



# Claim Cost Management

Consulting



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# Strategies for Success

## New Competencies Are Needed for Managing Claims

Unprecedented types of exposures have emerged during the past several years, resulting in new challenges for companies looking to manage risks from property & casualty losses. External forces, such as shifting demographics, increasing cost pressures, environmental factors and technology advances, are also dictating changes in how insurance carriers do business. The impact of these changes on claim departments has resulted in a new set of required competencies.

Best practice companies are shifting from improving customer satisfaction to managing customer value — from an internally based focus on operations to a goal-oriented approach that focuses on a balanced array of measures — from data mining to integrated predictive models, expert systems and evaluation tools.

New approaches are needed to increase effectiveness and attain competitive advantage. What's more, companies want to understand what is driving their claim experience and what they can do about it.

## How Towers Watson Can Help

Towers Watson helps companies drive measurable improvements in business performance through our deep industry knowledge of finance, risk, products, markets, profit drivers and capital issues impacting our clients. We can help your organization identify key underlying cost drivers and develop effective strategies to reduce total claim costs.

We assist property & casualty insurers, reinsurers, self-insured entities, captives, pools and third-party administrators with a wide range of claim types and lines of business — from philosophical and strategic issues to technical claim handling best practices.

We also routinely support our actuarial practice in assessing a company's liabilities through a coordinated process that focuses on the interrelationship of case reserves and the setting of actuarial reserves. Historically, inconsistencies in the amount and timing of case reserve development create problems for the financial stability of an organization.

Our core staff of senior claim professionals each bring over 20 years of extensive claim experience across multiple lines. The core team is supported by a group of senior-level individuals with specialized expertise in critical business segments, such as environmental, excess and reinsurance exposures, professional liability and workers compensation.

Our client offerings include:

- Benchmarking claim management effectiveness:
  - Claim handling best practices
  - Diagnostic reviews
  - Performance metrics
  - Performance improvement road map
- Organizational effectiveness:
  - Skills and capabilities
  - Process and systems support
  - Alternative/hybrid approaches
- Implementation planning and design:
  - Process, people, cost and execution timeline
- Predictive modeling:
  - Assignment tools
  - Rules-based analysis
  - Claims requiring special handling
- Case reserve review and analysis:
  - Consistency and effectiveness
  - Loss reserve implications
  - Pricing impact

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### Claim Management Effectiveness

The claim handling function is a series of highly interrelated actions that begins with notification of a potentially compensable event. Each stage of the claim handling process impacts bottom-line results. At the onset, a person trained to identify early warning signs determines appropriate next steps. In fact, just how well the exposure is evaluated from the start determines the effectiveness of the outcome.

### Claim Handling Best Practices

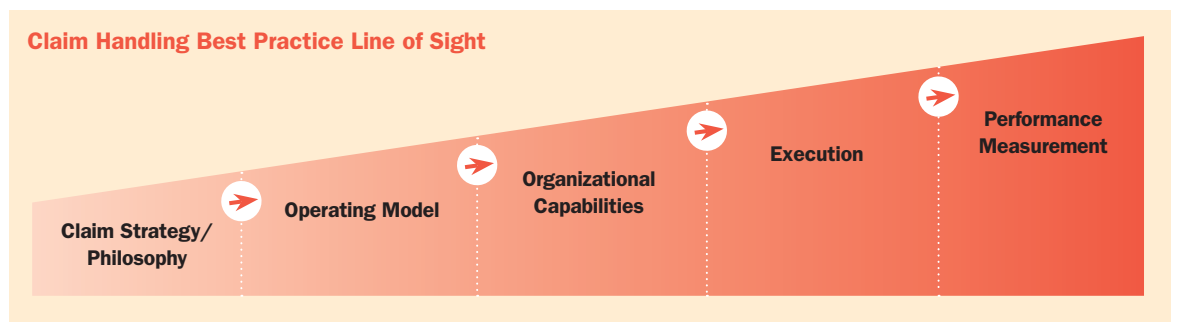
Towers Watson’s approach to effective claim management provides a clear line of sight from your organization’s claim strategy/philosophy through day-to-day operations to actual results. We recommend practical improvements by developing claim handling best practices and performance metrics tailored to your organization. Our framework is based on industry best practices and guides you through each phase of the claim handling process to maximize performance efficiency and help you improve results. We also use a balanced scorecard approach to help you monitor key success indicators for each element of claim performance.

### Diagnostic Reviews

We can provide you with an independent, in-depth assessment of the quality of your claim department’s technical claim handling, use of information technology, process efficiency and performance measurement. Using our diagnostic tools and analyses, we can offer valuable insights by comparing your claim function’s performance with industry standards and our own best practice model, and by making actionable recommendations for improvement.

We can develop baseline performance metrics for your organization using Towers Watson’s proprietary database, which captures key qualitative and quantitative information to summarize aggregate performance of claim handling. Qualitative information is captured and graded against industry claim handling best practices. A quantitative assessment of claim overpayment for loss and expense is mapped against key activities to identify specific economic opportunities.

Our database captures both “hard” and “soft” overpayments. Amounts that are largely indisputable, such as payment for nonexistent coverage or duplicate payment for a vendor bill, are classified as “hard.” Soft overpayments are generally derived by the claim reviewer who, for example, may discover inadequate investigative work that resulted in higher loss payment. A series of reports is generated for each line of business that can be used to inform decisions about performance improvement.





### **Mapping the Road to Success**

Our proprietary database can help you create a baseline to measure against future performance. This baseline is fundamental to developing a road map to improved bottom-line results.

By monitoring your results against baseline performance metrics, you can more easily recognize and eliminate the cumulative effects of claim overpayments. You'll gain new insights into how to manage your resources to capture the greatest opportunities for savings. You'll also have the information you need to help manage the right balance between losses and expenses. Finally, you'll be able to foster an environment of continuous improvement within the claim department by establishing new performance measures to monitor claim handling effectiveness on an ongoing basis.

### **Organizational Effectiveness**

Decisions about how to meet the claim department's most critical objectives must begin by assessing how well prepared your organization is to accomplish its most vital claim functions. For example, does the staff have the right competencies to meet your objectives? How efficient are your processes and use of technology? Should work be performed in-house? Or should the expertise, network management and service available through outsourcing be part of the equation?

### **Skills and Capabilities**

We can help you identify the skills and capabilities most vital to fulfilling your claim strategy and advise your organization on staff deployment. Working in concert with our firm's HR and organizational professionals, we can assist you with process and people-related issues, including the right staffing levels and recruitment strategies, performance management, compensation, training, skill building and career development.

### **Vendor Selection**

Our claim professionals can also work with you to evaluate the pros and cons of self-handling claims, outsourcing to a third-party administrator or using a hybrid approach. We can help you perform a cost-benefit analysis of self-administration versus outsourcing, prepare or evaluate requests for proposals, examine vendor contracts, evaluate claim system requirements and assist with transition plans. We can also play an active role in bringing about needed change.

### **Predictive Modeling**

Predictive modeling is a powerful tool for making business decisions from large amounts of data. Computers now record enormous amounts of information that cannot be fully captured by standard reporting tools. Predictive modeling offers a competitive advantage by taking this missed information and turning it into profitable decision rules.

Profitable applications of predictive modeling for claim cost management include detecting claims likely to be fraudulent or exaggerated, and detecting claims that require special handling. These and other areas can have a great impact on a company's bottom line.

### **Detecting Fraudulent Claims**

Predictive modeling can help reduce the cost of fraudulent claims by detecting a greater number of potential fraudulent claims than current approaches. Flagging these indicators earlier in the process reduces the number of fraudulent claims that are likely to be paid.

A predictive model can quickly weed through large lists of claims to identify possible fraud or other special claims. This empowers claim adjusters to spend more of their time adjusting claims rather than skimming lists. The models also provide initial estimates of the complexity of each claim. To better manage workflow, more complex claims are tagged for adjusters with appropriate expertise.



### Claims Requiring Special Handling

An “early warning” model can also be designed to identify claims that should be referred for special investigation by using claim, claimant and policyholder characteristics. We can make adjustments to the model to increase or decrease the number of claims referred. A separate model can be utilized to review new activity on open claims.

Predictive models can also be updated based on their track record, and we can even design the models to update themselves by “learning” from past experience. Performance should be reviewed at least annually, even if self-updates are more frequent.

### Case Reserve Reviews

When Towers Watson performs reserve reviews, our claim specialists work closely with our actuaries and your management to ensure we are interpreting the trends in your historical claim experience correctly, taking into account the impact of operational changes in the handling of claims.

Towers Watson is the world’s largest actuarial practice focused on insurance, which means that you benefit from the depth of our expertise, the reach of our global resources and the breadth of our perspective. We also bring our extensive internal databases and benchmarking tools to bear on client assignments. We maintain extensive benchmark

information for various types of claim exposure on:

- Claim costs per unit of exposure by coverage/ state/territory
- Limit adjustment tables and deductible models
- Frequency, severity and total claim cost trends
- Claim reporting and payout patterns

### Our Commitment to Clients

No client hires a consultant without the requisite technical expertise. But beyond expertise, what sets extraordinary consultants apart is the way they work with clients.

At Towers Watson, we are not only committed to delivering exceptional work that is technically sound and fully leverages our company’s capabilities and values. We are equally committed to working with each client individually in ways that make the most sense. Our goal is to help you achieve the best possible outcome through solutions tailored to *your* specific business situation.

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Additional information about Towers Watson services can be found at [www.towerswatson.com](http://www.towerswatson.com).

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## About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.