

SPRING 2010
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INFORMATION FOR TODAY'S CLAIMS PROFESSIONALS

Is There Meat on the Budget Menu?

While Insurer IT Budgets Are Lean Overall,
Claims Departments May Be a Cut Above

Getting the Pieces Together

Driving Claims Ops to a Higher Level

Playing Nicely with Your Claims Team

Seasoning the Tech Trend

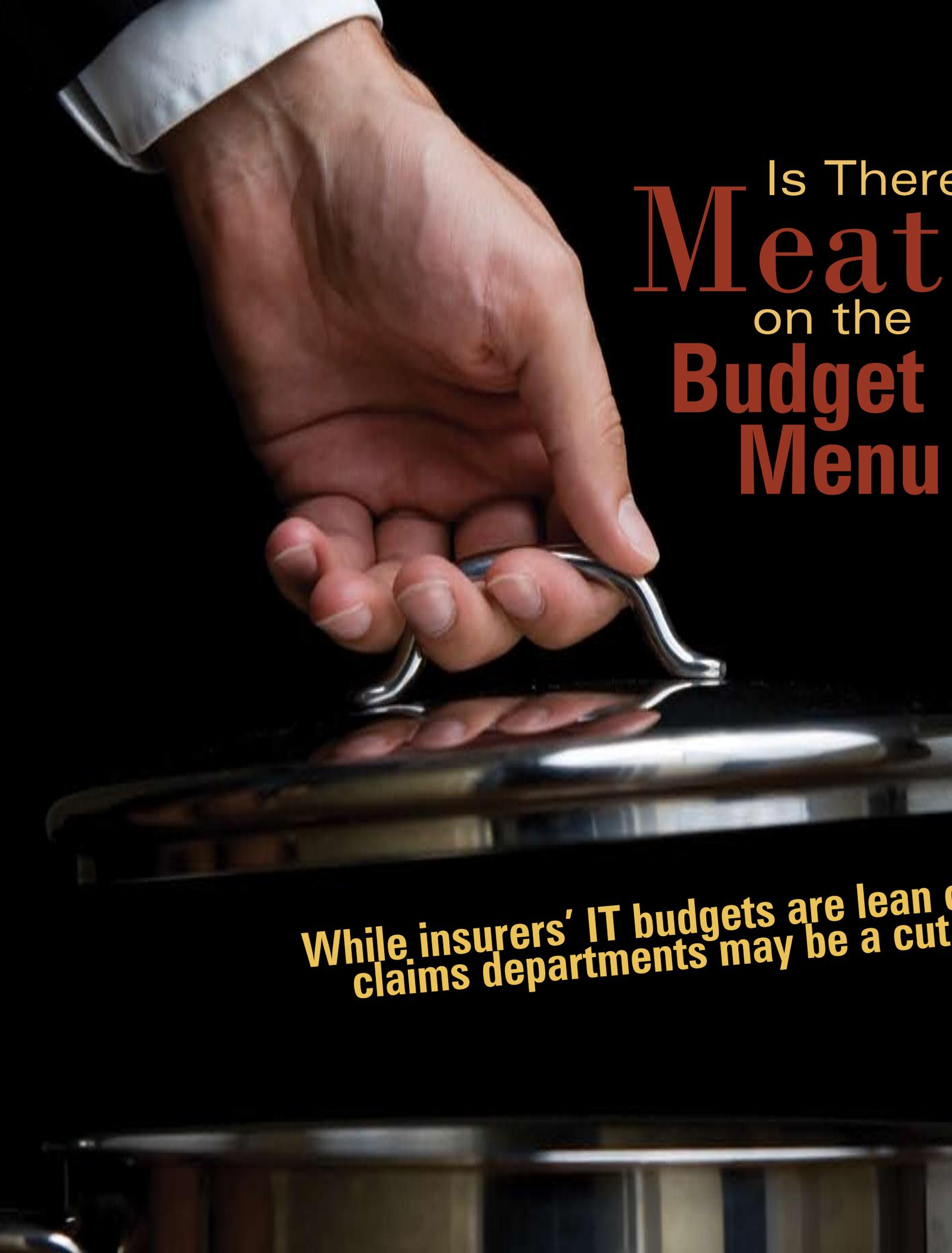
Pushing Off the Legwork

Practical Makes Perfect

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Is There
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on the
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Menu

While insurers' IT budgets are lean, claims departments may be a cut

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Overall,
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QUICK LOOK

- The recession isn't crippling claims technology purchases.
- Though the menu is rich with choices, integration is meat and potatoes.
- Lurking beyond what insurers want are things they must do. (Think compliance and audit.)

BY MAUREEN LATIMER

Two years of a vegetating economy is getting old, and insurer information technology departments are weary of playing Jack Sprat. The industry saw a median increase of 0% in IT budgets last year, and 2010 doesn't look much fatter. Revenue in the property/casualty industry dropped 2.4% in 2009, so blowing a wad of money on new technology isn't going to happen this year at most insurers. A survey done by Strategy Meets Action indicates that 37% of insurers will increase IT spending some in 2010, 36% will keep IT budgets flat, 21% will see a decrease, and another 4% will make deep cuts. Only 1% said they would increase IT spending 10% or more.

Statistics specific to claims departments are more positive, though. Kimberly Harris-Ferrante, VP and distinguished analyst at Gartner, says that 61% of chief information officers for claims say their budgets ought to be up in 2010 by 4% or more, and that's compared to what they were in 2008. "Throw 2009 away," she says. "It's an anomaly. We need to look at where 2010 will be in comparison

to the last normal year, and that's 2008."

And it's not just in straight budget numbers that Harris-Ferrante sees a glimmer of hope. "Look for internal reallocations. Cost savings derived from previously implemented efficiencies will be applied to other areas in claims." Management systems have eaten a lot of money in the past two years, but the result of that investment will be applied to claims needs at many carriers, she says. For instance, a 5% savings in one area may be applied to fraud detection or some other claims segment, so, while actual dollars budgeted aren't increasing dramatically, there will likely be growth where it's needed.

A third quarter 2009 survey by Gartner indicates that 14% of insurer IT budgets goes to claims, second only to policy administration, which garners 24%. Underwriting follows at 13%, and data warehousing and business intelligence come in fourth at 11%.

Capital budgets have been affected worse than operational budgets, as is often

the case in recessions, so legacy systems are likely to be tweaked instead of replaced at most insurers. "We're not going to see much more rip and replace," says Becky Clegg, product director for iVOS at Aon eSolutions. She says claims technology buyers are looking more for answers to workflow and life cycle issues. They are more interested in augmentations that make their claims systems more nimble and feature rich.

The Trend Is Toward Fusion

Marketing and product development were listed as the top priorities for IT spending, with 66% of Strategy Meets Action survey respondents saying that's where they would focus investment. Matthew Josefowicz of Novarica has a slightly different take. He says that top projects for 2010 include policy administration, business intelligence and claims. Among the pet projects he sees are agent portals, consumer portals, predictive analytics, underwriter tools and workflow.

Maybe it's a combo mambo that we're really



looking at for 2010. Insurers have to dance with several partners and keep them all happy, so there appears to be a swing toward integration of functionalities between the claims division and the front end, which first draws clients and continually has to stay in step with agents. If you look at it in that light—integration—it makes sense that analysts and members of the tech community would repeatedly cite enhanced portal functionality as a “hot button” issue.

While portal systems are frequently seen as a non-claims issue, that hardly

could be further from the truth. Steven Hauck, CEO of Sword Insurance U.S., says that portals done right are “suitable to manage all insurer automated experiences over the Web for transactions throughout the life cycle of a policy.” And that includes claims. “There’s a huge push in this area. Insurers are preparing now for an upcoming harder market.”

That means integrating data from policy inception through claims and renewals, including tracking payments, processing claims submissions, acquiring claim-specific data and images, and

more—for both client and agent end users. Hauck says the interest in portal systems has increased with the realization that internal carrier “silos” are obstacles to agents, clients and claims staff: “Legacy systems are choking them [insurers].” He argues that portal technology allows integration between claims and policy systems that are often provided by different vendors and operate independently of each other within the carrier’s operations.

He is seeing a lot of activity and interest in portals, but he acknowledges that insurers pretty much have to choose between two goods: differentiation at the front end and core processing systems. They are gearing up to spend on one; then, they’ll integrate the other at a later date.

Portal systems are rolled out in phases and are generally priced according to the direct written premium of the carrier. Some cases are considered independently, of course, such as for a high-volume, low-premium insurer. It takes about a year to get a portal system implemented. Gartner’s Harris-Ferrante says this is an “enormous initiative for 2010.”

Clegg from Aon eSolutions is also bullish on 2010. “More RFPs are being issued in preparation for a possible upcoming hard market. [Insurers] want to be able to make a selection quickly when the market breaks.” From what Clegg is hearing “through the grapevine,” claims administration systems could be the “buy” in 2010.

Following portal functionality on her trends list, Harris-Ferrante points to wireless communications and fraud detection software. Some of the biggest carriers,

like Farmers, Nationwide and AXA to name a few, already offer claims apps for the iPhone, and that’s in line with what she sees as a trend in demand. Users want information flow...on the fly. Adjusters want to be able to access and send information that is applicable to a claim while they’re at the site of the loss.

Sword’s Hauck echoes Harris-Ferrante on information flow. “Insurers want it to be easy to communicate with them. Agents or consumers tend to gravitate to the carrier of least resistance. Automating things like claims, tracking payments and submitting pictures of damages makes it easier for the agent or policyholder to do business with the insurer. That’s a win.” And Hauck once again underlines the importance of integration. Ease of communications supports both the sale and service of the policy from inception to claims to renewal. New systems or enhancements will have to fit into that new paradigm.

Consistent with the general sentiment among industry technology experts, Clegg cites data intake, workflow processes and efficiencies, and data output—reporting on identified trends—as focal points for claims systems upgrades. Predictive analytics is an important part of that trend: “I’ve got all this data; now how can I slice and dice it to do some forward thinking?” She says insurers want a “deep dive into claims data” and that they need to start seeing the cross-functionality of the data they collect.

When it comes to reading the future for trends affecting the bottom line, claims holds the cards. “Claims feeds the data load

Old School vs. New School

THE TYPICAL TOOLS FOR CLAIMS ADJUSTERS HAVE COME A LONG WAY IN THE PAST FEW YEARS. CAN YOU MATCH THE NEW TECHNOLOGY TO THE OLD METHOD?

PRIVATE INVESTIGATING		GLOBAL POSITIONING SYSTEM (GPS)	
PAPER CHECKS		CLOUD COMPUTING	
ANALOG CELL PHONE AND POLAROID PHOTOS		AERIAL LOCATION MEASUREMENT	
PAPER MAPS		DEBIT CARDS	
LADDERS AND TAPE MEASURES		SMARTPHONES	
DESKTOP COMPUTERS		ONLINE MEETINGS AND WEBINARS	
PHYSICAL TRAVEL TO LOCATIONS		SOCIAL NETWORKING SITES	

that don't require a new infrastructure. In the end, it's the same theme—the data from the claims side have got to be integrated throughout the carrier's operational structure, and it must be done at a reasonable cost without major overhauls or convulsions for the user.

The Dark Horses

While experts are talking about data integration, portal functionality and analytics, the dark horses are still plodding along and ultimately may win a seat at the table by mandate. Most notable among these candidates are compliance and audit systems. Sound boring? Insurers and TPAs are increasingly finding the regulatory umbrella expanding to cover them, especially when it comes to meeting Sarbanes-Oxley requirements. The Statement on Auditing Standards No. 70 (SAS 70) is becoming a recognized, standard best practice, and compliance with federal regulations over internal controls and data security safeguards definitely apply to insurance claims processors. Systems that drive down the cost of compliance and audit are on the radar even if they aren't the biggest blips on the screen.

"Automating compliance processes pays for itself in about eight months; then, in year two, it's straight return on investment," says John Capobianco, president and CEO of Lumigent, a provider of auditing and compliance reporting software. He sees the potential for increased use of governance, risk and compliance software to automate reporting in the claims field. More and more, under budgetary pressures,

for pricing, writing, risk consulting and audit," Clegg says. The claims data simply are the mother lode for analysis. New systems are going to have to support the strategic partnership between claims departments and the rest of the business.

And don't forget the role of third party administrators, Clegg warns. They are right in the thick of it, and they are also in the market

for claims solutions this year. "A lot of insurers want to hug their own data," she acknowledges, but others are looking to be more nimble, especially those operating globally. Those carriers often like the hosted environment and may seek out TPAs that can demonstrate agility in handling claims and integrating with the carrier partner's other operational segments.

Fraud detection is of

perennial interest to claims departments, and 2010 is not going to be different. What's new, though, is the emphasis on systemic solutions that enhance human capabilities. Gartner's Harris-Ferrante points to tech solutions that use analytic software to indicate fraud potential by extracting red flags from volumes of claims data. Some of these products work as plug-and-play applications

CIOs are noting that “defensive costs do nothing for customers or profits,” says Capobianco, “and they are looking for ways to reduce waste in the audit and compliance arena.”

Aon’s Clegg concurs that compliance is a must-do and that tech purchases are going to reflect that to some extent. “Regulations have created a cottage industry for reporting,” she says. “MMSEA [Medicare, Medicaid and SCHIP Extension Act of 2007], workers’ comp, and now potentially for healthcare. Combine that with all the nuances per state. It’s demanding.”

Part of that compliance agenda also encompasses data security, which affects new wireless communications where data is a critical, potential weak point. Secure transmissions have got to be established before wireless can become the field claims method de rigueur. Clegg says that data security is a top priority for many vendors and insurers alike for all of their systems. They want to know about the overall security model, its firewalls and data protection.

The New Recipe

While the more interesting buzz may focus on nifty tech solutions and smaller convenience items like debit cards and iPhone apps, the big items hold the sea change, with integrative technologies being the linchpin. The day of separate systems for claims and marketing is ending. The trend is toward utilizing the data-rich claims environment to the fullest extent possible. Besides, the gadgetry can happen on the side. These aren’t major, strategic, expensive projects.

Overall, the buy side for serious, strategic claims technology looks pretty strong in 2010. “We’re not just keeping the lights on this year,” says Harris-Ferrante. But Matt Josefowicz sounds a note of caution. Claims professionals are going to have to learn to stretch the stew. At a recent Novarica webinar, he reminded participants that insurance professionals are “being given a few more resources and being asked to do a lot more with them.”

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Maureen Latimer is managing editor of Claims Advisor.



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