



Issue Brief

Claims Leakage

The International Risk Management Institute (IRMI) defines Claims Leakage as “dollars lost through claims management inefficiencies that ultimately result from failures in existing processes (manual or automated) ... The cause can be procedural, such as from inefficient claim processing or improper/errant payment, or from human error, such as poor decision-making, customer service, or even fraud.”

Essentially, **claims leakage is the difference between what an insurer did spend to settle a claim and what they should have spent.**

Detecting claims leakage and preventing it is a very complex topic that is top of mind for every insurer. This is because it is estimated that claims leakage accounts for 5% to 10% of all claims paid. In the life insurance sector, that number can be as high as 25%! In the U.S. alone, **claims leakage is a problem in excess of \$30B per annum.** In addressing claims leakage, insurers are not attempting to underpay claimants, but rather control their outlay to only the amount they are contractually obligated to pay.

Controlling claims leakage is a difficult balance to strike for insurers who must decide between the time and cost of thoroughly investigating a claim vs. the impact to customer satisfaction and retention resulting from a protracted claim settlement experience.

In other words, at what point does it make more financial and business sense to simply pay the claim? A difficult choice when trying to deliver the best customer experience at the lowest cost

What is causing claims leakage?

According to a PwC study¹ the major causes are:

People

Human error, and an overreliance on manual processes as well as insufficient training

Process

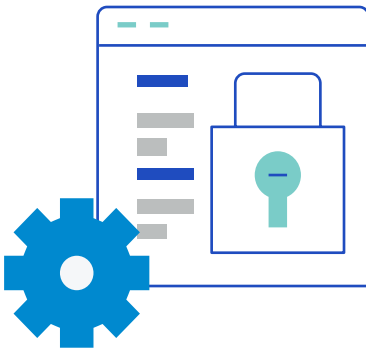
Inconsistencies due to suboptimal business processes, insufficient review processes, failure to perform and document investigations, and a lack of real-time claims monitoring

Technology

Legacy and disparate systems, poor data quality, and ineffective use of analysis tools

¹PwC study: <https://www.pwc.com.au/industry/insurance/assets/stopping-the-leaks-jan15.pdf>

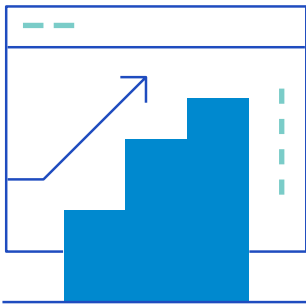




There are three additional areas where claims leakage is most likely to occur:

1. **Failure to detect fraudulent or overinflated claims** caused by the limited effectiveness of fraud rules engines, and infrequent assessment of fraud risk
2. **Errors in payments made to claimants** due to staff inexperience, manual processes, siloed data systems, and a lack of proper quality assurance
3. **Missed opportunities** resulting from insufficient documentation/communication, and inconsistent approaches and repeated claim reassignment across claim handlers

But by far the biggest problem with claims leakage today is that it is only identified after the claim has been paid, during a claim review cycle. That is, claims are routinely reviewed to ensure best practices and procedures were observed. But at this point is too late to do anything about it.



The independent nature of claims processing is a contributing factor that drives claims leakage. Claims adjusters execute individual judgement when processing a claim. They are free to prioritize and execute tasks as they see fit. Claims leakage is further aggravated by large case-loads, the pressure to process claims quickly, and as previously mentioned, the lack of visibility into the claims process. Short cuts are taken and errors occur. Vendor are mismanaged, skill sets are mismatched, documentation is lost, escalations are not initiated, and subrogation opportunities get missed. (subrogation is the right of an insurer to pursue a third party who caused the loss, in order to recover the amount of the claim paid by the carrier to the insured for their loss.) These are all contributing reasons leading to insurers paying more for claims than they should.

It is clear that the proper application of technology and process automation such as straight through processing and virtual claims handling would address a number of these issues. But many insurers may be hesitant to remove people from the equation out of fear of making the problem worse when, in fact, automating mundane processes, eliminating non-value add paper-based activities, and leveraging state of the art technology like artificial intelligence (AI) & machine learning (ML), would free insurers to leverage claim handlers where they are most needed; handling complex claims.

Imagine the impact on claims metrics if you could use automation and AI to proactively address the early warning signs of claims leakage.

- **Average Settlement Costs** - proactively identify when settlement costs are going up, and take appropriate action
- **Adjuster Caseload** - address overburdened adjusters before claim leakage develops
- **Reserve Changes Per Claim** - immediately identify excessive reserve changes that lead to leakage
- **Average Time to Contact** - quickly red-flag claims where the lag time between incident and FNOL is out of norms
- **Subrogation Recovery** - flag downward trends in third-party recovery of losses

In addition, identify patterns of collusion between entities such as Lawyers, Chiropractors, Body Shops and professional Claimants to reduce the overall cost of risk

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Stop claims leakage before it becomes a flood.