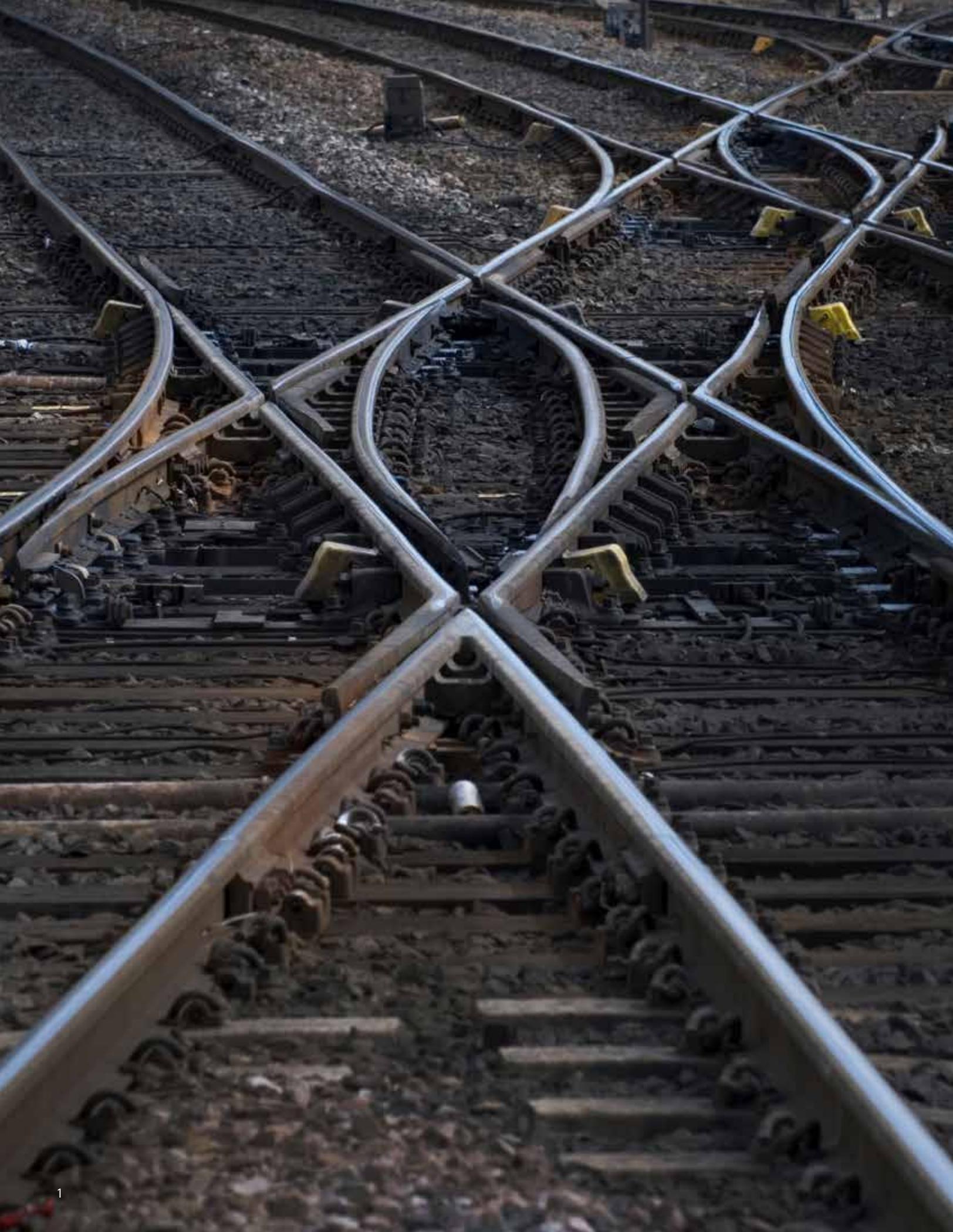


A large, solid orange arrow pointing to the right, partially overlapping the text "High performance. Delivered." and the background image of train tracks.

High performance. Delivered.

North American Claims Investment Survey

A Foot in Today, a Leap into Tomorrow for
P&C Claims Functions



U.S. property and casualty insurers are at a critical juncture in terms of the modernity and flexibility of their claims management systems.

Multiple factors challenge P&C insurers as they search for profitable growth, including changing consumer expectations, the explosion of structured and unstructured data, and continuing demands from management and shareholders to deliver better claims outcomes. Insurers' claims operations are trying to cope with these changes with workforces that have, in many cases, been cut in previous cost reduction efforts. In addition to these concerns, claims teams are dealing with changing types of risk, from the growth of cybercrime and organized fraud to the increase in the frequency and severity of natural events. Technology offers potential solutions to these problems, but poses its own challenges as insurers try to maintain maximum flexibility and adaptability in the face of tremendous uncertainty about the impact of innovative new technologies.

In such an environment, making the right investments in claims systems and organizations will be critical for U.S.

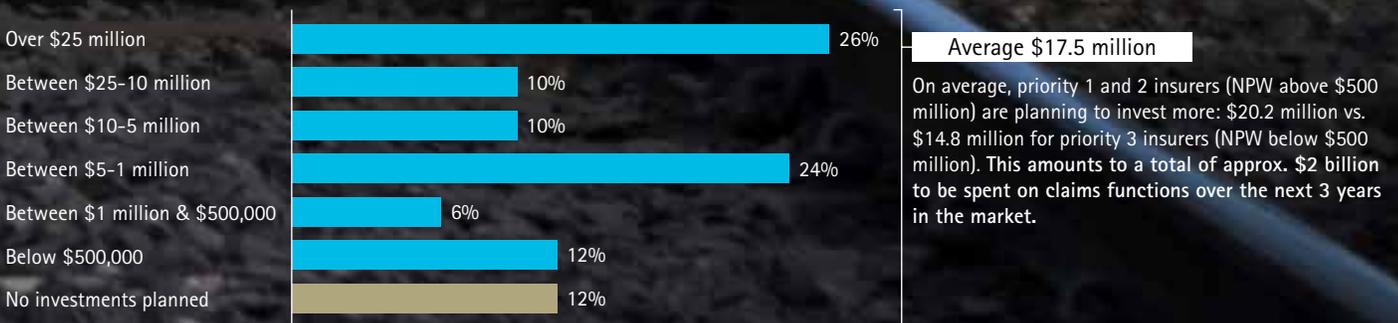
property and casualty insurers. To gauge insurers' attitudes toward investing in claims, Accenture conducted quantitative survey research with C-level claims executives in March and April 2012. As we had anticipated, we found that most insurers agree on the lack of modernity and flexibility of their claims management systems, especially in terms of allowing change in system behaviors and business processes and in addressing consumers' evolving needs.

Claims executives said that improvement will be required in the claims organizations in order to be prepared and equipped to manage new forms and level of risk, and that consistency in claims handling can be optimized in order to improve loss costs.

Property and casualty insurers in the U.S. expect to spend considerable amounts of money—\$17.5 million on average over the next three years—to upgrade and modernize their claims functions, as seen in Figure 1. On the following pages, we will examine insurers' priorities and review what P&C insurers hope to obtain from these significant investments.

Figure 1. Insurers' Planned Expenditures on Claims Function

How much does your organization plan to invest in its claims function over the next 3 years?



Source: Accenture North American Claims Investment Survey, 2012

Modernity and Flexibility Sought

Most insurers agree that their claims systems lack the modernity and flexibility to allow change in systems' behaviors and business processes and to address the evolving needs of consumers. For example, 40 percent of respondents answered "not at all" when asked if their claims management system was modern and flexible enough to allow change in systems behavior and business processes without intervention from the IT department, and another 43 percent said the system was able to do so only to some extent. Only 17 percent of respondents said their systems could allow such change "to a great extent".

Similar concerns about preparedness appeared in regard to insurers' ability to meet consumers' evolving needs. More than one-fifth (21 percent) of insurers said their systems were not at all prepared to do so, while nearly two-thirds (64 percent) said their systems could meet such needs only to some extent. Only 15 percent of respondents rated their systems as ready to a great extent to meet consumers' evolving needs.

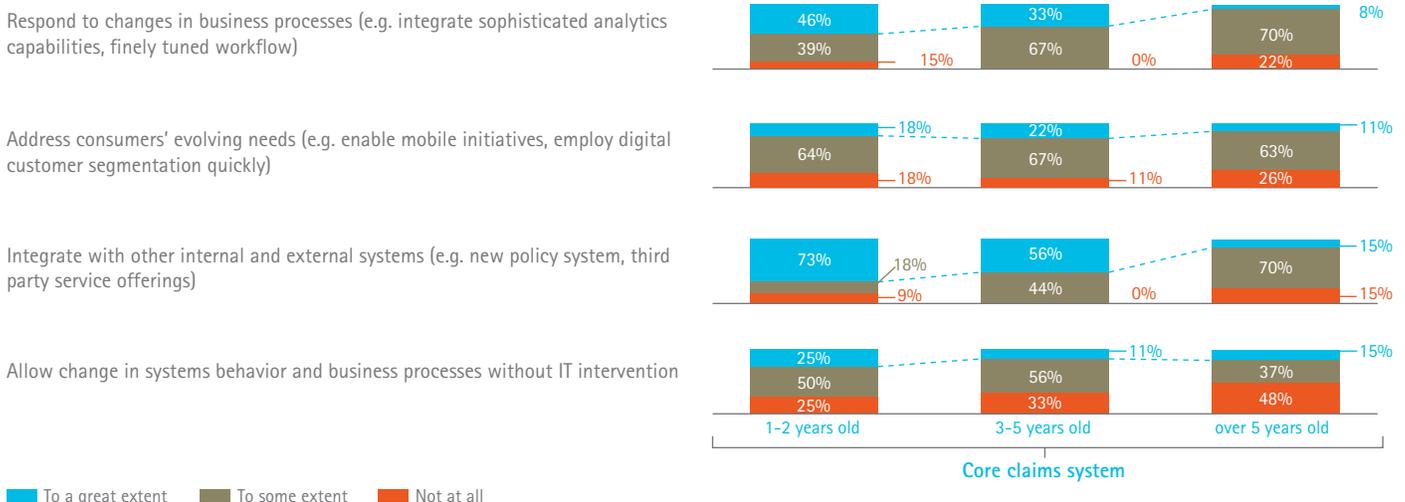
Respondents saw their systems as most prepared to integrate with other internal and external systems, with 37 percent rating their systems as able to do so to a great extent and 52 percent as able to do so to some extent. Only 11 percent regarded themselves as completely unprepared for such integration initiatives.

These concerns were amplified for P&C insurers with older core claims systems. As seen in Figure 2, insurers with core claims systems more than 5 years old (more than half of the survey sample) saw themselves as much less able to deal with the problems of responding to changes in business processes, addressing consumers' evolving needs, integrating with other systems and allowing changes in systems behavior and business processes without IT intervention. Nearly half (48 percent) of insurers with core claims systems more than 5 years old said their system was not at all able to allow such changes without IT intervention.

More than three-quarters (78 percent) of respondents see the need for investment to enable their claims organization to manage new forms and levels of risk such as cybercrime, terrorism, and the increased frequency and severity of natural catastrophes. An equally large percentage of respondents said that consistency in claims handling could be improved in order to handle loss costs. On average, insurers with net premiums written above \$500 million are planning to invest more—\$20.2 million—versus \$14.8 million for insurers with net premiums written below \$500 million, with a total of approximately \$2 billion in planned spending on claims functions over the next three years.

Figure 2. P&C claims system flexibility

To what extent is your claims management system modern and flexible enough to:



Source: Accenture North American Claims Investment Survey, 2012



Top Priorities for Future Investment

While the survey highlighted insurers' concerns about their claims systems' modernity, flexibility and ability to deal with consumers' evolving needs, it also identified three broad priorities for future investment: Core claims system modernization and replacement, analytics capabilities, and workforce improvement.

Priority #1 Core Claims System Modernization and Replacement

Core claims system modernization is P&C insurers' first investment priority. Currently, P&C insurers rely on multiple applications to process claims: Half have between two and four applications and one-third have over five. A little over half (54 percent) of respondents said they have a core claims system which is more than five years old. Interestingly, a higher share (68 percent) of insurers with NPW over \$500 million has a core claims system that is more than five years old.

Nearly eight in ten (78 percent) respondents said they were on an upgrade path for their core claims system; eight percent said such an upgrade was under discussion and only 12 percent said no such investment was planned. This was a particularly high percentage given that 36 percent of respondents said that their last major core claims system upgrade took place in the last year, and another 33 percent said that such an upgrade had taken place in the last two

to three years. Smaller insurers (those with NPW less than \$500 million) were as, or more, likely to be on an upgrade path than their larger counterparts.

New options for core claims systems such as cloud computing and software as a service (SaaS) are rapidly gaining credibility. One in five (20 percent) of insurers plan to migrate claims to the cloud or a SaaS model in the next two years, and these options could be an alternative for another 26 percent of insurers. An equal percentage of large and small insurers are planning to migrate claims to cloud or SaaS models in the next two years, but a higher percentage of larger insurers are considering doing so in the future – 36 percent of larger insurers versus just 16 percent of smaller insurers. A full 60 percent of smaller insurers have no cloud or SaaS related projects in planning or under discussion.

Priority #2 Developing Analytics Capabilities

Despite the enormous potential of analytics for P&C insurers, two-thirds (66 percent) of insurers cannot take full advantage of the growing volume of data available for claims management due to their inability to collect and analyze data. Without the ability to collect and analyze the growing volume of data available—including insights about consumers from social media, usage data collected by means of telemetry and GPS, and asset damage records collected by millions of RFID devices—insurers are unable to take advantage of this information to refine and improve claims management.

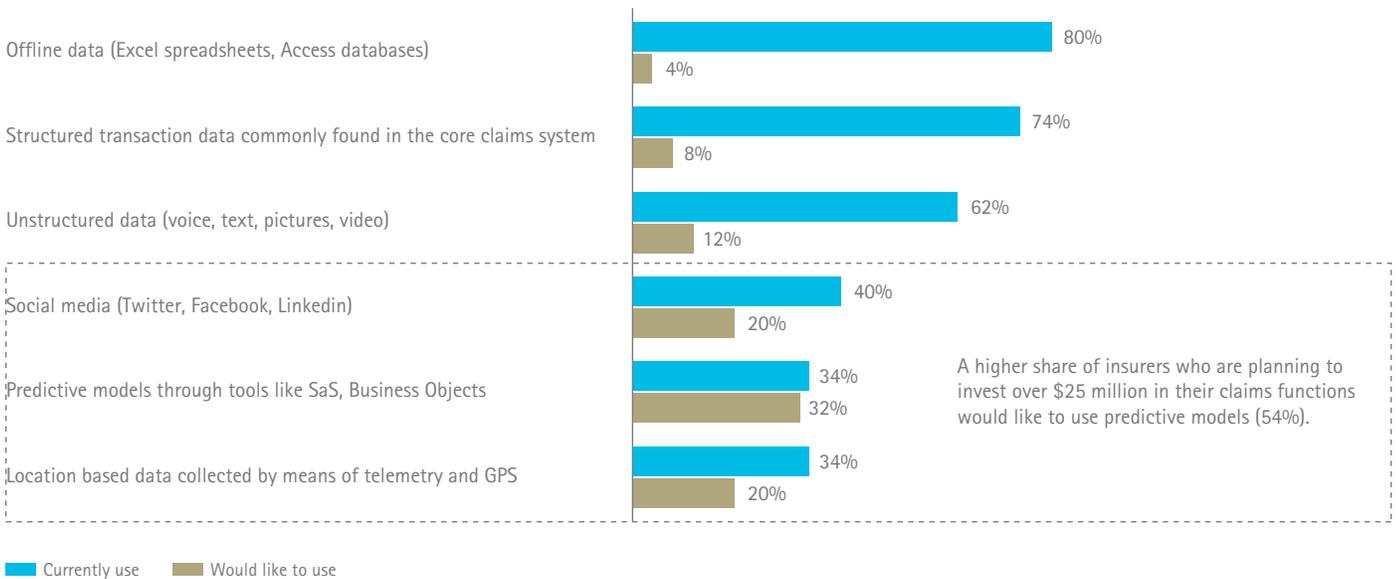
This problem is even more pronounced among smaller P&C insurers. While nearly one-third (32 percent) of larger insurers answered "yes, definitely" to a question about their ability to collect and analyze such data, only 16 percent of smaller insurers gave the same answer.

A full 80 percent of insurers said they used offline data obtained from Excel spreadsheets and Access databases, and 74 percent said they used structured data commonly found in the core claims system in the claims process. Nearly two-thirds (62 percent) use unstructured data such as voice, text, pictures and video.

As seen in Figure 3, substantial minorities of insurers currently use social media (40 percent), predictive models (34 percent) or location based data (34 percent) in the claims process but this share should increase in the future based on the number of insurers who said they would like to do so (20 percent, 32 percent and 20 percent, respectively). Predictive models are especially attractive to insurers who are planning to invest over \$25 million in their claims function, with 54 percent saying they would like to use such models in the claims process.

Figure 3. Use of Data in the Claims Process

Currently, which data do you most commonly use in the claims process and which ones you would like to use? Select all that apply.



Source: Accenture North American Claims Investment Survey, 2012



Priority #3 Investing in the Workforce

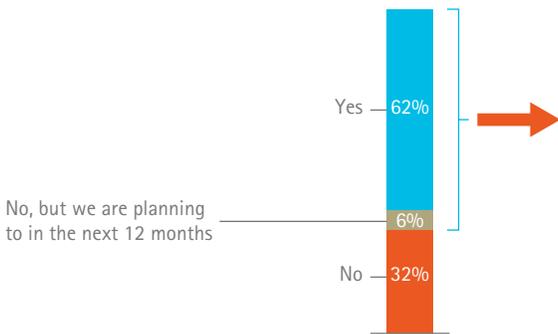
The claims workforce was the target of some of the extensive cost cutting which took place in response to the financial crisis of 2008. While insurers were reducing their claims workforce, many of their most experienced claims professionals are also at, or near, retirement age. As a result, increasing the size as well as enhancing the skills of the claims workforce is a top priority for P&C insurers.

More than two-thirds (68 percent) of respondents are either actively hiring or planning to hire claims professionals, as seen in Figure 4. Recruitment of these individuals will take place among competitors (82 percent), at universities (70 percent) and among other industries outside of insurance (48 percent). Among the companies that are actively hiring claims professionals, 26 percent are facing problems in hiring, with claims handlers being the most difficult position to fill, followed by claims supervisors and customer service representatives.

More than half (59 percent) of the insurers surveyed see hiring or training customer service professionals as a top priority in order to address customer needs. Among other programs to improve customer service and satisfy customer needs, insurers cited creating or deploying mobile applications for customers (57 percent), building digital customer profiles available for claims professionals during claims transaction handling, (45 percent) initiatives focused on improving net promoter scores (43 percent) and initiatives focusing on improving JD Power claims satisfaction scores (30 percent). Larger insurers, as well as those planning to spend over \$25 million on their claims function, are more likely to begin initiatives focused on net promoter scores (57 percent and 62 percent respectively).

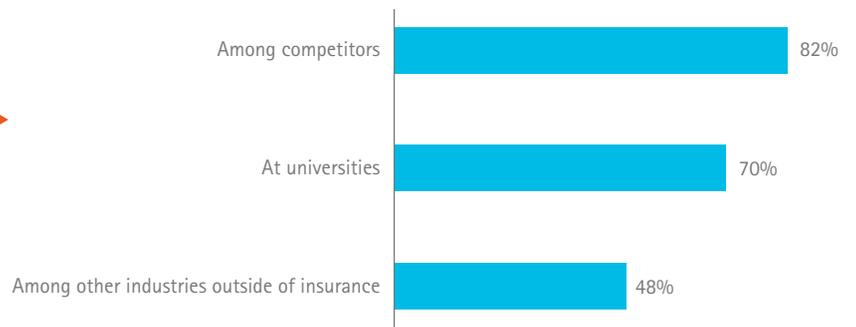
Figure 4. Insurers' Plans to Hire Claims Professionals

Are you actively hiring claims professionals?



Sample base: All (n = 50)

Where are you recruiting or planning to recruit claims professionals?
Select all that apply.



Sample base: Companies actively hiring or planning to hire claims professionals (n = 34)

Source: Accenture North American Claims Investment Survey, 2012

Conclusion

U.S. property and casualty insurers have a high awareness of the importance of the claims function and its impact on market perception, customer loyalty, and overall profitability. At the core for meeting this challenge is the ability for technology to allow changes in systems and behaviors and to address changing consumer expectations, manage new forms of risk, and optimize claims outcomes. While the awareness is shared, so too are their concerns about the modernity and flexibility of their own core claims systems.

While the insurers in our survey expressed a willingness to invest in improving claims performance by improving technology, they must do so with a "foot in today and a leap into tomorrow". This means that they must meet the needs before them, in terms of modernity and flexibility, but anticipate those of the future by preparing themselves for harnessing data and enabling customers.

Importantly, P&C insurers should be thinking about data collection and management as the foundation for advanced analytics. Analytics opens up a world of possibilities in claims, but only for those insurers able to collect and organize the vast quantities of data coming in from new sources such as social media, telemetry and GPS.

Insurers also expressed intent to expand their claims workforce. While there is no doubt that many claims functions are under-staffed, there is also a need to re-think the role of the claims professional. Claims professionals armed with ready access to relevant information can play a central part in meeting customers' expectations for rapid resolution and a positive overall experience.

As the survey indicated, cloud-based SaaS models are rapidly emerging as viable options for insurers. All core systems upgrades, however, should be implemented with an eye to the future, allowing for maximum flexibility and for rapid changes in systems behavior and business processes, preferably without costly, time-consuming IT intervention.

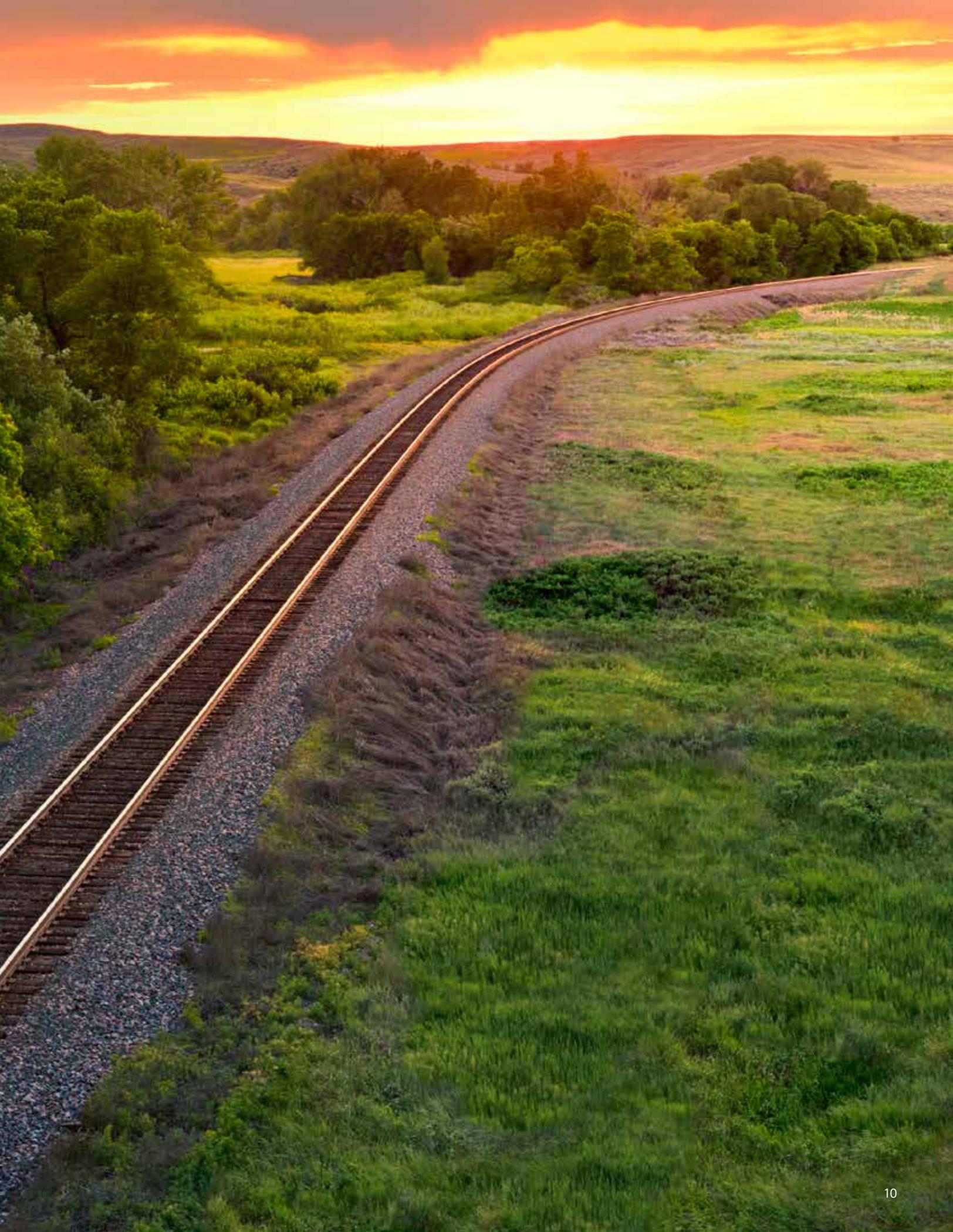
These actions must be done in conjunction with a thoughtful view of the entire claims operating model, including technologies, processes and people, in order to truly unlock the value in claims.

Methodology

Findings were based on a quantitative survey of 50 U.S. property and casualty (P&C) insurers. Respondents were C-level executives involved in the claims function. Of the individuals surveyed, 18 (40 percent) were the head of claims or equivalent; 21 (47 percent) were the VP of Claims or equivalent; and 6 (13 percent) were the claims supervisor or equivalent.

Interviews were conducted by telephone in March and April 2012.

Among companies participating, 16 (32 percent) had net premiums written (NPW) above \$1 billion; 9 (18 percent) had NPW of \$500 million to \$999 million; and 25 (50 percent) had NPW of \$100 million to \$499 million.



About the Author

Michael Costonis is a Managing Director in Accenture's Insurance practice, overseeing Accenture's Global Claims Business Services. In that role, he oversees claims strategies, assets, capabilities, and sales development. Costonis has nearly 20 years experience developing, managing and deploying large scale technology systems, business processes, and strategies for some of the world's leading insurers, including property & casualty, life, and multi-line insurance companies. In his career with Accenture, he has worked with more than 50 leading insurance clients in 14 countries around the world.

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