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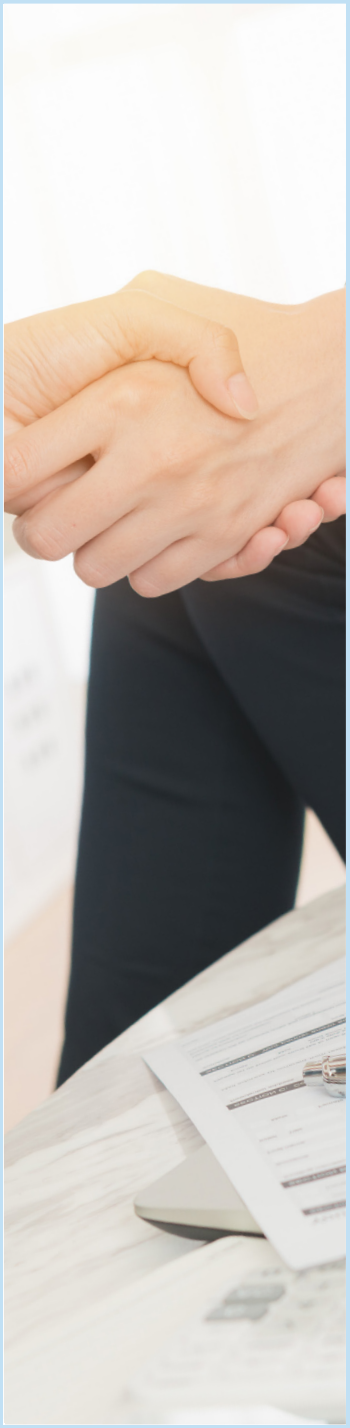

UPGRADING INSURANCE CLAIMS MANAGEMENT TO MEET REAL LIFE NEEDS

Abstract

Experiencing a loss and filing an insurance claim is more tedious than claimed. In general, the claim process is nowhere a breeze and is a scary subject for many of the people. Additionally, the financial woes due to the loss situation are accompanied by strong emotions. Notably, the life insurance loss scenario is far more delicate, and many times the beneficiary is not only in emotional shock but is also unaware about insurance coverage. In some situations, beneficiaries face several limitations in filing the insurance claim while some other beneficiaries need the claim amount on priority due to financial constraints.

All these are genuine real-life situations requiring special attention from insurers. In this paper, we present three approaches to satisfy the critical unmet needs of the beneficiaries and insureds. While improving the overall claims management process, these new approaches will also provide additional business opportunities and revenue for insurers.

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The moment of truth for insurance claims

The fabric of the insurance business is woven with 'if-then' situations. A small premium amount is paid by a policy owner regularly, but if the covered loss event takes place, a comparatively larger 'sum assured' is due from the insurer. The low probability of the event occurring makes the model functional. However, the moment of truth for insurers is when the unfortunate event occurs, and the sum assured is claimed. As this situation is the only reason for the existence of the insurance business, the claims process should be smooth, empathetic and swift. Ideally, from the customer's standpoint it needs to be simpler than the premium payment process.

Notwithstanding, the insurance claim process is troubling, frightening, frustrating for most people. Surely, insurance carriers are not intentional about the hurdles in the process, which are mainly due to the complexity of the business. However, unhappy and inconvenienced claimants are a strong reminder for insurers to start improving the existing claims management process.

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Tailored solutions for specific needs

The needs of individuals vary, and a one-size solution can never fit everyone's practical requirements. However, the most desired yet unmet needs of insurance customers must be satisfied, especially when they are at the fulcrum of the business proposition. In this context, we will pick the top three unmet needs in the claims area and provide practical solutions towards meeting them.

SPECIFIC NEEDS	TAILORED SOLUTIONS
The beneficiary of the insurance coverage unknown/unaware	Automatic survival verification and notification to the beneficiary (if needed).
The claims amount is urgently needed after loss event	Immediate payment of partial claim amount.
Assistance is required during the claim process	Support from a third party (representing beneficiary) throughout the claim process.

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Need 1: The beneficiary of the insurance coverage is unknown/unaware

This is a significant problem, especially in life insurance. Many times, the insured dies and the beneficiary is not even aware about the life insurance coverage and the insurance policy lapse. Another scenario is, the insurer failing to locate the beneficiary after the death of the insured. Due to this, a lot of money lies unclaimed with state insurance departments. In either cases, the beneficiary is deprived of the claim amount, which was the sole purpose for buying the insurance coverage.

Solution 1: Automatic survival verification and notification to the beneficiary (if needed)

The insurer should initiate periodic survival verification based on triggers such as non-payment of premiums. In case of single premium policies or paid-up policies, there should be an annual verification of the insured on an opt-in basis. Indirectly, this will help the insurer to establish a better connection with the insured. In situations where survival verification fails, the insurer should proactively reach out to beneficiaries and assist them in filing the claim. Many insurers are already doing this; however, the stress here is to improve existing structures and minimize ongoing leakages. To this end, we suggest better loss tracking, beneficiary management, automatic and frequent life status recording, and notification to beneficiaries. A beneficiary 'verification key' with which beneficiaries will be able to authenticate themselves seamlessly with the insurer can further help in streamlining the process.

Need 2: The claim amount is urgently needed after the loss event

Many times due to various reasons, the beneficiary requires the claims amount immediately after the loss event. However, the claims process often takes a long time not due to the gaps in the process, but sometimes due to delays in third-party documentation, estimations, verification, or several other reasons. Therefore, no party is at fault, but the claimants are forced to suffer financial troubles for reasons beyond their control. Should the inconvenience not be minimized as far as possible?

Solution 2: Immediate payment of a partial claim amount

The insurer can provide a partial claim amount to the beneficiary after initial screening of the claim. This will require best-in-class claim screening processes to master and side-step the associated fraud-related risks. These risks can also be managed by capping the partial claim amount or by making staggered contingent partial payments. Even with these measures in place, the risk of fraud cannot be completely avoided, and the insurer will need to price this feature. A later section of the paper will delve into the associated financial details.

Need 3: Assistance is required during the claim process

Even the most straightforward claims process may hold complexities for some groups of people due to a variety of reasons such as age, location, time, or other priorities. As an example, an artificial intelligence (AI) enabled online claims process may be extremely complicated for an older person not familiar with computer, mobile, and internet technologies. In all these cases, there should be end-to-end help available to the beneficiaries throughout the journey of claims submission and processing.

Solution 3: Support from a third party (representing the beneficiary) throughout the claim process

If a beneficiary needs help with filing a claim and associated activities including collecting documents, providing required inputs, and interaction with the insurer; insurers should provide a framework for a third party to represent the beneficiary. The third party can help in completing all claims related responsibilities of the beneficiary. Moreover, the insurer can charge the policy holder additionally for this optional feature.

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Viability review of the new claim features

1. **Automatic survival verification and notification to the beneficiary (if needed)** – Ideally, this should be a free feature in life insurance. Its implementation appears to be straightforward without much complexity or need for massive investment. If an insurer wants to charge for this feature separately, they need a powerful reason to do so and must effectively communicate the same. We also expect that per the policy, the charge for this feature would be so minimal that no one will debate its cost.
2. **Immediate payment of partial claim amount** - Partial payment of the claim amount before final processing is fraught with risks from misuse by fraudsters. Therefore, it will require a matured solution through which insurers can efficiently detect fraudulent claims even before paying the partial claim amounts. Otherwise, it may have a significant impact on the pricing of this feature. which will also depend on a lot of variables and real-world assumptions. However, the quantum of increase if managed well from the insurer side, is not expected to be significantly unaffordable for customers. In the scenario below, there is a premium increase of 2.14% due to a partial claim feature.

Financial Impact of Partial Claims Feature

Items	Values
Total No. of Risks	50,000.00
Average Sum Assured	$2,00,000.00
Partial Claim Payment	$40,000.00
Actuarial Expected Claim	2.90%
Actuarial Premium without Partial Claim Feature	$5,600.00
Genuine Actual Claim	2.80%
Reported Claim	4.30%
Fraud Claims	1.50%
"Fraud Detected before paying Partial Claim"	1.20%
Fraud Claims - Partially Paid	0.30%
Fraud Claims Burden	$60,00,000.00
Actuarial Premium with Partial Claim Feature	$5,720.00
"Additional Cost of Partial Claim Feature"	$120.00
Premium Increase due to Partial Claim Feature (in Percentage)	2.14%

3. **Support from the third party (representing the beneficiary) throughout the claim process** – There are additional costs associated with providing third-party support to beneficiaries. However, these costs are associated with the claim, and consequently, the entire risk pool will share this cost as we are unaware in advance of who will experience the loss. Accordingly, the cost of this feature will be very minimal. In the below example, we are assuming $1,500 as the cost of third-party support, and it is increasing the premium by only 0.75%.

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Financial Impact of Third-Party Support Feature	
Items	**Values**
Total No. of Risks	50,000
Average Sum Assured	$2,00,000.00
Expected Claims (in Percentage)	2.80%
No. of Expected Claims	1400
Actuarial Premium without Third-Party Support Feature	$5,600.00
Average Cost of Third-Party Support	$1,500.00
Actuarial Premium with Third-Party Support Feature	$5,642.00
Additional Cost of Third-Party Support Feature	$42.00
Premium Increase due to Third-Party Support Feature (in Percentage)	0.75%

Pursuing the win against the zero-sum game

Despite adding value in the overall claims process for specific groups of customers and beneficiaries, the three additional features will not adversely impact the insurance company. The customer's gain will not cause a loss for the insurer, as being optional, these features will only be available against a service fee. Rather, these tailored services can provide additional business opportunities for insurers. Consequently, all parties can potentially win by participating in upgrading the claims management process.

Some customers may choose not to opt-in for these new claim features, but the insurer will need a minimum threshold to offer such services at a reasonably affordable price. Moreover, insurers should provide these services after considering the long-term impact, even when the short run outcomes are not always bright and convincing.

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The way forward

Insurance products, apart from their contingency based structure, are also associated with the limitations of an intangible product. Therefore, despite their benefits, ordinary customers may not perceive their value highly. Furthermore, the insurance industry also suffers from 'low-touch' problems and the moment of truth is only occasional, mainly at the time of claims. Consequently, insurers should try to use every possible opportunity to make the claim process smooth and easygoing.

The three solutions proposed in this paper to upgrade claims management and address the unmet needs of customers and beneficiaries are a win-win for all parties and are indispensable for the industry's success going forward.

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