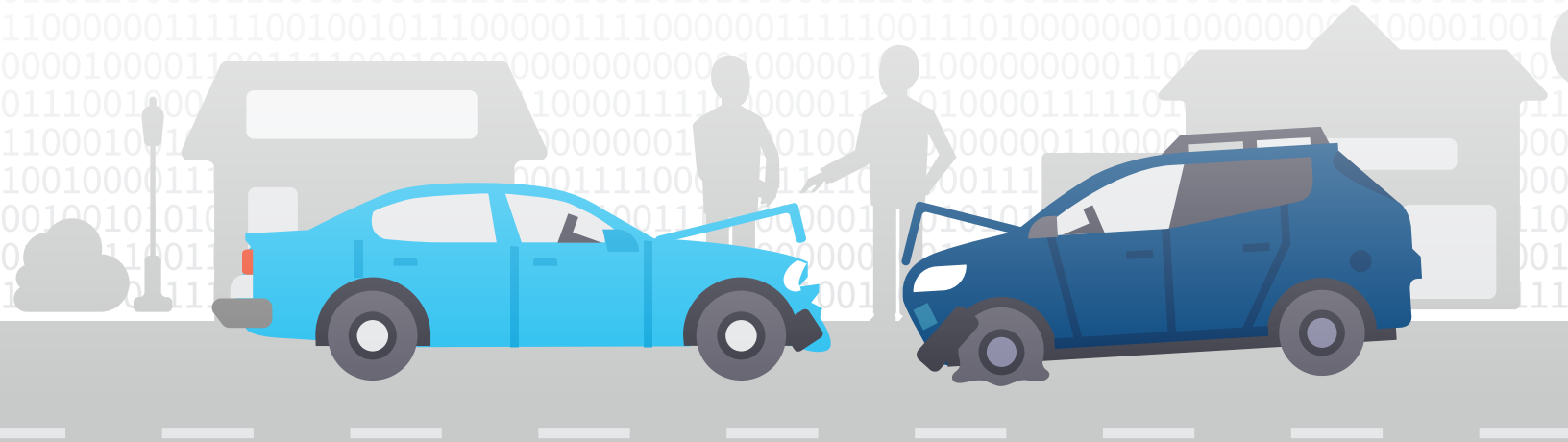
For third-party **bodily injury** settlements, more data earlier resulted in:

- 15–25% lower claims expenses*
- 25–49% lower attorney involvement
- 5–15% shorter cycle times

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

- 10–15% lower claims expenses
- 8–15% 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 increase profitability — through greater efficiency, reduced costs and increased customer satisfaction.



*Ranges in percents reflect variations by state.

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 Risk Solutions believes that carriers should consider using 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.

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.

Challenges in claims

Many P&C carriers are feeling heightened pressure

- 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.¹
- As baby boomers begin scaling back their hours and adjusting to retirement, capturing the decades of knowledge they have and passing it onto the next generation of workers takes on new significance.²
- Auto expenses and losses have exceeded premium every year since 2007. From Q1 2014 to Q1 2016, collision claim frequency increased 2.6% while claim severity rose 8.2%.³
- Many carriers have adjusters 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.



Key findings

LexisNexis Risk Solutions 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:

MORE DATA included:



a telephone number and two or more other data elements (name, address or license plate)



LESS DATA had either:

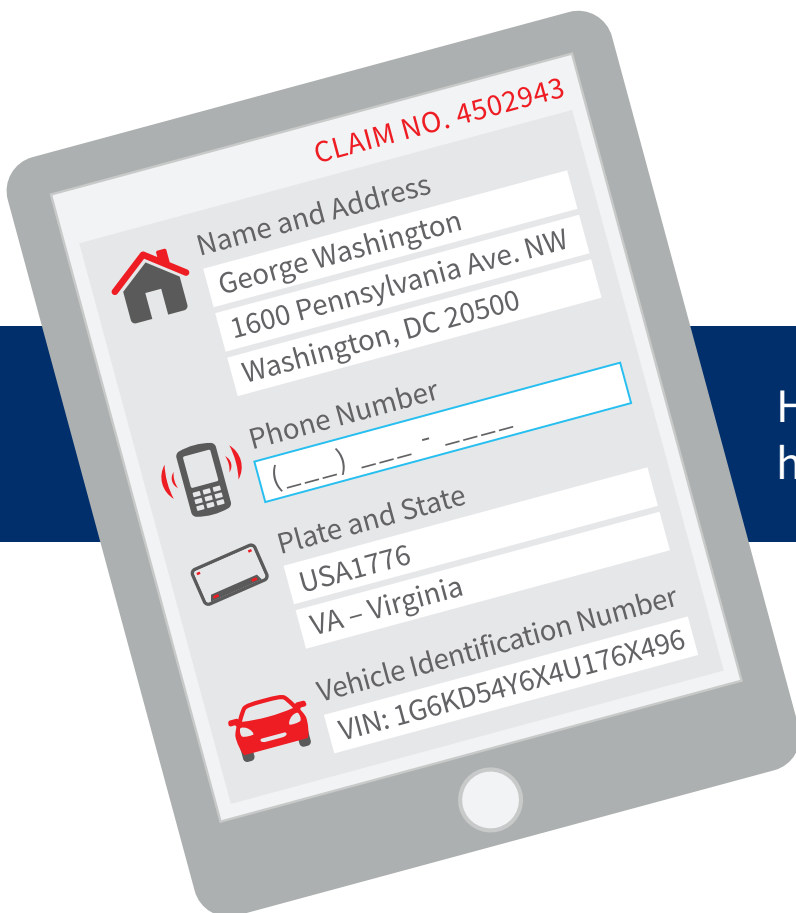


a telephone number and only one other data element

OR



no telephone number but all other elements (name, address or license plate)



How accurate is the data you have at first notice of loss (FNOL)?



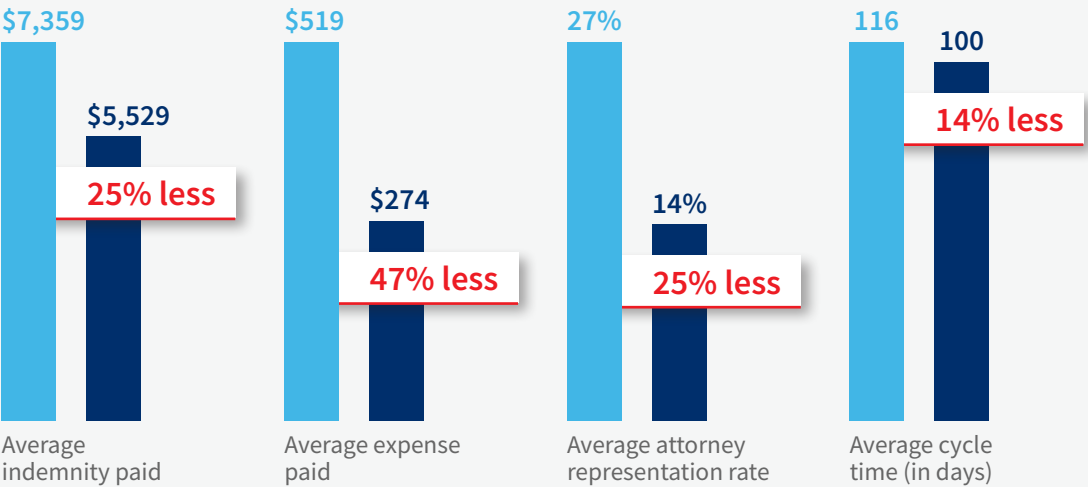
Results of having more data on third-party bodily injury claims

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.

Figure 1. Impact of incorporating more data earlier in the claims process on third-party bodily injury claims.

Less Data
More Data

Ranges reflect variations by state. Results shown here are based on the records available to LexisNexis Risk Solutions. 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:



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% lower and cycle times 6% shorter than the Less Data group.

More data reduced average cycle times by two weeks and overall claims cost by thousands

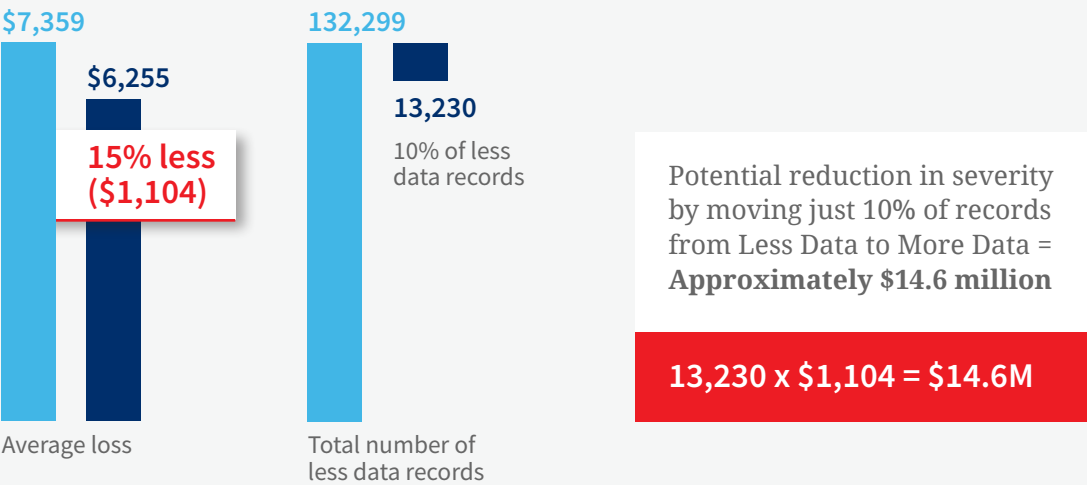
Potential savings for third-party bodily injury claims

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%, to \$6,255. With 132,299 records in the Less Data category, we estimate that by moving just 10% of these records to the More Data category, the reduction in severity could save a carrier with similar payment trends \$14.6 million.

Figure 2. Estimated financial impact of incorporating more data earlier in the claims process on third-party bodily injury claims.

Less Data
More Data

Results shown here are based on the records available to LexisNexis Risk Solutions. A carrier's results may vary based on loss or settlement state, business model and other factors.





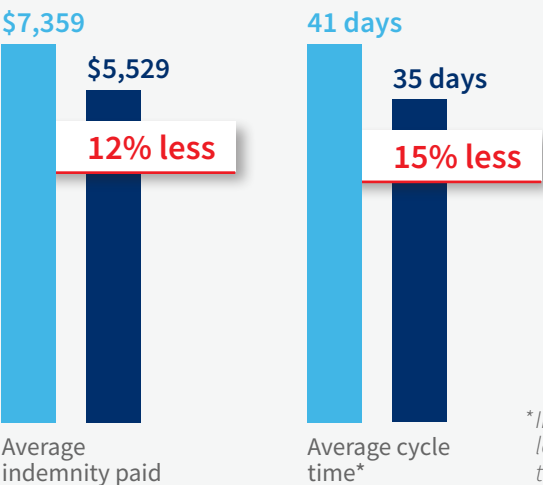
Results of having more data on third-party property damage claims

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

Figure 3. Impact of incorporating more data earlier in the claims process on third-party property damage claims.

Less Data
More Data

Ranges reflect variations by state. Results shown here are based on the records available to LexisNexis Risk Solutions. A carrier's results may vary based on loss or settlement state, business model and other factors.



*Includes all property damage claims including total loss; cycle time is computed from reserve open date to last paid date or reserve closed date.

On average, third-party property damage claims in the More Data category were resolved with:



10–15%
lower claims
expenses



8–15%
shorter cycle
times

More data lowered average cycle times and average claims cost by 15%

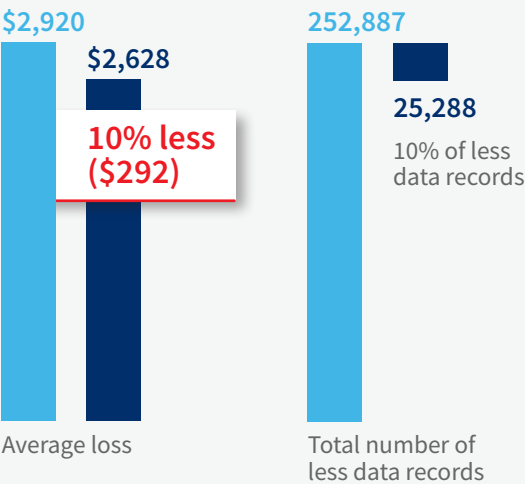
Potential savings for third-party property damage claims

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

Figure 4. Estimated financial impact of incorporating more data earlier in the claims process on third-party property damage claims.

Less Data
More Data

Results shown here are based on the records available to LexisNexis Risk Solutions. A carrier's results may vary based on loss or settlement state, business model and other factors.



Potential reduction in severity by moving just 10% of records from Less Data to More Data = **Approximately \$7.4 million**

$25,288 \times \$292 = \$7.4M$

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 \$34 billion annually.⁴ 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.

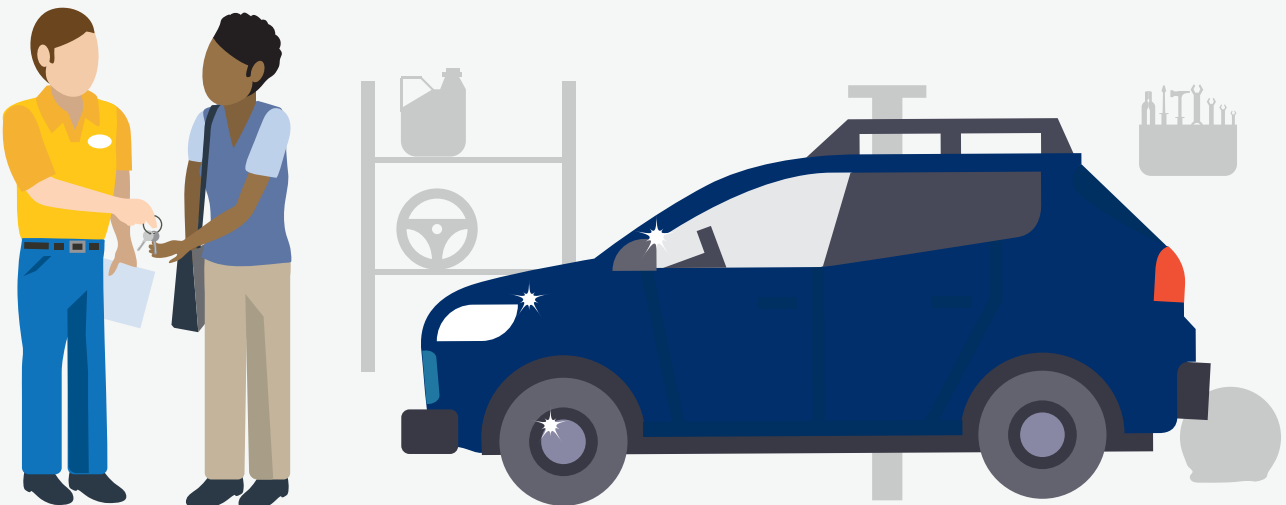
Smart Claim Insurance Co. decided to incorporate more data into its claims process. The carrier wanted a single entry point with access to big data and analytics, such as public records data, contributory databases and more.

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.

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

Smart Claim Insurance Co. is a **hypothetical, mid-size carrier** with \$2.2 billion in annual premiums.





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.



Repeated order processing

Next, Smart Claim Insurance Co. determined that 45% 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% 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 its claims process, it now ordered 85% 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% 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 that year, for a return on investment of approximately 2.8 to 1.

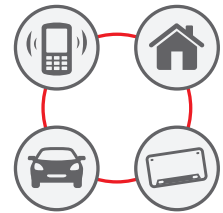
Note: A carrier's results may vary based on loss or settlement state, business model and other factors. LexisNexis Risk Solutions can complete an ROI analysis to help customers determine how incorporating more data into their claims processing can help them reduce costs.

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



Those that extend analytics capabilities into the claims lifecycle be well positioned to respond to changes in the marketplace.

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.

Sources

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He is responsible for leading the development of innovative products that help insurers achieve greater efficiency within their claims departments. With 30 years of P&C Insurance industry experience, Brower has held numerous leadership roles with top carriers such as Liberty Mutual and Nationwide Insurance Company. Most recently Brower served as Vice President and Manager of Strategic Partnerships for Liberty Mutual Personal Insurance where he led innovation efforts and managed vendor relationships across all claims disciplines. Brower earned his bachelor's degree in Organizational Leadership from Franklin University and his MBA from Shorter University.



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He is responsible for gathering market feedback from customers and prospects, then working with the LexisNexis Risk Solutions product development team to create the solutions that help customers improve claims workflow processes and manage their bottom line. He joined LexisNexis Risk Solutions 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.

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About LexisNexis Risk Solutions

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Our insurance solutions assist insurers with automating and improving the performance of critical workflow processes to reduce expenses, improve service and position customers for growth. For more information, please visit www.risk.lexisnexis.com.