Enabling Integrated Claims Management
Creating a more streamlined and intuitive insurance claims environment can pay huge dividends.

Executive Summary
The financial services industry has undergone a paradigm shift over the last two decades. This shift has brought about fundamental changes in the manner in which business is conducted and the ways customers perceive the business. This shift has also attracted many control measures by regulators.

Globalization has resulted in exponential growth for many successful enterprises both in financial and non-financial industries. In the majority of these, growth can be attributed to inorganic expansion through mergers and acquisitions (M&As). Specifically, in the insurance industry M&A activity has been on the rise since the early 1990s – especially in the UK, continental Europe and North America. The extent of exposure to risk has grown multifold with the growth in this industry. Recently, the industry has witnessed a government bailout for some carriers.

From an IT perspective, both M&As (in organic growth) and bailouts have resulted in systems acquisition and consolidation, leading to enterprise-wide transformation initiatives. For an insurance company, under any circumstances (a situation demanding change driven by market situations, natural calamity or environmental forces), it needs to be agile to fulfill its basic mission, which is to provide direct financial protection to its customers.

Among all others, claims management is one of the important functions for an insurance carrier. For starters, it directly impacts the carrier’s risk exposure and liquidity. Hence, IT must serve as a strategic enabler in the management of both these crucial functions.

In this paper, the authors share their thoughts and ideas to improve the efficiency of claims management through the consolidation of claims systems into an integrated claims management system. It covers some of the benefits that could be leveraged by the insurance carriers and used for competitive advantage.

The Need
In the insurance business, a prospect gets converted into a customer/policy holder after the contract is executed and the policy is issued. As a prime expectation, the policy holder will expect the insurer to settle the claim in a hassle-free and speedy manner when the need arises. So handling a claim is a process that involves a sequence of steps that need to be followed by the insurer. Figure 1 represents a typical claim process segregated into L0, L1 and L2 levels. As represented in the figure, the claim process will involve multiple actors and will interact with multiple systems for cross-referencing.

A greater number of life insurance policies end up having a claim in comparison to general insurance. This happens due to different situations (policy...
Typical Insurance Claim Process

Figure 1

maturity, death of the insured, etc.). From a competitive perspective, insurance carriers vary among themselves with the efficiency level in handling claims and settlements. Of late, some of the carriers have made claims processing efficiency as their unique selling proposition. Towards this, customers started analyzing the Claims Repudiation Ratio (CRR) of the insurer before taking a final decision on buying a product from the carrier.

Some of the reasons why many carriers are not as efficient as they should be are as follows:

- Varied nature of systems (mostly legacy) that are either home-grown or acquired through M&As. These act as bottlenecks in interoperability of the systems and also in bringing the right changes to the systems.
- Aging systems provide little flexibility to incorporate claim provisions while launching new products.
- Difference in the channels for claims entry and registration. Following are the examples:
  - In an M&A situation, the carrier being acquired might have only call center interfacing as the channel for claims initiation whereas the carrier acquiring it might have additional channels (e.g., Web, IVR).
  - Similarly, home grown systems might not be capable enough in provisioning multiple channels (e.g., the legacy claims system might not be supporting Web enablement).
- There is little or no automation of the underlying workflow handling the claims process. And even if the claims process is automated, there is often a difference in the process flow between the participating systems.
- Limited fraud detection. Though insurance carriers have a comprehensive fraud detection process to ensure genuine and legitimate claims, not all systems/applications support such fraud detection capability. This increases the claims ratio, thus imposing a direct impact on the cash outflow and efficiency in processing genuine claims.
- To add to the complexity, there is the diversity due to difference in products, geographical regions and changing regulatory requirements. Addressing these divergences forces carriers to adopt different process steps to meet the needs of claims management.
- From a business focus perspective, carriers have traditionally been allocating a larger share of their IT budgets to meet the needs of new product rollout, underwriting and finance areas of insurance functions — with very little focus on streamlining the claims area.

Though inorganic growth has been realized in recent decades, the factors outlined above have been bottlenecks for a customer-focused business model. Hence, it has become imperative for the carriers to focus on streamlining the claims management area for further business enhancement.
Since it has a direct impact on insurers' business success, consolidation of claims management systems into an integrated platform needs to follow a methodical approach, under a well-conceived strategy.

**Solution Options**

With most of the claims systems being legacy in nature, the solution options for consolidating claims management into an integrated application generally are the following:

- **Build**: This involves building an enterprise claims management system from scratch with the desired rules and functionality.
- **Buy**: This involves buying a ready-made product intended for this purpose and then customizing it as per the carrier’s needs.
- **Reuse**: This involves redesign and implementation of the whole claims management system landscape while utilizing existing infrastructure, system/s, business process/es or any other aspects as applicable. Any aspects that do not exist currently but are required in the future will be built afresh; existing processes will be reengineered so that they fit into the redesigned claims management system landscape.

However, each of these options has pros and cons that are important for decision makers and influencers to consider. Some of the main pros and cons are outlined in the table below:

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<th>Option</th>
<th>Pros</th>
<th>Cons</th>
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| **Reuse** | • Minimum additional investment on Cap-Ex.  
  • Leverage existing infrastructure and systems. | • With most of the claims systems being legacy, reengineering could be complex  
  • Migrating business processes from legacy to the target system could be very complex.  
  • Might result in retaining the legacy system as the consolidated system, giving little or no flexibility for modernizing later. |
| **Build** | • Will result in providing an agile and modern technical platform.  
  • Easy to implement future needs.  
  • Easy to integrate with other insurance platforms. | • Moderately high investment requirements.  
  • Requires uncompromisingly high maturity in the subject matters to be built afresh.  
  • Demands a very meticulous program management and risk mitigation ability. |
| **Buy** | • A ready-to-use platform with little customization.  
  • Would provide a uniform view of end-to-end claims process. | • High investment requirements.  
  • Increased dependency on the vendor.  
  • Additional customization and enhancement requirements could add to OPEX. |

Regulation-wise, insurance carriers are required to retain the customer and policy data for a certain duration (typically 20–25 years) after the closure of the policy. In light of this, opting for the reuse option could provide larger benefits to the carriers. Selecting the reuse option is also driven by the cost and time involved in rewriting such applications afresh.

However, it is important to note that the solution option selected for the purpose should be in line with the overall strategy defined for business and IT alignment (see Figure 2).

Typically, an enterprise architecture blueprint and road map would outline this alignment, highlighting the need to focus on some of solution areas (e.g., claims management in this case).

Once decided, the adoption of an integrated claims management system (through build, buy or reuse) could follow a structured program management and organization change management process. However, in the case of reuse, the formation of an integrated claims management system could follow a traditional application rationalization process involving the carrier’s business, technology and operations teams.

**Integrated Claims Management System**

Relying on current technology capabilities, insurers have started to form a holistic and integrated claims management system with the following salient features:
• Has ability to initiate claims from multiple channels (mobile and non-mobile), including fax.
• Has a streamlined workflow to handle various activities under the claims process: claims reporting, case management, policy entitlement and benefits tracking, handle disputes and arbitrations, vendor management, etc.
• Enables third parties to access and use the system.
• Has a common view of all the carrier’s claims.
• Should support all processes or adapt to changing processes for all claim types.
• Integration with other core insurance systems: policy administration, customer data, calculations and derivations, etc.
• Ability to store historical data in various forms including e-forms, images, etc.

Figure 3 presents the contours of an integrated claims management system’s reference architecture. Though the reference architecture depicted here contains only three layers, it could logically be segregated to have multiple layers depending on the scale and diversity of the claim function for the carrier considered.

As represented in the reference architecture, each of the layers meets a specific requirement of the claims process, as follows:

• Presentation layer: This layer enables customers and representatives to initiate the claim through different channels, as in the Web, mobile, fax, e-mail and handheld devices. (The Web, fax and e-mail are the dominant modes through which claims are raised.) User experience and accurate data capture are critical aspects to be incorporated.

• Business logic layer: Once the claim is initiated, it undergoes a predefined set of activities or steps before a settlement state is reached. This layer hosts required workflows, applying necessary rules and adjustments. Wherever applicable, it takes care of making the claims management system interoperate with other core or non-core insurance platforms. The interoperation could be achieved either by means of standard interfaces or by representing the business objects as services.

• Data store layer: This layer would store the claims data in a data store (RDBMS/non-RDBMS). Claims data existing in multiple data stores will migrate to one or more data stores, consolidating them into a uniform data model. Based on the maturity of the applications, the migration could happen in a “lift-and-shift” mode. Otherwise, the data needs to be transformed (which is highly unlikely considering the complexity involved). Apart from storing the claims data, this layer will have storage for e-documents (e.g., those received by fax) or images received by e-mail or fax. Similarly, it may host file stores.

The actual architecture and design of this integrated claims management system would vary from one insurer to another. There are several prepackaged systems available in the market for this purpose. Most of the major BPM (business process management) product vendors have prebuilt claims management packages. Similarly, database vendors have developed data models encompassing claims management.
Integrated Claims Management System Reference Architecture

Figure 3

These solutions are specific to a layer/component but not to the whole integrated system. Given that there are three solution options and reuse is widely followed, the reuse aspect is typically followed for data stores (to avoid remodeling from the ground up) and for business processes. The other layers/components are usually newly developed for this kind of endeavor.

Depending on the IT strategy of the carrier, the integrated claims management system could either be hosted in-house or could be hosted in the cloud. Few of the major insurers have already adopted to the cloud for the claims management area of their business.

Expected Benefits

Some of the benefits of an integrated claims management system are as follows:

• Improved operational efficiency.
• Agility: Improves ability to respond to changes faster in a cost-effective manner.
• Standardization: An integrated claims management system results in consolidation of disparate claims functions carried out using multiple systems following different process steps.
• Staff morale: An integrated claims management system results in reduction in manual processes and work-around — thus helping improve staff productivity and morale.
• The integrated system, being a consolidated view of claims, helps in the following:
  > Efficient tracking.
  > Effective fraud detection.
  > Identifying and tracking recoverables from reinsurers.
  > Improved customer service, especially during customer/claimant interactions.
  > Easier enforcement of service levels.

Conclusion

In the current market, the claims repudiation ratio has become an important parameter for measuring an insurer's position. So far, more attention has been paid in making the policy administration, billing and collections functions agile. Of late, insurers have felt the need to focus on streamlining the claims management process — thus providing a better customer experience and winning trust. Towards this, a focus on having a consolidated, modernized and integrated claims management system is crucial.
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