

Growing in the Shade

Why shedding light on sometimes-overlooked claims processes can yield substantive growth

A HARD LOOK AT 2009

Creating process improvement is a perennial corporate objectives list-topper. The 2009 challenge—more so than in years' past—is that project proposals need to have a compelling value proposition to warrant serious investment consideration. Any initiative will be rigorously vetted to make sure any investment brings with it a substantive return on investment (ROI).

Typical ROI conversations between a carrier and an information provider look at important yet incremental improvements through new versions of existing products and solutions. While this approach has its merits, the focus may not extend beyond elements of the claims process that already receive a significant amount of attention. In order to create truly compelling gain, both the carrier and information provider need to find new claims-handling improvements in places that have received little or no attention.

WHY SUBROGATION?

The industry traditionally struggles with defined benchmarks to evaluate performance throughout the entire claim life cycle. That is possible for many reasons (e.g. – non-integrating, non-communicating systems, manual processes). However, there are definite process benefits in being able to quickly identify, articulate and communicate the subrogation process through an already-established connection containing all of the relevant claims information.

WHY CCC?

The already-established, deep historical link between forward-thinking carriers and CCC has opened the door to new areas of improvement to provide visibility into the entire claims cycle. CCC is in the unique position to reach deeper into the claims process to find that substantive improvement through subrogation.

A NEW WAY OF SUBROGATION

Until recently, the subrogation function of the claim department has not been a focus for automation investment. And yet subrogation has potential for significant return on investment, due to the large transaction volume and its financial impact on loss costs.

Throughout our industry, thousands of claims adjusters are currently engaged in the negotiating tens of thousands of subrogated claims. In the Auto line of business, carriers spend nearly \$1 billion to recover \$8 billion of paid losses annually. These results fall short of expectations, as dollars recovered are less than the amount demanded because adjusters often do not have sufficient data to substantiate their demand or support their settlement negotiations. In addition, the recovery on many files is often compromised when escalated to arbitration or litigation, which increases cost and delays resolution.

In terms of the policyholder experience, subrogation is one of the weakest links in the interaction between the carrier and its insured. The frustration of not getting a deductible refund—or having to wait a lengthy time to receive it—can adversely impact policyholder retention. Some carriers waive the deductible in order to shield its policyholders from the inefficiencies inherent in the subrogation process.

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So, why does subrogation performance lag the rest of the claim organization?

The industry's subrogation process is largely a manual one, with informal workflows and inconsistent processes. For many adjusters, it remains a low priority activity in the claim life cycle. In the current environment, undisputed claims can take weeks to resolve. If the claim is disputed, it can take even longer even if they are settled directly between the carriers. Some disputes may require arbitration, an attorney or collection agency in order to escalate the urgency of the demand or trigger action from a non-respondent. This increases cost and can take months to cycle through negotiations.

The industry vision for subrogation is the migration to an electronic interchange where costs can be minimized. For example: Imagine an environment where Carrier A presents its demand and supporting documents to Carrier B, with the sufficient content Carrier B can quickly understand, accept and remit payment to Carrier A or communicate the reasons for a denial or counter-offer. If a negotiation is required, it can be quickly concluded, money can be exchanged and the policyholder deductible promptly refunded. The entire transaction is completed within a few hours!

This article examines the benefit a carrier could gain from an automated subrogation solution, and how this technology can position an automated solution to support electronic exchange as a way to reduce the friction inherent to the carrier-to-carrier subrogation transaction process.

Carrier Processing Challenges

Manual processes and inconsistent recovery techniques are commonplace within much of the industry. In this manual environment, an adjuster may have to go to several sources to extract and re-key data into another system before they can attach documents needed to present a subrogation demand. In many of the carrier's subrogation departments, convoluted workflows have evolved to overcome inflexible claim systems. These inefficiencies raise costs ("leakage"), and prolong the resolution of files.

SOURCES OF INEFFICIENCY

- > Timely ID of subrogation potential
- > Cumbersome processes to assign files
- > Manual tasks to generate a demand package
- > Inconsistent processes for negotiations and settlement decisions
- > Assignment of files and administration of vendors
- > Lack of reports; reactive response to events

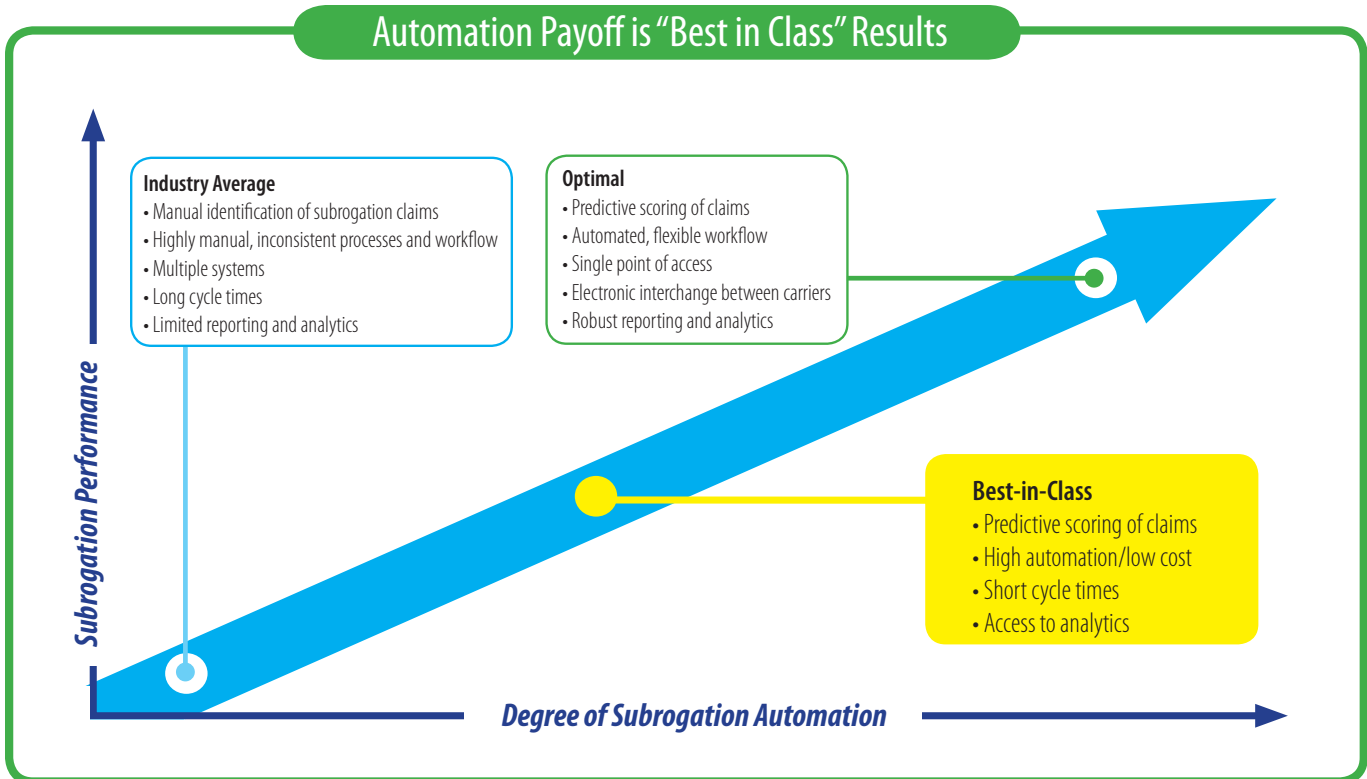
Another common industry practice is for a claims handler to work every file through each step of the claim life cycle—from initial investigation of the loss to payment of the policyholder, and, finally to subrogate the loss against the responsible party. For adjusters, subrogation seems to take a lower priority to adjudicating the claim. As a result, subrogation is not pursued as quickly as it should, or the file may be compromised to bring quick resolution.

Carriers that have automated the subrogation process have the ability to expedite files, recover more, and do it at a lower cost than the rest of the industry. These carriers enjoy a competitive advantage over the rest of the industry. Take a look at some comparisons:

- *The industry average to resolve a subrogation file is about 170 days (National Association of Subrogation Professionals benchmark study). Carriers supported by automated subrogation systems take about 127 days (CCC market study), which is an improvement of 25 percent over the rest of the industry.*
- *Carriers using automated subrogation processes recover an average \$60 more per file, an improvement of 5 percent over the industry average.*
- *Carriers using automated subrogation processes spend approximately \$70 less per file, an improvement of 30 percent over the industry average.*

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Automation Payoff is “Best in Class” Results



Another advantage attributable to automated subrogation systems is providing timely access to data and reports that give management visibility into the process. This enables best-practices techniques to be identified and propagated throughout the organization to enable consistent use. For example, each time a subrogation claim arises that bears the same characteristics; it is dispatched using proven techniques. With this knowledge in hand, the process can be proactively managed to minimize false starts, ineffective actions and bring the focus back to what works.

CARRIER-TO-CARRIER TRANSACTIONS

The process of negotiating a subrogation demand engages an adjuster in a back-and-forth dialog via phone calls, letters and e-mail. One of the keys to improving subrogation results is reducing the amount of time adjusters spend in a negotiation cycle, and minimizing the situations where a file is escalated to arbitration or litigation. The inherent inefficiencies in the negotiation/escalation cycle are a source of friction that can lead to excessive cost and longer cycle times.

There are certainly files that—due to complexity, size or liability theory—justify escalation to arbitration and litigation. The need seems obvious for non-compliant tort feasers. However, some files are needlessly compromised

or escalated. What percentage of files are compromised or escalated for sound business reasons? How many are escalated for convenience, such as handler inexperience, uncertainty, lack of dispute resolution skills or work backlog? There are no firm measurements, but it is a commonly reported occurrence even though subrogation managers discourage the practice.

Yes, escalation can raise the urgency of resolution. But it can trigger a defensive response, which can slow down activity. It also introduces an element of risk in the outcome of the case. Invariably, it increases the file’s life cycle and in all likelihood increases the recovery cost. Escalation is adding a third party to the dispute—be it an arbitrator, a mediator or the courts to sort out differences of fact or opinion. Despite the best intentions and efforts of all involved, we know that intervening third parties do not necessarily guarantee that they are fully qualified, objective or diligent. Escalation by its very nature may not always be the optimal way to recover more, cheaper, quicker.

It is clear that escalation increases the possibility of a compromised settlement and lower recovery. What is the potential shortfall in recoveries from compromise or escalation? Few carriers have systems that accurately

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capture the amount of subrogation receivable, not to mention the compromised balances. Industry discussions usually center on a subrogation leakage figure of greater than 15 percent. It does vary by lines of business (i.e.—workers comp, property and auto, health), and can vary based on the form of escalation (arbitration or litigation), by line of business and individual adjuster.

In an electronic environment, using previously agreed-to formats and content with the appropriate supporting documents, undisputed claims could be expedited. This could reduce the volume of denials and disputes to those files, where true differences in fact or liability theory are dissolved. Theoretically, undisputed files could be resolved with one transaction, and funds could change hands the same day. There is technology that exists to make this happen today. The greater challenge to achieving these benefits is to change long-standing industry behaviors on how subrogation is conducted.

ELECTRONIC INTERCHANGE OF DEMAND & RESPONSE

Much of the data and content within an exchanged subrogation transaction is repetitive and predictable.

It's these repetitive transactions that make the electronic exchange process a huge opportunity for the industry. Current technology provides single-point access to data, documents, teams, vendors and carriers. It also supports automation of routine tasks, paperless workflows and electronic communication between carriers that could eventually lead to paperless exchange and electronic funds settlement.

TREATIES AND ELECTRONIC INTERCHANGES

Many other industries use electronic commerce to expedite processing large-volume transactions in an effort to reduce "leakage" due to friction from inconsistent processes and antiquated communication methods. Another way to expedite electronic commerce is to add treaties to instill structure for processing routine transactions between carriers. Treaties are widely used on the underwriting side of the business. These treaties should not get into insured privacy issues or subjects such as pricing or underwriting issues that would raise the specter of antitrust. They should only deal with the format definition that two or more carriers have agreed to when they subrogate each other to minimize friction over form, content, definition and process. In effect, these

SINGLE ACCESS POINT

Links tools, data, teams, vendors and carriers to improve subrogation results.

- > **ACCESS AND DELIVER** information across carrier teams
- > **ELECTRONICALLY EXCHANGE** data with vendors, attorneys, and data providers
- > **EFFICIENTLY DELIVER** demands to accelerate negotiation and settlement
- > **FACILITATE MIGRATION** to electronic demand / response interchange between carriers.

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business and transactional rules 'level the playing field,' so large and small carriers can transact efficiently without undue friction and cost.

A carrier can have a single set of rules by which it conducts subrogation, or it can tailor rules for other carriers. They are freely negotiated.

EXAMPLES OF SUBJECTS THAT MIGHT APPEAR IN A SUBROGATION TREATY INCLUDE, BUT ARE NOT LIMITED TO:

- > Qualifying lines of business
- > Claim criteria that will qualify (state, dollar size, type of loss, etc.)
- > Demand format and content
- > Response format and content
- > Supporting document requirements
- > Response times and guidelines
- > Remittance instructions
- > Dispute resolution rules
- > Audit rights

Yes, even in an electronic interchange there will be liability disputes and settlement negotiations that will need human intervention in order to reach a resolution. However, the use of treaties has the potential to reduce the volume of files that would need special handling. Productivity would be increased, and transaction cost for interactions between carriers could be minimized.

ADOPTION OF STANDARDS

A significant step to simplify communications between carriers and vendors was made with the introduction of a new standard XML message. An industry group of carriers, vendors, consultants and other interested parties, working in unison through the Collision Industry Electronic Exchange Association (CIECA), published a standard XML message for a carrier to assign a subrogation file to a vendor in February of 2008. This standard is available for anyone who wants to use it. Learn more about this from CIECA at www.CIECA.com. Other XML messages are expected to follow in the future. These will include carrier-to-carrier demand and response and arbitration. Carriers that adopt these XML standards and use them will have a common language to conduct subrogation transactions in an electronic environment.

CONCLUSION

Automated subrogation solutions and electronic exchange of subrogation demands are frequent topics in strategic planning meetings on claim automation. There are clear advantages to early adopters. As more carriers improve efficiency, subrogation costs will decrease and the policyholder will ultimately benefit. Companies that are early adopters will enjoy a competitive advantage that will improve financial results and increase policyholder satisfaction.