Five Sigma

Bringing the Power of Automation to Insurance Claims Management

How to Boost Efficiency, Customer Satisfaction, and Profitability with Claims Automation



Introduction

Claims management has a critical impact on profitability for insurance providers. Not only does it affect their incurred losses, but its efficiency can have a major impact on their loss adjustment expenses (LAE). Claims management can also be a central factor in determining customer satisfaction – and not only by affecting payouts.

The problem is that excellence in one area of claims management often comes at the expense of other key measures of success.

For example, improvements in the accuracy of indemnity payments often require adjusters to spend more time on each claim, resulting in a higher LAE. And while customer satisfaction is important, claims organizations know that's no reason to let their incurred losses or LAE become excessively high.

The automation opportunity

Today, claims organizations have a more promising alternative to those trade-offs. Automation lets them boost their efficiency while maximizing the reliability and accuracy of their work. This way, they can lower their LAE without needlessly increasing their incurred losses.

Automation can also help them increase customer satisfaction and loyalty by improving transparency, shortening claim cycle times, and empowering claims adjusters to focus more on delivering an excellent customer experience.

With that in mind, this whitepaper aims to help claims organizations make the most of automation.

Keep reading to learn:

- Why automation is both an opportunity and a necessity for today's claims organizations.
- Which claims management processes can be automated, and how.
- What intelligent automation and hybrid automation are, and how claims organizations can use them.
- How claims organizations can use APIs, integrations, and data to maximize the benefits of automation.
- How new technologies such as ChatGPT continue to create new opportunities for claims automation.

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Why Claims Automation Has Become a Necessity

Claims management is a critical process for insurance carriers, MGAs, self-insured companies, and TPAs. It can have a major impact on efficiency, LAE, claim cycle times, customer satisfaction (and loyalty), and payouts. As a result, it affects profitability in both the short and long terms.

The power of claims automation is that it empowers claims organizations to improve all of the key aspects of their performance. By simplifying and streamlining key processes, automation can help them increase their efficiency. This can both reduce LAE and shorten claim cycle times.

At the same time, automation can help claims organizations prevent costly mistakes that could result in excessively high payouts.

The importance of customer satisfaction

Automation offers claims organizations an efficient way to improve the customer experience. Specifically, claims automation can help by accelerating claims processing, increasing transparency, and giving adjusters the time to deliver high-quality customer service.

Those improvements are particularly important given the impact claims management can have on customer satisfaction and loyalty.

For claimants, the claims process is the moment of truth, an experience that can make the difference between whether they'll stay or switch insurance providers – and whether or not they'll recommend their insurer to others.

in fact, 87% of policyholders say the claims experience impacts their decision to remain with an insurer, according to EY.

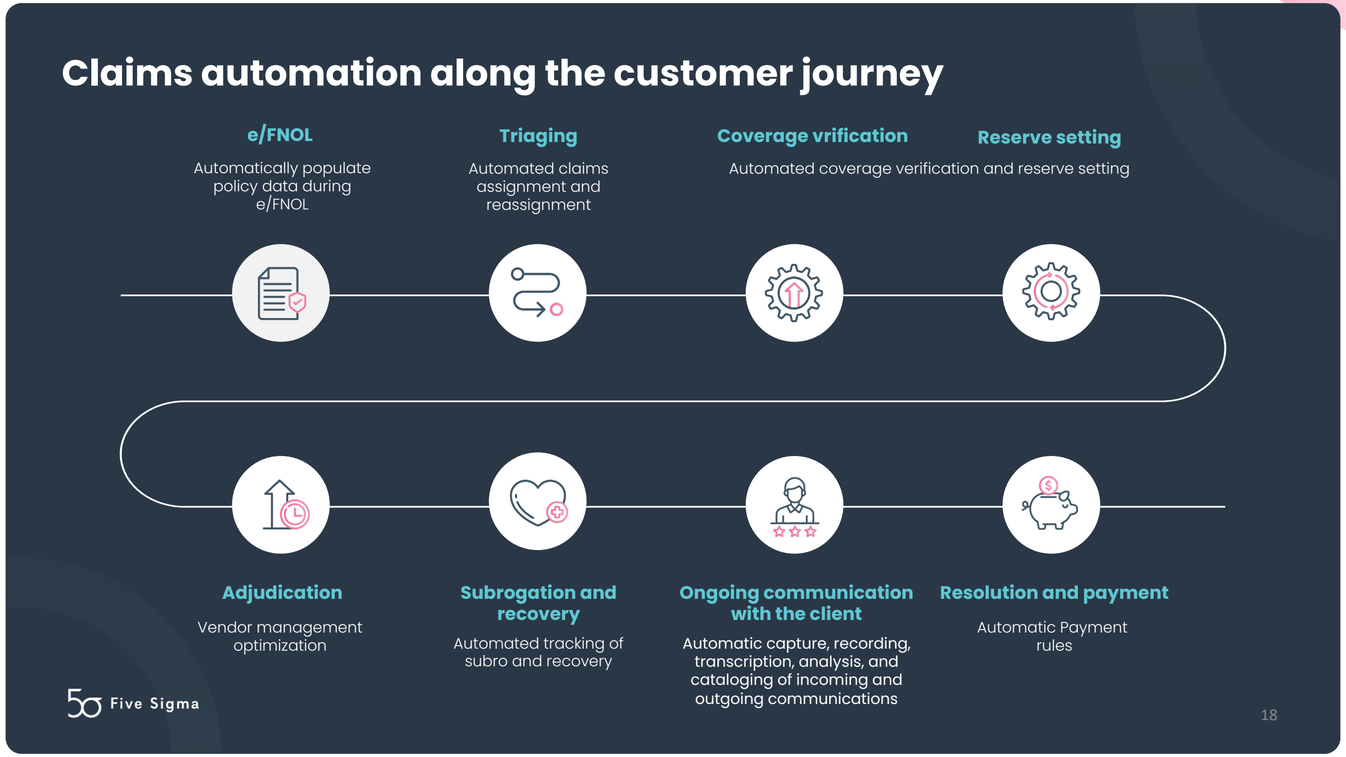


Which Claims Processes Are Ripe for Automation?

In 2020, McKinsey estimated that by 2030, "more than half of current claims activities could be replaced by automation."

Already, claims organizations can use automation to perform tasks including:

- Pre-population of policy data during first notice of loss (FNOL) to make this process easier and faster for both claimants and claims adjusters.
- Triaging claims and assigning (and reassigning them) to adjusters based on the department's specifications.
- Coverage verification and reserve setting.
- Helping throughout the process of adjudicating claims, including by streamlining vendor management.
- Tracking subrogation and recovery to ensure payments are received as they should be.
- Documentation of both incoming and outgoing communications, as well as offering pre-written messages for adjusters to send to clients and vendors.
- Making digital payments as required, based on the claims organization's specifications.



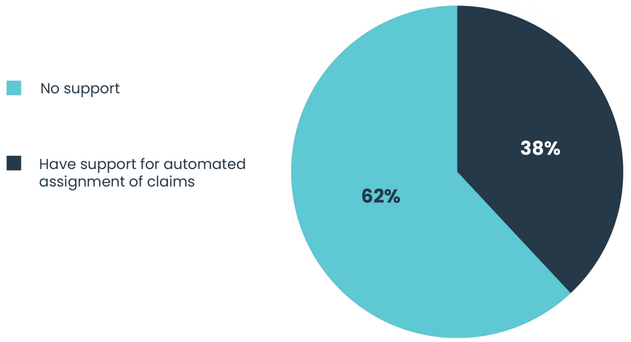
Untapped potential, but growing awareness

Despite the benefits of automation, the average claims organization is not yet taking full advantage of it.

Highlighting what a missed opportunity this is, a survey of U.S. insurance executives that Five Sigma commissioned in 2023 found significant inefficiencies stemming from a lack of automation.

For instance, only 38% of respondents said their company uses technology to assign claims to adjusters automatically. And 90% said that it typically takes an adjuster 11 minutes or more to open a claim – a process that could be automated instead.

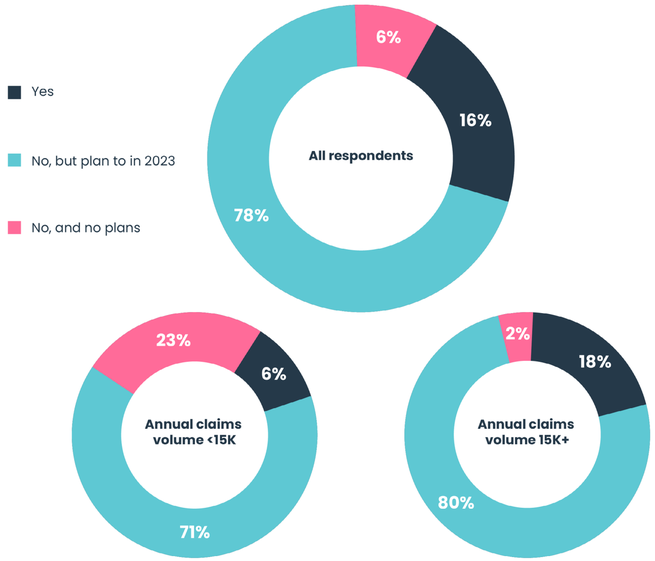
Claims software support for automated assignment of claims



Source: Five Sigma Claims Performance Benchmark Report 2023

Meanwhile, just 16% of respondents said they have automated processes for reserve setting and coverage opening. However, another 78% of respondents indicated that their company plans to acquire those capabilities in 2023 – showing widespread awareness of the growing need to leverage claims automation.

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



Source: Five Sigma Claims Performance Benchmark Report 2023

Claim cycle times: room for improvement

Given figures like those, it came as no surprise that our findings also pointed to long claim cycle times.

Notably, 82% of respondents said their company's claims adjusters typically take more than 30 days to close a physical damage claim.

And all respondents said their company's closing ratio for physical damage claims is 100% or less, meaning that they open claims at least as often as they close them.

Taken together, those findings show that typical claims organizations are still missing major opportunities to improve their performance.

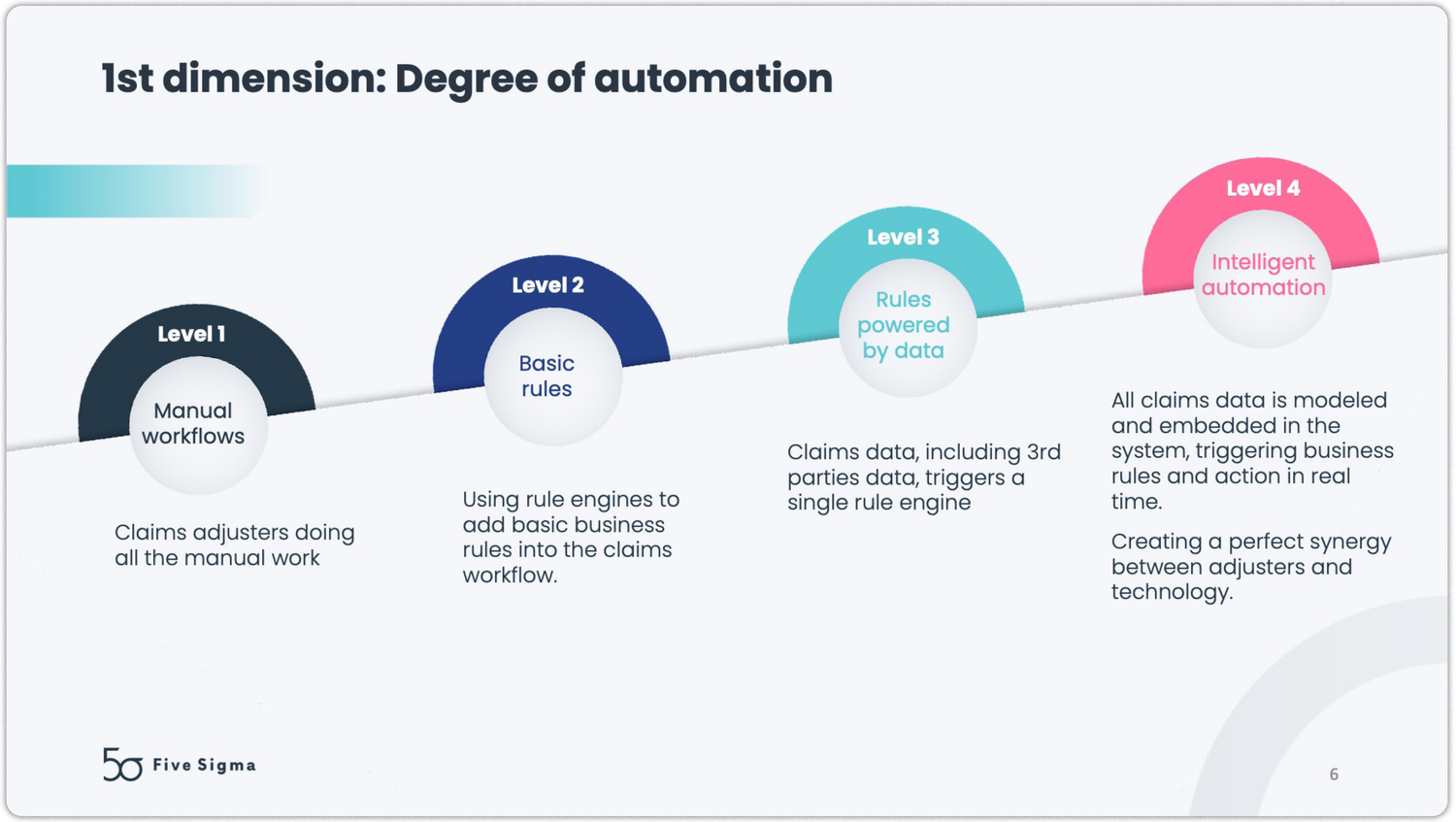
The Power of Intelligent and Hybrid Automation

Degrees of automation

While claims organizations can use automation in a variety of ways, not all uses of automation are equally helpful in improving accuracy and efficiency. Even automation based on a simple set of rules can save claims adjusters time by streamlining basic tasks, and automation that uses data in more complex ways can offer even greater benefits

At the upper end of the automation hierarchy is intelligent automation, which uses machine learning to analyze data and trigger actions in real time. In contrast to types of automation that rely on a less sophisticated set of rules, intelligent automation involves particularly complex data analysis. As a result, it can streamline larger and more complicated processes, while requiring less intervention from professionals.

Additionally, intelligent automation stands out for how well it enables claims adjusters to work synergistically with a claims management solution (CMS). By using intelligent automation effectively, claims organizations can take an automation-first approach to their key processes.



Straight through processing (STP) vs. hybrid claims automation)

When trying to streamline processes through automation, it's easy to think of the ultimate goal as being straight-through processing – a situation in which the entire process of managing a claim is automated from start to finish, without requiring any human intervention.

But while straight-through processing is an optimal approach for managing certain claims, the vast majority of claims still need some human involvement. And when claims organizations take an all-or-nothing approach to automation, they miss out on the tremendous potential of automation to streamline claims management across the board.

The solution? Instead of simply aiming to entirely automate the management of a small number of claims, it's far more effective for claims organizations to partially automate the management of all of their claims. In other words, rather than focusing only on achieving complete automation for certain claims (straight-through processing), they should focus on achieving at least partial automation for all claims.

The way to streamline the management of all claims is through hybrid automation, in which claims adjusters work with an automated solution to streamline their work. By empowering adjusters, this approach allows claims organizations to significantly improve the management of 100% of claims.

By achieving straight-through processing whenever appropriate and hybrid automation for the rest of their claims, claims organizations can optimize their efficiency, without compromising on accuracy or reliability.



How APIs and Integrations Expand the Usefulness of Automation

A largely automated claims management solution can streamline key processes and empower claims adjusters to optimize their performance. But providing those benefits doesn't require a CMS to take care of all key digital processes related to claims management on its own.

In fact, the ability to work well with other digital technologies is a critical part of making a CMS user-friendly, flexible, and efficient. The key to making that happen is having a robust variety of open APIs and integrations with third-party platforms.

APIs and integrations are particularly important to a CMS because of the complexity of the claims ecosystem. Managing claims often involves a wide variety of steps requiring information coming from policyholders, service providers, different internal departments, and other sources. It also involves providing information to all of these stakeholders, as well as complying with reporting requirements.

By offering APIs and integrations with useful third-party services, a CMS can streamline the collection, analysis, and supply of information – allowing insurers to expand their use of automation.

This way, they can reduce their claim cycle times, improve their efficiency, cut costs, and deliver a more convenient customer experience. They can also leverage partnerships driven by integrations and APIs to tap into new business opportunities, enhance their overall service, and drive growth.

When selecting an automation-rich CMS, it's important to consider:

- **FNOL APIs,** which can automatically pull data from any FNOL app or website – allowing insurers to let their policyholders file a claim via any digital channel.
- **Policy APIs,** which can integrate with any policy admin software to automatically pull policy holder information, allowing for quick and easy coverage verification.
- **Claims APIs**, which can automatically retrieve relevant claim, exposure, or policy data in order to process a claim.
- **Vendor APIs,** which can automatically assign claims to third-party service providers and get status updates.
- **Payment APIs,** which can automate payment processing and make payments using any payment method.

Key benefits of integrations and APIs:

- **Reduced loss adjustment expense**
- **Enhanced risk assessment**
- **Increased customer satisfaction**
- **Business growth**



Using Data to Optimize Automation

Data plays a key role in helping insurers realize the full benefit of automation.

Not only can the efficient use of data help streamline key claims management processes, but it can also provide insights to help entire claims organizations fine-tune their use of automation in order to optimize their overall performance.

Gathering and using claims data automatically

To use data effectively, a CMS should capture a wide range of information as key steps are performed over the course of the entire claims process. One particularly important aspect of this data collection is the automatic documentation, analysis, and cataloging of all incoming and outgoing communications related to a claim.

Even relatively simple insurance claims include a rich variety of data that can be useful to adjusters – not only in processing and handling the claim at hand, but also in improving the processing of future claims. Once this data is gathered, a largely automated CMS can use it to provide claims organizations with streamlined access to the most relevant information for any given claim.

This way, the CMS can automatically use this data to help claims adjusters optimize their efficiency, accuracy, and overall performance.

This approach to using data can also help claims organizations leverage hybrid automation (as well as straight-through processing), building synergy between claims adjusters and their CMS to optimally streamline claims management

Data-driven insights

By automatically analyzing claims data, a CMS can provide useful insights via dashboards and reports. Automatically generated data analytics can enable insurance professionals to identify both patterns and inefficiencies in their claims processing that can be improved.

Claim organizations can then use their data-backed findings to optimize a variety of aspects of their claims processing – among them fraud detection, payment recovery (salvage and subrogation), payout optimization and settlement, litigation prevention, and product efficiency.

In addition to helping claims departments boost their efficiency, automatically using data effectively can help them improve customer satisfaction – both by shortening claim cycle times and by enabling them to focus more on delivering a positive customer experience.

Key metrics to watch:

- **Initial handling time**
- **Claim cycle time**
- **Pending claims inventory**
- **Recovery and forecasted recovery amounts**
- **Cost of exposures by severity**
- **Claims adjusters' productivity**

Looking Forward: ChatGPT and Beyond

It's hard to discuss automation in 2023 without mentioning the power of large language models (LLMs), as illustrated famously by ChatGPT. Claims organizations – and insurance companies more broadly – have good reason to follow the debate about LLMs and whether they will automate away the entire workforce or be the trusted helpers of creators, employees, and customers around the world.

Generative AI and natural language processing (NLP) can create a range of possibilities for claims automation, from letting customers file claims in natural language to helping adjusters manage the wealth of information in their notes.

Technologies like these have great potential for creating a more organic and synergistic way for systems and humans to interact.

New ways to access and use data

Claims management processes entail dealing with a wide variety of data, much of it unstructured. Until relatively recently, claims organizations lacked an efficient way to leverage the wealth of information they received via documents, emails, texts, phone calls, adjuster notes, third-party sources, and other sources.

Now, technological advances including LLMs can empower claims organizations to access and use this data instantly and efficiently, helping provide a rich contextual understanding of the current status of a given claim and recommended next steps.

The value of such technologies can be immense, expanding the role of automation by allowing for sophisticated interactions with both policyholders and claims adjusters. These interactions can occur in any language and in any form, removing bottlenecks and accelerating claims management – especially if coupled with a robust API scheme. They can also help claims organizations lower their LAE and prevent potentially costly mistakes.

Additionally, using LLMs effectively can help claims organizations tackle the knowledge gap of relatively inexperienced adjusters. By leveraging automation, intelligent search engines, and natural language workflows, claims organizations can empower their adjusters to interact with systems more organically – saving them time and giving them additional opportunities for more value-added work.



Conclusion

The power of claims automation is that it allows for the improvement of all key aspects of claims management.

By streamlinin a wide variety g processes, automation can help claims adjusters improve their productivity, so that entire claims organizations can lower their LAE. And, by preventing human error, automation can increase claims organizations' accuracy and reliability, helping them avoid excessively high incurred losses.

Meanwhile claims automation can improve customer satisfaction by shortening cycle times, increasing transparency, and empowering claims adjusters to focus on delivering an excellent customer experience.

But, as this whitepaper has laid out, not all uses of claims automation are equally beneficial. To make the most of automation, it's important for claims organizations to give serious thought to which processes they will automate, how they will automate them, which technologies they will use, and how they will take advantage of the data at their disposal.

Keys to realizing the full benefit of claims automation:

- **Using data effectively, both to achieve intelligent automation and to optimize claims adjusters' performance**
- **Taking an automation-first approach to claims management, including the use of hybrid automation**
- **Using automation-rich claims software that includes a robust set of APIs and integrations**
- **Continuing to expand the use of automation as new technologies emerge**

About Five Sigma

Five Sigma is a cloud-native, SaaS claims management solution (CMS) designed specifically for property and casualty insurance companies. Our data-driven platform leverages intelligent data modeling to drive operational efficiency and business excellence. Five Sigma's end-to-end solution optimizes claims processing with intelligent automation, provides data-driven recommendations to enhance adjuster decision-making, and delivers valuable insights to inform business strategies.

With Five Sigma, insurance carriers, insurtechs, MGAs, TPAs, and self-insured companies can modernize their claims management, reduce claims losses, ensure compliance, and provide an exceptional customer experience.

Request a Demo

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