

A Model for Change

Technology can help claims departments and attorneys perform better for insurers.

by Faiz Ahmed and Saeed Fotovat

A target operating model that links claims professionals and law firms can benefit an insurance claims organization. Such an operating model could yield substantial cost savings in the form of greater efficiency, better management of law firms' and claim adjusters' performances and improved claims outcomes.

However, many good business ideas often fail right after they are introduced. Innovation often is disruptive; disruption requires change and many people don't like change. In fact, implementing an operating model to efficiently manage litigated claims is a project that impacts people, processes and technology com-

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ponents of the claims organization. But because the impact to a carrier's bottom line is so significant and potential cost savings are so large, many carriers consider it necessary to work through the challenges of change toward implementing improved processes and technology that will help lower the costs associated with litigated claims.

One of the most important success factors in introducing an operating model is visible and regular involvement by senior claims leadership. Communication should come from senior management, and should spell out the types of changes and benefits that will be coming to the general organization. This communication will:

- Indicate the importance of the initiative to the organization.
- Resolve ambiguity about the goals of the initiative.
- Help reduce resistance by clearly setting expectations of imminent changes in the business.

Senior claims leadership also should commit to being regularly involved with establishing the projected costs and producing a milestone

► **The Situation:** Many insurers need to streamline their litigated claims management.

► **The Issue:** Unmanaged information platforms can cause claims leaders to choose underperforming law firms.

► **The Payoff:** Insurers should pay attention to litigated claims data because this process can cut indemnity expenses.

timeline. A commitment to detail and process is a critical success factor when introducing new plans. Each milestone should be recorded, and progress should be measured against expectation. Commitment to such detail and process becomes learned behavior among the members of the project team. It also enables the team to address the evolving needs that arise in both the design and implementation of the litigation management operating model as well as the needs of the claims organization after the model is established.

It's also important to understand that the implementation of an operating model is not just about technology adoption. It cannot be assumed, for example, that the introduction of an e-billing/matter management system itself will cause users to leverage the document management, e-billing, calendaring and collaborative portal

environment. While the use of these features is obviously an important outcome, carriers need to consider that the initiative is primarily about changing behaviors, learning new tools and leaving old processes and systems behind.

Claims adjusters and defense lawyers, for example, may now be required to assign and acknowledge cases differently. Lawyers and their billing personnel may have to learn to submit bills and case status reports through a collaborative Web-based portal rather than by mail (or even e-mail). And claims management may have to adjust to using the data generated through reporting tools and relying less on ad-hoc decision making.

An integrated technology platform and a strong knowledge of business data to support business process activities are needed to achieve success. A well-designed target operating model for management of litigated claims should include integrated components such as a legal bill review system, collaborative case management, document management, work flow orchestration and a business data reporting engine.

Current-State Assessment

The first step in the design, development and implementation of the target operating model is to document the company's litigation management processes, organizational skill levels and technology investments. This baseline assessment

will identify and document the current state of the claims department across the three dimensions of the organization: people, process and technology.

In addition, the completion of this phase should mark the compilation and review of important data points such as the average legal expense and indemnity figures per claim, current resource levels, law firm and claims personnel performance evaluations and other key performance indicators. These data points will be used as a measuring tool for future phases of the initiative.

Also, the current level of claims personnel by each line of business or geography, and by skill sets, is documented. This process identifies gaps in the current staffing structure and ensures that future plans will fully leverage the potential of existing resources. The scope and boundary of this assessment should include all personnel that directly interact with the claims organization, such as the insured policyholders, the outside law firms and staff counsel that defend the policyholders, the underwriters that seek claims information in pricing renewals and the technology and finance personnel that support the claims organization.

Another important step is to document how the different constituencies in the claims litigation process interact with one another. It often is during this exercise of mapping the current-

state process that major inefficiencies are identified, critical handoffs in the litigation management process are recognized and early thoughts on constructive improvements begin to take shape. At this stage, key performance indicators can be viewed in the context of business reality.

For example, ill-defined processes that are the basis for claims adjusters' assignment of cases to law firms may help to explain a high number of non-panel law firm assignments—which typically contributes to higher overall legal costs for the claims organization.

Finally, this phase also should evaluate the current state of technology investment that supports the litigation management function in the claims department. This may include the claims system, an e-billing system, a matter-management system and reporting tools. Understanding how each system supports the needs of the organization, as well as the cost to maintain each system, should reveal where the existing technology will enable the target operating model, and where there are gaps.

Design for Change

After establishing a baseline, the second phase of designing a target operating model is looking at the design of the claims organization. This phase consists of developing a list of goals (such as the ability to retain panel counsel based

A Partnership: Claims and IT

Many organizations make the mistake of viewing any organizational design and implementation that has a technology component as primarily an IT function.

In fact, the design and introduction of a target operating model for litigation management should be owned and managed by claims management in partnership with the information technology organization. The implementation phase should be defined as a program that includes many work streams around process improvement (such as the manner in which law firms and claims organizations interact); organizational change management that allows for the smoothest possible transition towards new processes and newly created roles; and information technology implementation.

The most important aspect of putting an operating model in place for the claims organization is the need for cultural change within the department. As such, the project team

needs to spend substantial efforts on organizational readiness, training and skills development. A well-orchestrated change management process will ensure successful delivery of the enhanced business processes to well-educated and interested claims personnel. Once this is complete, the implementation of a truly integrated technology platform will automatically capture the business-critical information. This will enable the claims leadership to perform its duties using the right tools to leverage the business data.

Starting up a target operating model needs to be approached as a multi-phase project, and may include a prototyping phase to apply lessons learned as correction factors to the overall design of the department. This approach not only enhances the overall outcome of the program, but should be part of an ongoing process improvement technique for the departmental operation, even after full implementation.

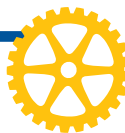
on complete performance data, which allows comparison of law firms) and the mapping of those goals to the individual people, processes and technologies within the organization. Changes to the existing organization design begin where it is difficult to map the goals to the existing people, processes or technology.

Before making these changes, the project team needs to consider its return on investment. Process re-engineering, the implementation of new technology and a reallocation of human resources can be expensive. Does the intended return on the investment justify any particular change in the organizational design? Such a method of analysis will allow the project team to remain disciplined, and determine activity based on the greatest potential return for the claims organization.

A results-oriented approach should be taken to design an optimized process for each function. The ultimate goal is to remove bottlenecks and barriers, which will reduce costs by increasing efficiency, and lower the total cost of litigation by cutting the total figure

that is represented by both defense costs and indemnity. Both of these goals can be achieved by defining the most effective and balanced approach to process each litigated claim, and by installing a reporting mechanism that

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allows for monitoring performance.

It is critical to pay special attention to the data collection on litigated cases, because the way in which the information is collected and used can have significant ramifications, such as choosing which law firms remain on-panel and which do not.

As such, data collection and presentation in the form of decision-support tools need to be clearly defined as

part of the design phase.

Clearly presented and relevant information is central for successful decision making. At many claims organizations, where unmanaged information exchange platforms are the rule, claims leaders are not able to fully benefit from collective organizational knowledge. This often results in assigning business to underperforming law firms or the failure to recognize that the claims team is in need of training on aspects of litigation management. These are matters that can cost claims organizations tens of millions of dollars per year.

The ultimate goal of establishing a target operating model depends on the accessibility and availability of business data in a standard, recognized and aggregated model. To achieve this level of agility, a ground-up assessment of data management should be conducted.

New structures within the target operating model should enable claims organizations to identify and manipulate the levers that impact legal expense costs and, just as importantly, the overall indemnity expense. **BR**

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