Five Sigma

Claims Performance Benchmark Report 2023



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Introduction

Introduction & Methodology

Today, the insurance industry is at a crossroads in terms of its attitude towards automation and digital transformation. While historically this field has not rushed to adopt new technologies, given the central role that data plays in claims management and other aspects of insurance companies' work, there is increasing awareness of innovative ways insurers can utilize data to improve their efficiency, reliability, and customer service.

How can we gauge the insurance industry's progress with technological innovation? The real measure of progress is not in the numbers of high-tech solutions purchased, but in how insurers use those solutions and the results they achieve.

With that in mind, Five Sigma recently commissioned a survey of executives from a variety of large insurance companies in the U.S. in order to provide a quantitative look at claims departments' overall performance and their use of technology.

The survey results provide valuable insight into where today's insurance companies stand in terms of the speed and effectiveness of their handling of claims, as well as in terms of digital transformation. Taken together, they can shed light on how technological innovation has so far impacted claims management, while also providing a basis for understanding how to expect innovation to continue changing the insurance industry – and especially claims departments – in the future.

Methodology

The survey of 100 insurance executives was carried out via email by Global Surveyz, an independent survey company, in December 2022. The surveyed professionals came from a variety of large insurance companies in the U.S.

The questions these participants were asked touched on key performance indicators (KPIs) reflecting both how their teams handle claims and the extent to which they use automation and other digital technologies within this process.

While all 100 of the respondents deal with claims in their work, they are not all employed within claims departments. A plurality of them work in claims departments, while the others work in their companies' legal, risk, or operations departments. (For more on the respondents, see the ***Demographics*** section of this report.)

Key Findings

Key Findings

1

Claims processing times are long and inefficient.

82% of respondents said it usually takes their company more than 30 days to close a physical damage claim, and all respondents said their closing ratio for physical damage claims is 100 percent or less (meaning that they open claims at least as often as they close them). And 86 percent of respondents said it takes their company over 11 hours to contact all parties once a claim is opened.

2

Claims processes are not as automated as they could be.

Only 16% of respondents said their company currently has automated coverage opening and reserve setting, and only 38% said their claims software supports the automated assignment of claims to adjusters.

3

Claims adjusters are not spending their time on what's really important.

90% of respondents said that it typically takes an adjuster 11 minutes or more to open a claim (a process that could instead be automated). And only three respondents said their claims adjusters typically spend more than 20 percent of their work day inputting information – a low figure, considering how central inputting data is to claims adjusters' responsibilities.

4

Digital transformation of the claims process is right around the corner.

While 84% of respondents said they do not currently have automated coverage opening and reserve setting, 78% said they plan to implement these capabilities in 2023. 99% of respondents have a digital channel for FNOL, and 77% said their company already uses a digital payment solution, showing that they have embraced technological innovation in at least one of their critical processes.

5

Lack of automation is jeopardizing the customer experience.

Taken together, the limited use of automation and slow response times (time to first contact, time from FNOL to inspection, and time to close) significantly hurt the customer experience, and in many cases they create a risk that an insurance company will be considered to be operating in bad faith. On an optimistic note, this report also shows an opportunity for automation to improve speed and efficiency within the process of managing claims - enhancing customer service.

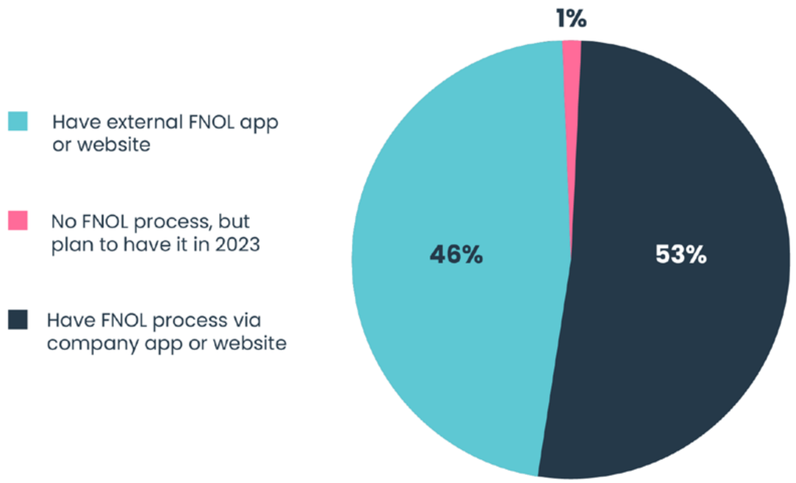
Survey Report Findings

Prevalence of a Digital FNOL Process

When asked whether their company has a digital first notice of loss (FNOL) process in place, 99 out of 100 respondents said that it does, while the remaining respondent said their company plans to implement such a process in 2023. Specifically, 53 respondents said their company's digital FNOL process takes place via a company app or website, while 46 said their company's digital FNOL process relies on an external FNOL app or website.

An automated FNOL process can help insurers streamline the creation of new claims, boosting their efficiency while offering a faster and more positive customer experience. It is remarkable that out of 100 respondents, there wasn't a single one who said their company neither has a digital FNOL process in place nor has plans to implement one in 2023. But, based on their responses to another question (which will be explained on the next page), when most respondents said their company offers a digital FNOL process, it seems that they were not referring to a fully automated process.

Figure 1: Prevalence of a digital FNOL process



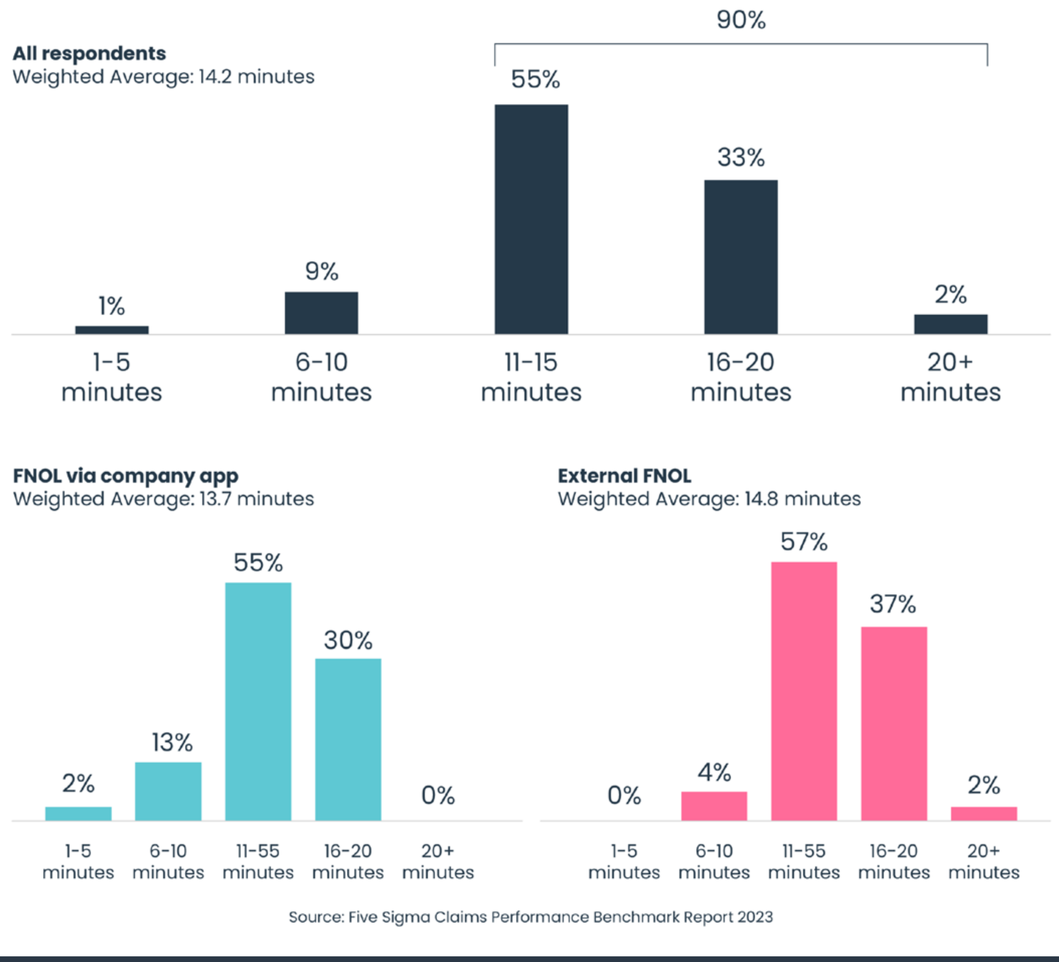
Source: Five Sigma Claims Performance Benchmark Report 2023

Time for Loss Takers to Create a New Claim

When respondents were asked how long it typically takes their loss takers to create a new claim, one said it usually takes between one and five minutes, while nine said it takes between six and 10 minutes. Meanwhile, the overwhelming majority of the 100 respondents said it takes more than 10 minutes: Fifty-five respondents answered 11 to 15 minutes, 33 said 16 to 20 minutes, and two answered more than 20 minutes.

Notably, none of the 100 respondents said this is an automated process or one that typically takes less than a minute. And what is perhaps most striking about these findings is that 99 of them said their company has a digital FNOL process. This seems to suggest that insurance professionals tend to consider an FNOL process to be "digital" even if it is not automated – a somewhat loose conception of what it means to have a digital FNOL process.

Figure 2: Time for loss takers to create a new claim



Source: Five Sigma Claims Performance Benchmark Report 2023

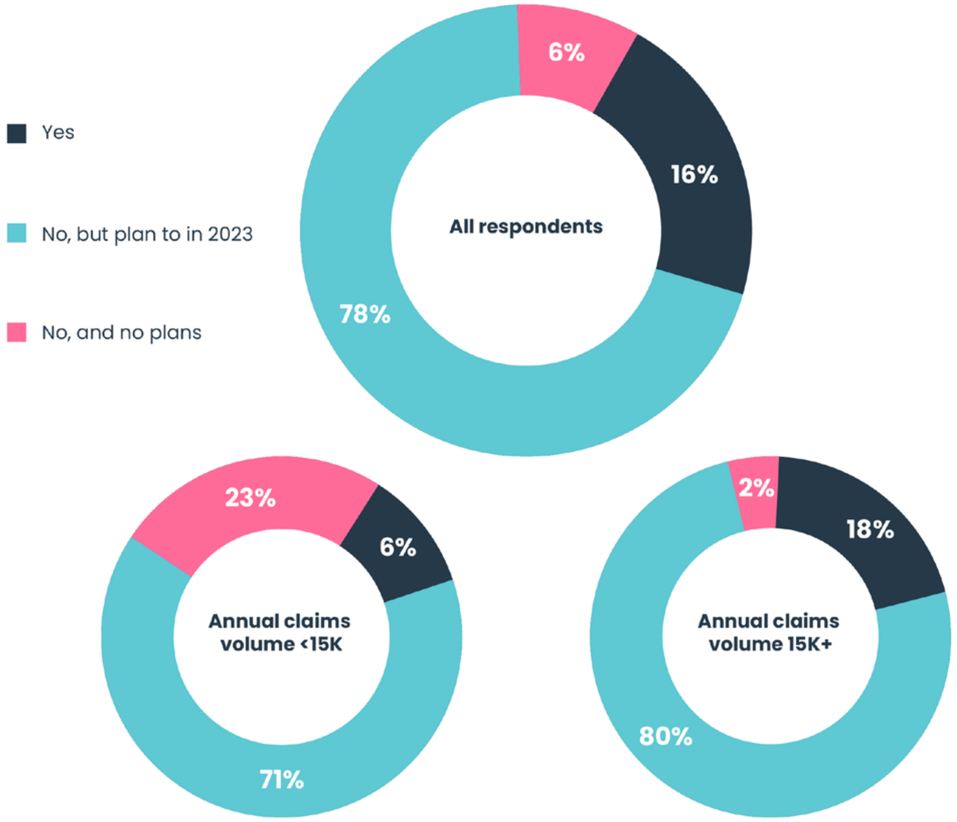
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FNOL Workflow Support for Automated Coverage Opening and Reserve Setting

When asked whether their current FNOL workflow facilitates automated coverage opening and reserve setting, the vast majority of respondents (78 out of 100) said they do not currently have these capabilities but are planning to acquire them next year. Another 16 said they already have these capabilities, while only six out of 100 said they neither have these capabilities nor plan to implement them in 2023.

Automated coverage opening and reserve setting are both major advantages that automation can offer claims departments. It is notable that only a minority of respondents' claims departments have these capabilities, especially given the size of their companies. But it is also remarkable that the vast majority of respondents said their companies have plans to implement automated coverage opening and reserve setting – not in the distant future, but in the coming year. This shows that insurance companies are moving towards increased automation in their claims processes, with plans to add more automated capabilities in the very near future.

Figure 3: FNOL workflow support for automated coverage opening and reserve setting



Source: Five Sigma Claims Performance Benchmark Report 2023

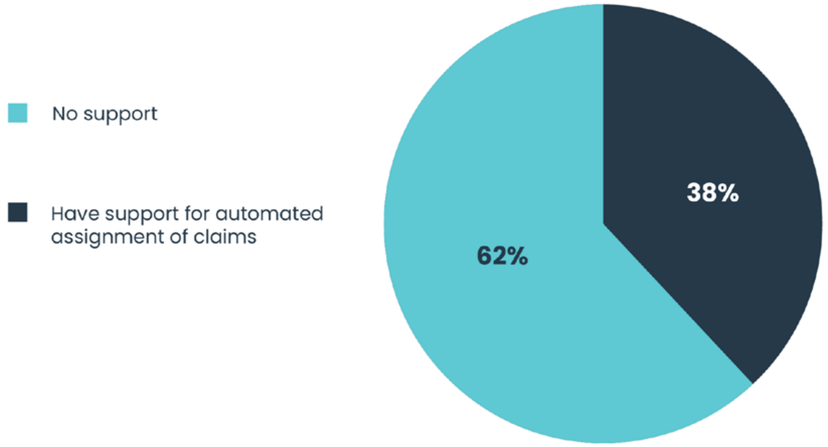
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Claims Software Support for Automated Assignment of Claims

When asked whether their current claims software automates the assignment of claims to adjusters, 38 out of 100 respondents answered that it does, while 62 said that it does not.

It is notable that most respondents indicated that their company does not currently have the ability to automatically assign claims, because a manual approach to assigning claims is particularly expensive. Not only does this task require significant work time, but it often requires a devoted professional with managerial experience. Without automating the assignment of claims, most respondents' companies rely on a manual process that is both time-consuming and costly.

Figure 4: Claims software support for automated assignment of claims



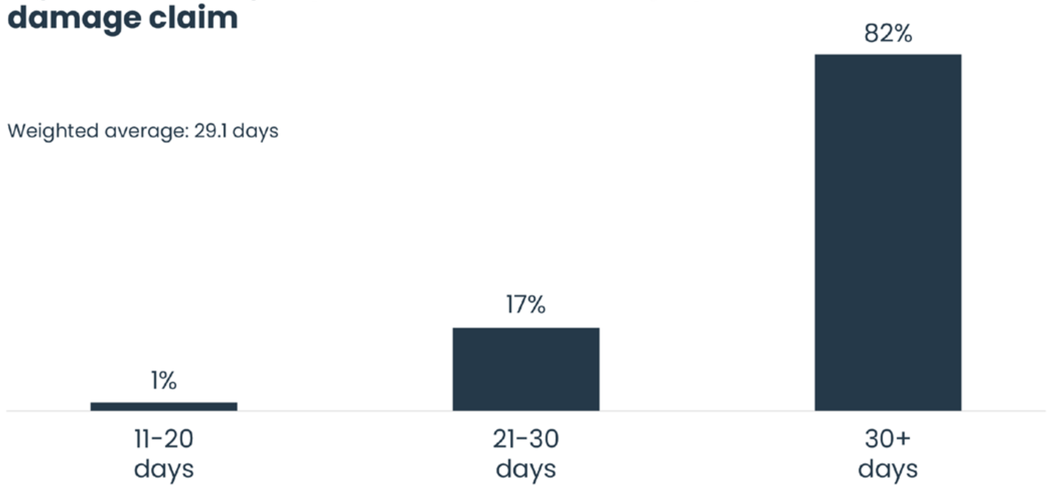
Source: Five Sigma Claims Performance Benchmark Report 2023

Average Time to Resolve a Physical Damage Claim

When asked how long it typically takes their companies to resolve a physical damage claim, the overwhelming majority of respondents (82 out of 100) answered more than 30 days. Meanwhile, 17 respondents said it normally takes between 21 and 30 days. Only one said it typically takes between 11 and 20 days, and no respondents replied that it usually takes 10 days or less.

These numbers are remarkable because they reflect how slowly processes within claims departments tend to move. Not only do these numbers point to inefficient ways of handling and resolving claims, but they also imply that customers typically need to wait for an extended period to get their claims addressed. Processing times above 30 days significantly hurt the customer experience, and in many cases they create a risk that an insurance company will be considered to be operating in bad faith. On an optimistic note, this finding shows an opportunity for automation to improve customer service, speed, and efficiency within the process of managing claims.

Figure 5: Average cycle time to resolve a physical damage claim



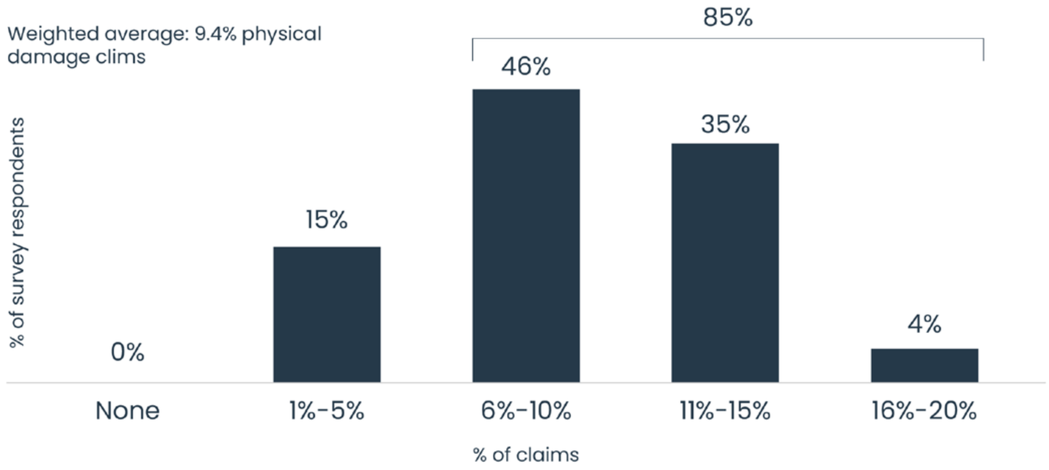
Source: Five Sigma Claims Performance Benchmark Report 2023

Reopen Rate of Physical Damage Claims

The survey respondents were asked out of all their company's claims that are closed without payment, what portion are later reopened. In response, the vast majority said their reopen rate is somewhere between six and 15 percent. Specifically, 46 respondents said their rate is between six and 10 percent, while 35 said theirs is between 11 and 15 percent. Another 15 respondents said their reopen rate is between one and five percent, while four said theirs is between 16 and 20 percent. No respondents said their reopen rate is either less than one percent or more than 20 percent.

The good news here is that most respondents (61 percent) said their reopen rate is at or below 10 percent, which is a healthy rate. Still, a significant portion of respondents pointed to rates that are higher than they would ideally be. For those companies, having such high reopen rates could be cause for concern.

Figure 6: Reopen rate of physical damage claims



Source: Five Sigma Claims Performance Benchmark Report 2023

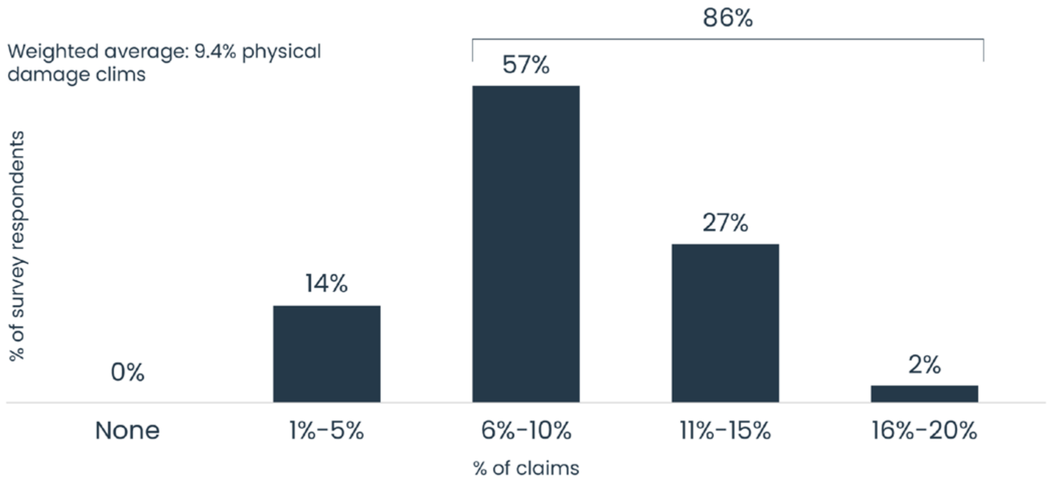
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Exposures Incurring Supplemental Payments

Similarly, when asked what portion of their exposures incur supplemental payments, the vast majority of respondents replied that between six and 15 percent do so. Specifically, 57 out of 100 respondents said between six and 10 percent of their exposures incur supplemental payments, while another 27 respondents gave an answer of between 11 and 15 percent. Meanwhile, 14 respondents said that between one and five percent of their exposures incur supplemental payments, while two said their company's rate is between 16 and 20 percent. No respondents said that less than one percent or more than 20 percent of their exposures incur supplemental payments.

While these numbers largely mirror those for the reopen rates of physical damage claims, the concern here is different. Given the way claims for certain types of insurance (especially auto insurance and homeowners insurance) are processed, it is normal for insurers to need to make supplemental payments after final figures are determined based on repair costs. As a result, the fact that supplemental payment rates are so low could be a sign that many insurance companies are actually overpaying on claims.

Figure 7: Exposures incurring supplemental payments



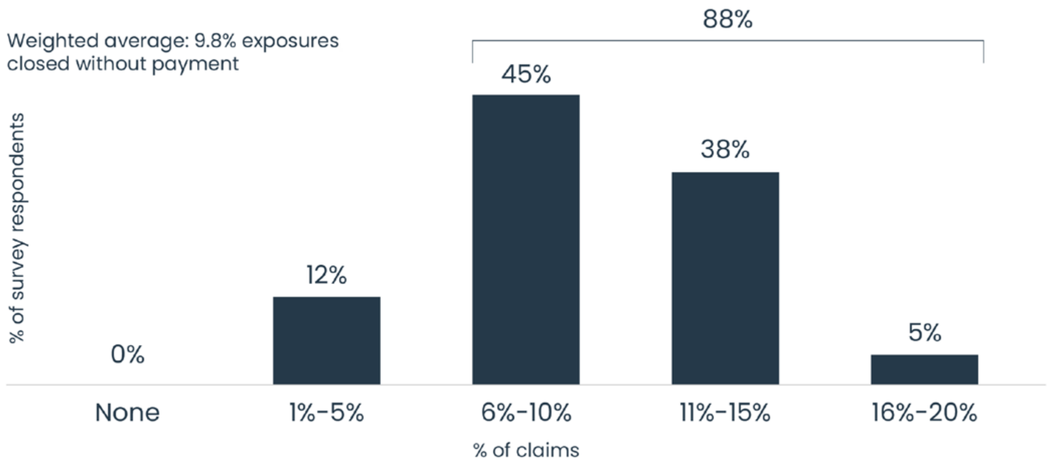
Source: Five Sigma Claims Performance Benchmark Report 2023

Claims Closed Without Payment

When asked what portion of their company's physical damage claims are closed without payment, the vast majority of respondents gave an answer of between six and 15 percent. Specifically, 45 out of 100 respondents said that between six and 10 percent of their physical damage claims are closed without payment, while 38 said their figure is between 11 and 15 percent.

Meanwhile, 12 respondents said that between one and five percent of their physical damage claims are closed without payment, while five respondents said their figure is between 16 and 20 percent. There were no respondents who said that either none or more than 20 percent of their physical damage claims are closed without payment.

Figure 8: Rate of exposures that are closed without payment



Source: Five Sigma Claims Performance Benchmark Report 2023

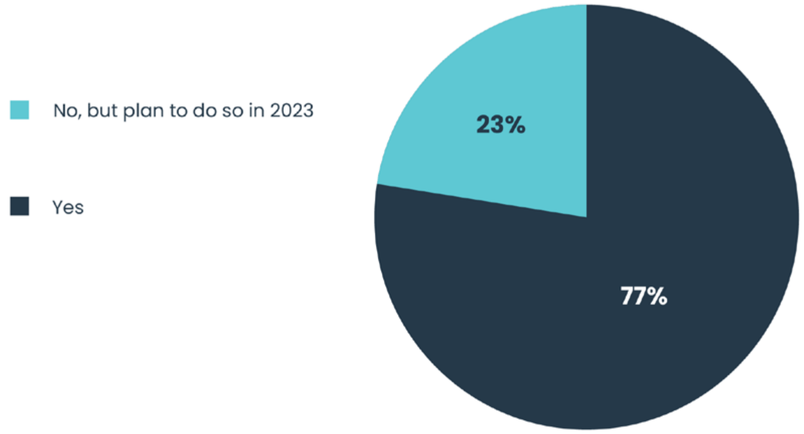
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Usage of Digital Payment Solutions

When asked whether their companies use a digital payment solution, 77 out of 100 respondents said they do, while all of the remaining 23 said they plan to do so in 2023. There were no respondents who said that their company neither currently uses a digital payment solution nor plans to start using one next year.

In other words, this finding suggests that most insurance companies have already adopted innovative technology in their payment processes, and those that haven't yet plan to do so soon. It remains to be seen how long it will take for these companies to embrace automation in their claims management processes to the same extent, but their attitude towards digital payment solutions shows that they are open to technological innovation and that they see the value it can bring them. This is a particularly encouraging sign, because it could foreshadow claims departments' widespread adoption of automation, which in turn will empower them to improve their KPIs across the board.

Figure 9: Usage of digital payment solutions



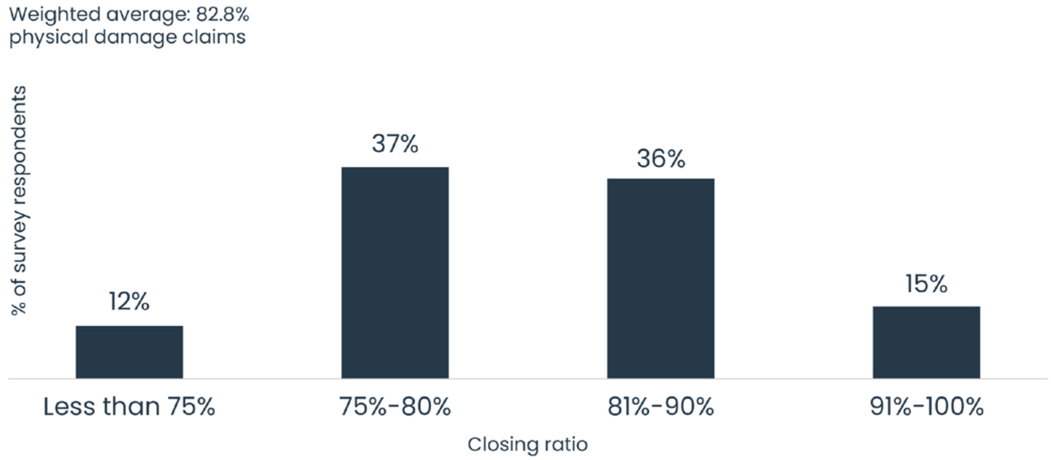
Source: Five Sigma Claims Performance Benchmark Report 2023

Closing Ratio for Physical Damage Claims

Most respondents said that their company's closing ratio for physical damage claims is between 75 and 90 percent. Specifically, 37 out of 100 respondents said their closing ratio is between 75 and 80 percent, while 36 said their closing ratio is between 81 and 90 percent. Smaller numbers of respondents said their closing ratio for physical damage claims is either less than 75 percent (12 respondents) or between 91 and 100 percent (15 respondents). Notably, no respondents said their closing ratio for physical damage claims is above 100 percent.

This means that all of the respondents indicated that their companies open new claims at least as quickly as they manage and resolve claims. This points to longer processing times than would be ideal. Given that we've already seen that the vast majority of respondents said it typically takes their companies longer than 30 days to close a claim, this should come as no surprise. Still, this finding certainly shows significant room for improvement.

Figure 10: Closing ratio for physical damage claims



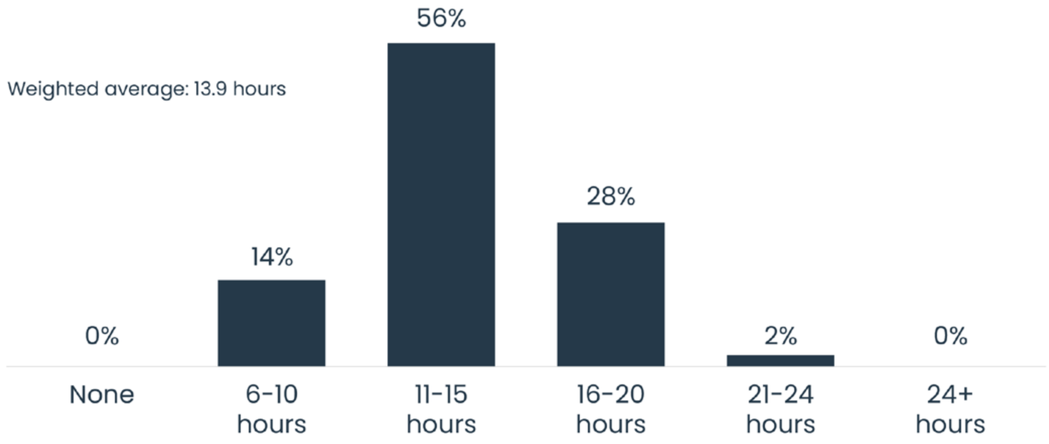
Source: Five Sigma Claims Performance Benchmark Report 2023

Time from Claim Reporting to Contact All Parties

A majority of respondents (56 out of 100) said that it typically takes their company's claims adjusters between 11 and 15 hours to contact all parties once a claim is opened. Smaller numbers said that it usually takes them between six and 10 hours (14 respondents), between 16 and 20 hours (28 respondents), or between 21 and 24 hours (two respondents). There were no respondents who said that it typically takes their company's adjusters either less than six hours or more than 24 hours to contact all parties.

These numbers do not point to a particularly fast process of contacting parties, as there are insurers out there that normally complete this process within about two hours. But it is a positive sign that all respondents said their companies contact all parties within 24 hours, which is a reasonable amount of time. Still, these numbers certainly leave room for improvement.

Figure 11: Time from Claim Reporting to Contact All Parties



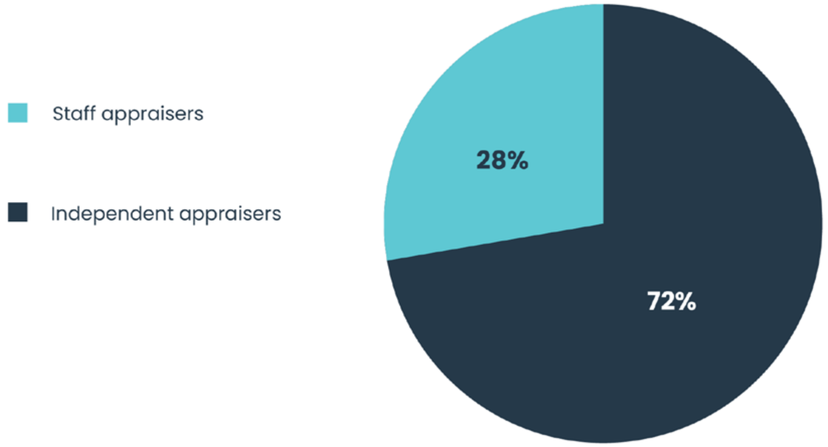
Source: Five Sigma Claims Performance Benchmark Report 2023

Methods of Inspection to Obtain Estimates on Physical Damage Claims

When asked what method of inspection their company relies on primarily to get estimates for physical damage claims, most respondents (72 out of 100) pointed to independent appraisers. All of the remaining 28 respondents said their company relies primarily on staff appraisers to provide estimates for their physical damage claims. No respondents said their company relies primarily on a technology-driven solution for this purpose.

The fact that most respondents said their company typically relies on independent appraisers should come as no surprise, because independent appraisers typically take more time to estimate damages than staff appraisers do. This reliance on independent appraisers could be one reason for the long processing times that we've seen reflected in responses to other questions.

Figure 12: Methods of inspection to obtain estimates on physical damage claims



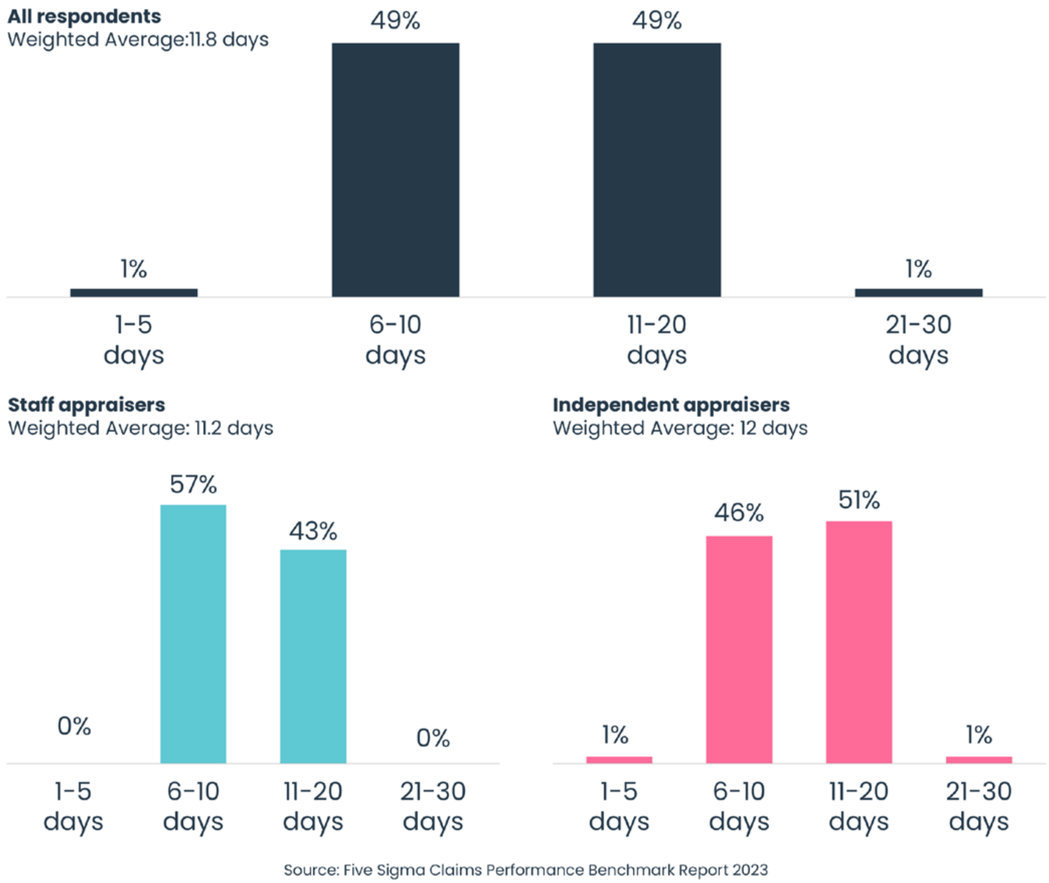
Source: Five Sigma Claims Performance Benchmark Report 2023

Time from FNOL Until Inspections Have Been Completed on All Physical Damages

When asked how long it typically takes their company to complete inspections on all physical damages after a claim is filed, nearly all respondents answered between six and 20 days. Specifically, 49 out of 100 respondents said their company usually needs between six and 10 days to complete inspections, while another 49 said this process generally takes their company between 11 and 20 days to complete. Only one respondent said it typically takes between one and five days, while one said it normally takes between 21 and 30 days. No respondents indicated that it usually takes their company more than 30 days to complete all inspections.

Given that most respondents said their company relies primarily on independent appraisers (who typically take longer than staff appraisers), it makes sense that 99 out of 100 respondents said it typically takes their company at least six days to complete this process. And given that the vast majority of respondents said it typically takes their company more than 30 days to close a claim, it is unsurprising to see that the normal range for inspecting physical damage is between six and 20 days.

Figure 13: Time from FNOL until inspections have been completed on all physical damages



Source: Five Sigma Claims Performance Benchmark Report 2023

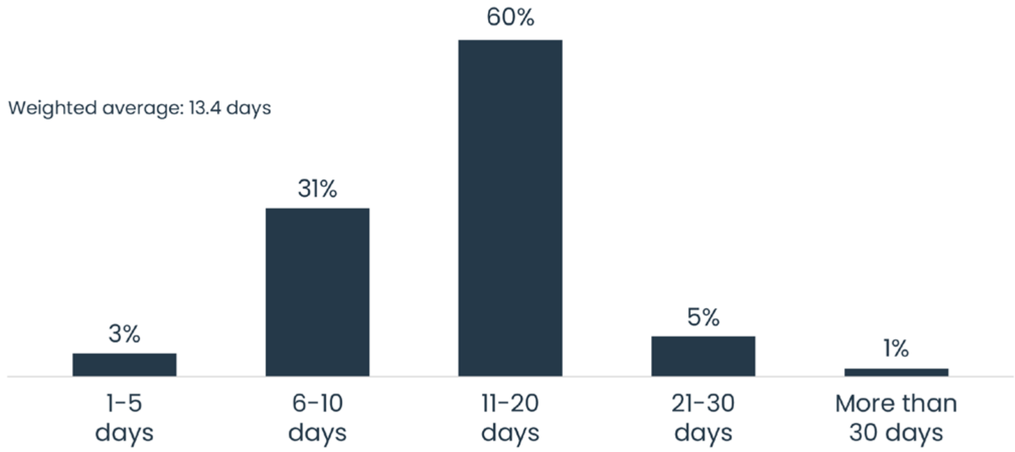
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Time to Open a New Coverage

When asked how long it typically takes to open a new coverage in their claims management system, the vast majority of respondents said it takes between six and 15 days. Specifically, 60 out of 100 respondents said that it takes between 11 and 20 days, while 31 said it takes between six and 10 days.

Meanwhile, smaller numbers of respondents said that it takes either between one and five days (three respondents) or between 21 and 30 days (five respondents). Only one respondent said that it typically takes more than 30 days to open a new coverage.

Figure 14: Time to open new coverages in claims system



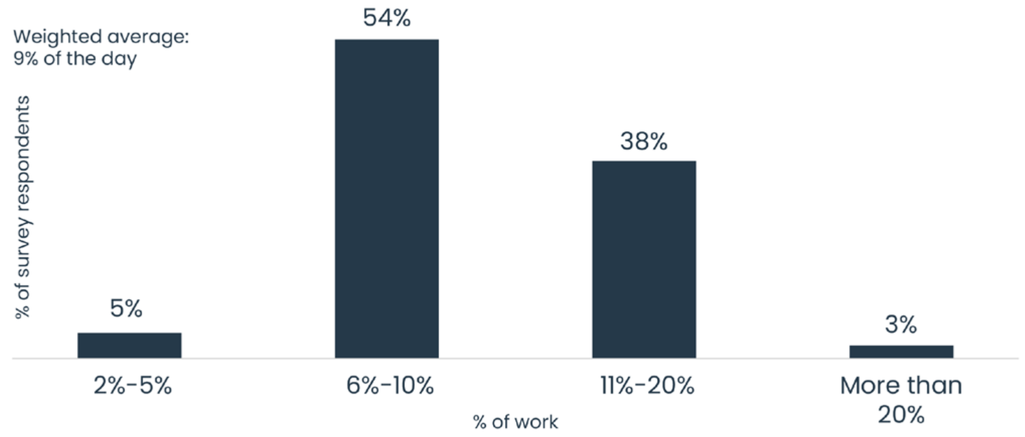
Source: Five Sigma Claims Performance Benchmark Report 2023

Time Spent Entering Data into Claims Management Systems

When asked what portion of a typical claims adjuster's day is spent entering information into their claims system, most respondents (54 out of 100) answered between six and 10 percent of the day. Another 38 respondents said adjusters spend between 11 and 20 percent of the day entering information. Only five said adjusters spend between two and five percent of the day this way, and only three said adjusters spend more than 20 percent of their day entering information.

At first glance, it might seem that automation would ideally reduce the amount of time claims adjusters spend entering information to almost zero. But while automation can significantly decrease the amount of time an adjuster spends on each claim, virtually all of the adjuster's essential job responsibilities involve entering information into the system – even if they perform other tasks such as communicating with claimants and third-party vendors simultaneously. In other words, automation shouldn't reduce the amount of time claims adjusters spend entering information, but rather increase the number of claims they can manage (productivity) and the accuracy and reliability with which they handle those claims (quality of work).

Figure 15: Time adjusters spend inputting information into claims system



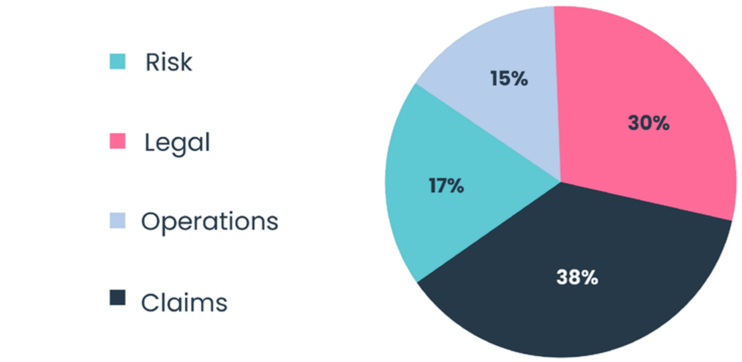
Source: Five Sigma Claims Performance Benchmark Report 2023

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Demographics

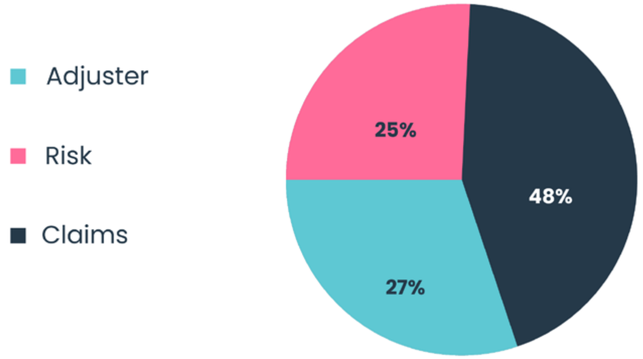
Department, Area of Responsibility, and Job Seniority

Figure 16: Department



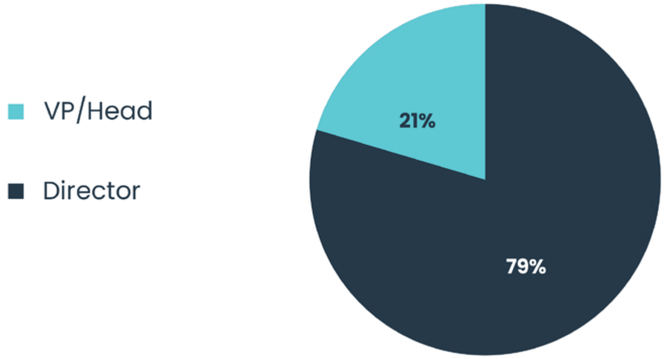
Source: Five Sigma Claims Performance Benchmark Report 2023

Figure 17: Area of responsibility



Source: Five Sigma Claims Performance Benchmark Report 2023

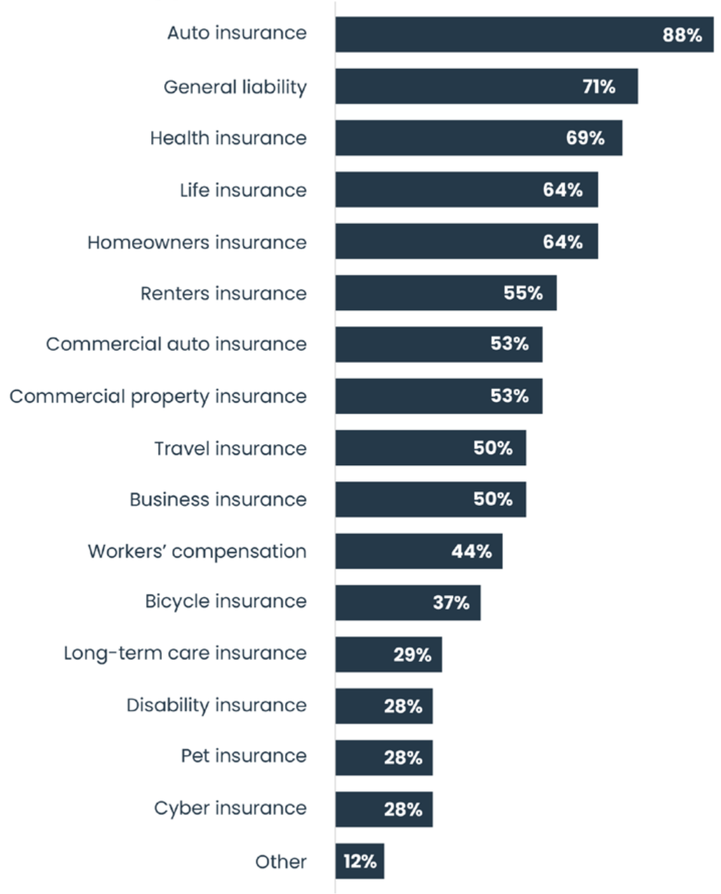
Figure 18: Job seniority



Source: Five Sigma Claims Performance Benchmark Report 2023

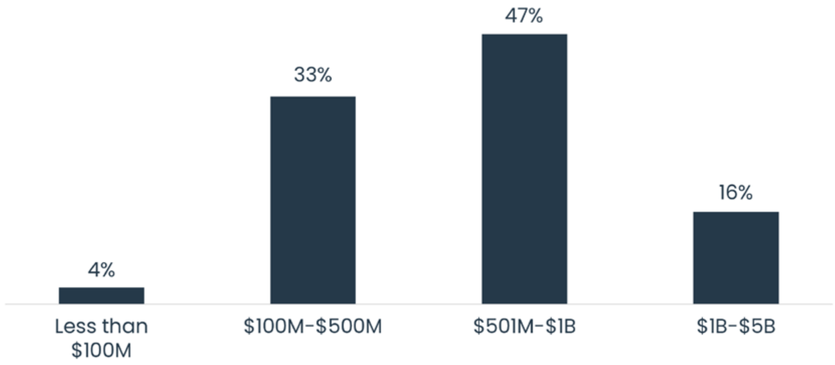
Insurance Type, GWP, Annual Claims Volume

Figure 19: Insurance type



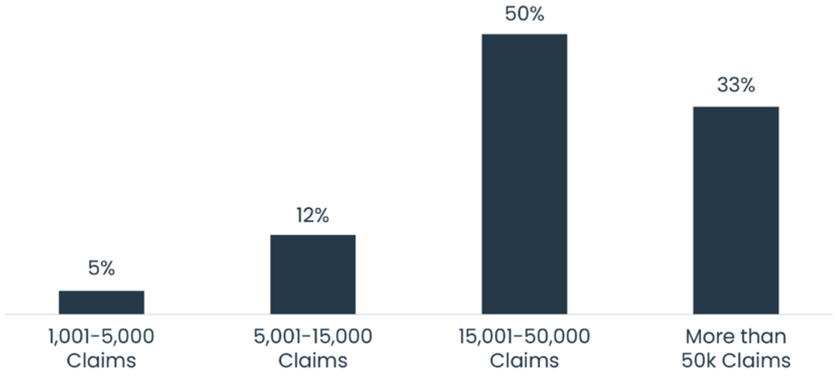
Source: Five Sigma Claims Performance Benchmark Report 2023

Figure 20: Gross written premium (GWP)



Source: Five Sigma Claims Performance Benchmark Report 2023

Figure 21: Annual claims volume



Source: Five Sigma Claims Performance Benchmark Report 2023

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About Five Sigma

Five Sigma is a cloud-native, data-driven claims management solution (CMS) that uses embedded AI/ML capabilities to simplify insurance claims processing through automated workflows. By using data modeling to provide smart recommendations, Five Sigma improves claims adjusters' decision-making processes and reduces errors. Leading insurance carriers, insurtechs, TPAs, and self-insured companies use Five Sigma's CMS to modernize their claims operations, reduce claims leakage, ensure compliance, and enhance their customers' experience.

Request a Demo

For more information, please visit us