

Predictive Analytics in Claims

A Critical Step Toward High Performance

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Claims Mastery—An Elusive But Critical Capability

The claim is the defining moment in the relationship between customers and insurers. When the claims process is strong, insurers can operate more efficiently while providing a superior customer experience—thereby protecting revenue and profitability. Yet the hurdles are many: customers are becoming harder to please, fraud is a constant issue, and efficiency can be elusive. Against these challenges, predictive analytics is a powerful tool for insurers seeking a differentiated claims experience and high performance.

Improving claims has become an increasingly critical challenge for insurance companies around the world. Indeed, within the global insurance industry the claims function occupies a unique place in determining competitiveness: it represents nearly 80 percent of the premium, and it is where the company either delights or disappoints customers.

However, despite the importance of claims in attracting and retaining customers and maintaining a healthy balance sheet, many insurers are falling short on claims performance—as evidenced by a variety of measures, including customer satisfaction, leakage and overall inefficiencies.

The time has come for insurers to take a more holistic look at improving the claims process—and the important role that predictive analytics can play in transforming key aspects of claims to help drive sustainable growth and high performance.

Insurers' Claims Challenges

As they look to restore growth after two years of difficult economic conditions, insurers face many challenges—perhaps none as critical as those in their claims operations.

Declining customer satisfaction with and trust in insurers

Customers are frustrated by insurers' collective inability to provide a claims experience matching the high service levels provided by leaders in other industries, which in turn is causing consumer loyalty to drop. These low service levels also have the potential to further erode customers' trust in insurers, which already has been shaken by the financial crisis.

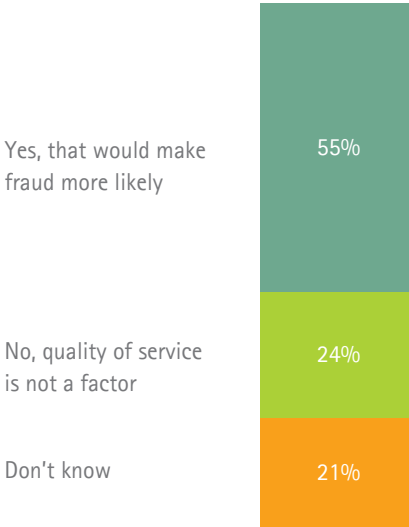
Increasing claims fraud and related leakage

An estimated 10 percent of all property and casualty (P&C) claims in the U.S. are fraudulent,¹ and, based on Accenture's experience, in general fewer than 20 percent of those fraudulent claims are detected or denied.

Furthermore, results from the Accenture Insurance Consumer Fraud Survey 2010 found that poor service actually encourages fraud. In fact, 55 percent of participating consumers said poor service from an insurance company might make an individual more likely to commit fraud against that company. Exacerbating the problem is the fact that a difficult economy also increases claims filing frequency and fraud.

Figure 1. Poor service contributes to claims fraud

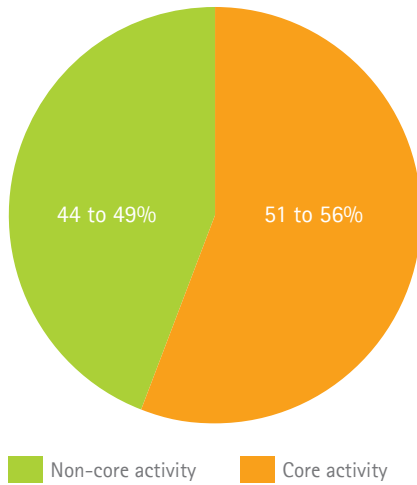
Q: Do you believe that poor service from an insurance company might make a person more likely to commit fraud against that company?



1 National Insurance Crime Bureau, Insurance Fraud: Understanding the Basics, 2010

Figure 2. Efficiency and time allocation among insurance claim professionals

Distribution of Work by Core vs. Non-Core Activities



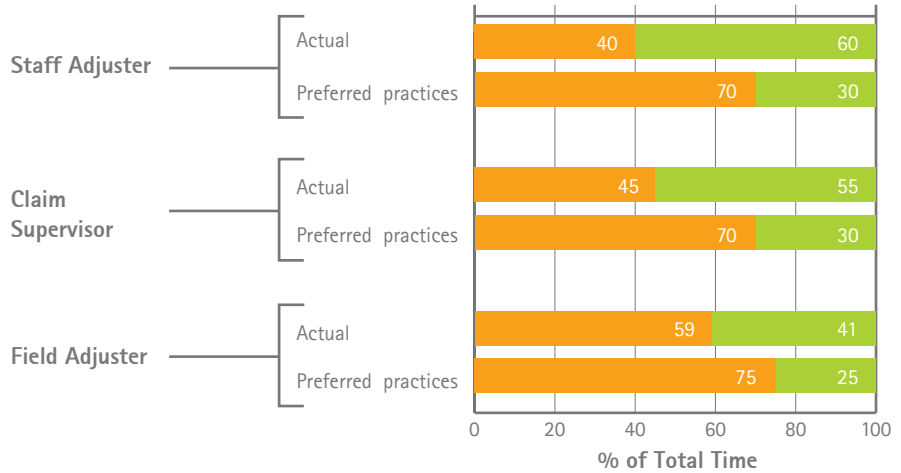
Source: Accenture analysis

According to the National Insurance Crime Bureau, questionable insurance claims rose 14 percent in the U.S. in the first half of 2010.² Likewise, a Coalition Against Insurance Fraud poll of 37 U.S. state insurance fraud bureaus indicates that the recession fueled a significant spike in fraud cases in 2009.³

Fraudsters believe they can get away with it

More than two-thirds of respondents (68 percent) in Accenture's survey said they believe insurance fraud occurs because people believe they won't get caught, up from 49 percent in 2003.

Time Allocation



Poor claims efficiency

With fewer qualified people to work on claims and insufficient supporting tools, insurers' claims departments are increasingly burdened. A recent Accenture survey found that claims personnel at major insurers spend at least half their time on administrative tasks and have difficulty managing loss costs due to such things as fraud (see Figure 2).

In short, in a challenging claims environment, where claims professionals already are having trouble focusing on value-adding activities and consistently managing claims outcomes, carriers face the added challenge of the recession's increasing instances of fraud. Thus, the challenge to improve the claims process is arguably more urgent and more difficult than ever.

² National Insurance Crime Bureau, First Half 2010 Questionable Claims Analysis Forecast Report, July 14, 2010

³ Coalition Against Insurance Fraud, The Economy and Fraud Fighting on the State Level, November 2009

The Power of Predictive Analytics to Improve Claims

The preceding challenges notwithstanding, there is ample room for insurers to improve their claims performance and thereby help foster the kind of customer loyalty Accenture research shows is linked to strong financial results, and that delivers an immediate impact to the bottom line by reducing unnecessary payouts for fraudulent claims.

One of the key ways to achieve this improvement is using predictive analytics and modeling, a form of analytical data mining. Predictive analytics is the process of analyzing historic and current data and generating a statistical model to help predict future outcomes. At the heart of the approach is the concept of predictors: one or more variable factors that are likely to influence an outcome and can be measured or scored to predict probable results.

Predictive analytics improves the claims process in several ways. It can strengthen customer relationships dramatically by helping insurers understand their customers and, subsequently, meet or exceed their expectations. Key to doing so is reducing complexity and cycle time for legitimate claims: with predictive analytics in place, an insurer rapidly can identify what a customer filing a claim means to the company, as well as create a more pleasurable customer experience throughout the claims process.

Predictive analytics also can enhance customer perceptions by allowing insurers to focus on service instead of process steps and determine which interventions will help delight the

customer. For example, the approach can enable insurers to understand specific ways that customers want their cars repaired, or preferred methods of contact. Analytics also can help an insurer predict positive and negative outcomes before they happen and subsequently maximize the former and minimize the latter.

But the benefits of predictive analytics are not limited to customer-facing situations. It can enhance the claims process by enabling claims leaders and employees to become more engaged, inspired and confident. One example: analytics can help an insurer's claims professionals focus on the activities and outcomes that make the most difference for the insurer from a business perspective. In other words, predictive analytics can give claims professionals insights into the complexity and severity of claims, as well as into all the elements they need to understand how to manage a claim most effectively—rather than forcing them to guess and cobble together pieces of information to develop their strategy.

Predictive analytics also can improve the employee experience by ensuring the right people are working at the right time to get the right outcome—for instance, having an expert available to study a particular part of a claim. By using professionals in that way, insurers can make jobs more fulfilling, as professionals are focused not on administrative activities, but rather on providing real value to the claim.

And because predictive analytics helps infuse a high degree of consistency and predictability into claims processing itself, claims professionals spend much less time “fighting fires” and more time adding value.

Finally, predictive analytics can increase an insurer's financial stability. By using predictive analytics to improve customer perceptions and the employee experience, an insurer realizes significant business benefits in the form of a reduction in losses due to undetected fraud, improved precision in loss reserving, and greater efficiency through superior unit cost management.

Specific Situations in which Predictive Analytics Can Help

To further illustrate the business benefits of predictive analytics, we review three specific situations in which it can help: stemming customer attrition, combating fraud and determining injury and treatment management.

Stemming customer attrition

Retaining customers is vital for all companies, and insurers are no different. As mentioned earlier, how customers are treated during the claims process can go a long way toward strengthening their loyalty to the company or driving them into the arms of competitors. Predictive analytics can help an insurer identify specific activities or events in the claims-handling life cycle that can drive attrition, decide how and when to intervene in the claims process to create a more positive outcome for customers, and more effectively match customer behaviors, preferences and lifetime value to its claims-handling practices.

Two typical scenarios involve customers of a personal lines auto carrier who have submitted automobile repair claims. The first customer purchased his auto policy and modified his existing coverage directly via the carrier's Internet site. The second did the same by contacting a local agent and using the carrier's toll-free customer service phone number. Predictive analytics can access historical buying pattern data, customer contact data, and pricing/underwriting data on expected premium changes at renewal time, and marry it with customer satisfaction/attrition

data. This will help the insurer understand the importance of enabling the first customer to interact with the insurer via electronic means, and of providing the second with the personal touch.

Creating the most positive customer experience will depend on giving the first customer rapid claim resolution and ease of use through digital channels, and offering the second customer personal telephonic contact with a single claims professional through the life of the claim.

Combating fraud

The business case for reducing fraud is compelling. With fraud on the rise and accounting for an increasing number of claims, reducing its incidence by even one or two percentage points can restore millions of dollars to a carrier's bottom line. Predictive analytics can be a potent weapon in the battle against fraud. By modeling past incidences of fraud and pairing those results with social network analysis, it can help insurers understand the attributes of a claim, claimant or insured that correlate with a higher propensity for fraudulent behavior, more effectively discover sophisticated fraud rings, and intervene earlier to prevent a payment for a fraudulent claim.

Determining injury/treatment management

Payments for injury or treatments stemming from an accident are among the highest settlements, and can have the biggest impact on an insurer's balance sheet.

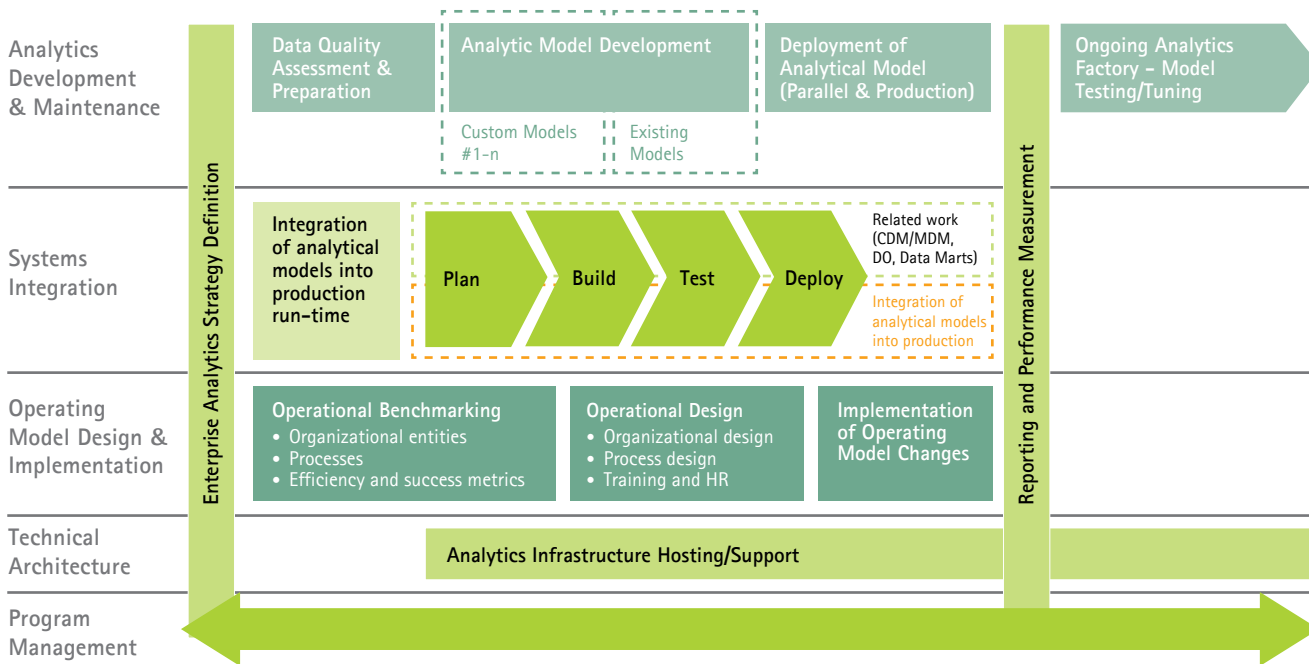
Insurers have amassed huge amounts of accident loss data, injury diagnosis data and injury treatment data, as well as medical record information for both insured and third-party claimants. Predictive analytics can put this data to work to help insurers determine the most appropriate treatment path for claimants. They can then choose one of many interventions, such as ordering an independent medical examination. This in turn could result in any number of actions, ranging from re-assignment of complex claims to more appropriately skilled adjusters, to the referral of suspicious claims to a special investigations unit.

As insurers begin to put their data to work, modify their claims handling practices and feed the results back into their analytics engines, the algorithms become progressively more accurate. This enables earlier identification of complex or questionable claims, and allows carriers to respond more rapidly and effectively.



Key Capabilities Needed to Perform Predictive Analytics

Figure 3. Key elements of a robust predictive analytics function



Insurers looking to make predictive analytics a core part of their claims operations need several key capabilities in place. In Accenture's client experience, there are two tiers of required capabilities: those necessary to establish a basic predictive analytics process, and additional assets and skills needed to translate the insights generated by the approach into lasting competitive advantage.

Insurers first must develop the baseline requirements for getting started with predictive analytics. As shown in Figure 3, one of these requirements focuses on data quality assessment and preparation. In brief, insurers must understand which business problem or problems they seek to solve with predictive analytics, and then ensure that they have a sufficient supply of high-quality data related to those challenges and their respective

business functions or processes. Once an insurer has determined it does have enough high-quality data to work with, it must develop or obtain access to the analytical capabilities required to construct accurate predictive models.

With this foundation in place, organizations can set their sights on utilizing predictive analytics to put distance between themselves and the competition (as illustrated in the bottom portion of Figure 3). Systems integration plays a key role here, as insurers will need to ensure they tightly link their predictive analytics tools with other key enterprise systems so they can conduct real-time analytics. Insurers also must build an appropriate operating model (including organization, processes, talent and metrics) that enables them to institutionalize their predictive analytics approach throughout the business, as well as a technical

architecture that provides an appropriate platform for hosting their analytics tools. Of course, robust program management is crucial to supporting the development and rollout of these capabilities to foster their adoption across the organization.

Accenture: A Leader in Predictive Analytics Solutions

For a growing group of leading insurers, Accenture is a valued partner in the establishment of predictive analytics capabilities. We have worked with many companies to create centralized analytics functions tailored to their different competency levels and centralization needs, including influential insurers around the world seeking to build a predictive analytics function that can dramatically improve claims performance. Accenture's offerings and assets facilitate rapid progression along the analytics maturity curve by helping insurers align leadership and governance, develop and maintain an analytics culture, build organizational and people capabilities in analytics, and embed analytical tools, methods and behaviors throughout the organization.

We offer insurers three primary analytics services, which draw from Accenture's leading Talent and Organization Performance (T&OP) and Analytics practices: Organization Readiness, Talent Development and Transformation Services.

Organization readiness

As organizations begin to take an interest in analytics, they often struggle to define their analytics maturity level and how that translates into readiness for the analytics journey. We leverage proprietary assessment methods and tools to help insurers through this initial assessment period, and can provide a range of services tailored specifically to the start of an analytics journey.

Talent development

Our approach to analytics skill development leverages the Accenture Analytics Academy, which combines a Job Framework and an Analytics Competency Model, around which we have developed role-based curricula. The Accenture Analytics Academy offers a holistic skill development approach by addressing the general business, leadership, interpersonal, technology and functional competencies required to conduct analytics work.

Transformation services

Transforming an insurer into an analytics-powered, high performance enterprise often involves a corporate-wide evolution that requires a clear plan, as well as the attention that any major corporate change effort needs to be successful. Accenture can apply its deep expertise to these challenges, which we have gained by leading companies through transformational change in all industries and geographies. We apply analytics methodologies, tools, templates, estimating guidelines, frameworks and best practices to enable insurers to plan, build, and manage their analytics initiatives, from the most tactical to the most strategic.

In some instances, insurers find that they would prefer not to build analytics capabilities in-house but, instead, use them via a managed services arrangement. In such circumstances, Accenture provides the full set of offerings for managing an insurer's predictive analytics process.

Accenture has extensive experience in helping a wide variety of organizations—including insurers—either to develop their own analytics capability or to acquire it through a managed services arrangement.

Analytics: Making Sense of the Numbers to Improve the Bottom Line

For today's insurers, few capabilities are more important than claims. Effective claims management is a critical gateway to value: it secures customer satisfaction, protects financial performance against inefficiency and fraud, and enables insurers to attain sustainable competitive advantage. However, many insurers struggle to acquire world-class claims capabilities that unlock these benefits.

Predictive analytics is a powerful ally in the pursuit of claims excellence. A robust predictive analytics capability can do much more than help insurers combat claims fraud—which is where it most typically has been used. It can enable insurers to achieve a wide range of business outcomes, including

recovery identification and propensity to recover, claims segmentation and assignment, loss reserving, process adherence, litigation propensity determination, and workforce productivity and performance improvement.

In short, predictive analytics enables an insurer to translate reams of data into insights on customer preferences and behaviors while helping them save money, manage complexity, and add efficiency and effectiveness to the claims process. In the process, predictive analytics can help insurers unleash the full potential of their claims capabilities, thus taking major strides in the pursuit of high performance.



$$A^2 + B^2 = C^2$$

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