



15-Minute Guide to  
**Digital Claims Processing**

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## Foreword

For you as a business professional, time is a precious commodity. You constantly need to distill concepts, evaluate options, and manage complex transactions. When you need information, you need it in a form that can be quickly assimilated—forget the mind-numbing detail and get to the point.

With that in mind, we've developed our series of 15-minute guides to essential topics in information management. This guide focuses on claims processing, in particular the challenges insurance carriers face to reduce costs, prevent fraud, and meet customer demands while maintaining compliance with increasingly strict regulatory requirements.

In about 15 minutes, we'll examine the issues that make claims processing so problematic. We'll see how improving process efficiency through transactional applications based on an enterprise content management (ECM) platform can address those issues. And we'll provide a conceptual model that can be applied to claims processing and offer deployment guidelines and suggestions. We think you'll agree that it will be 15 minutes well spent.

## Introduction

If there is one area that can predict the success or failure of an insurance carrier, it is claims. Claims consume nearly 80 percent of insurance premiums in the form of payments or processing costs.<sup>1</sup> So efficiently managing claims is something about which every insurance executive is justifiably concerned.

Claims is a trifecta of challenges—a three-headed beast. To tame it, insurance companies must:

- Reduce the cost of claims processing and improve fraud prevention and detection to boost profitability
- Streamline the claims process to accelerate claims settlement and increase customer satisfaction and loyalty
- Ensure regulatory compliance to avoid sanctions and penalties

Of course, there are obstacles to achieving these goals—foremost, a thicket of primarily manual, paper-intensive processes that force claims professionals to spend an inordinate amount of time on non-core, low-value activities.

## Claims management—opportunity knocks?

The struggle to master the challenges of claims management is not new, but lasting improvements have been hard to come by. Nevertheless, there is increased urgency for insurance carriers to get it right. The marketplace is global and more competitive, and the regulatory environment more stringent. It's fair to say that companies that tame the claims management beast have a decided advantage over those that don't. So improving claims management presents an opportunity that cannot be overlooked.

### Reducing the cost of claims

In 2005, a conservative estimate of claims processing expense for a typical insurer was \$125 million (USD) on a \$1.5 billion unallocated loss adjustment expense (ULAE), or approximately nine percent per claim. Studies have also shown that the processing cost of a claim settled on the first pass (60 to 70 percent of claims) is substantially less than a manually processed claim resulting from an exception (30 to 40 percent of claims)—pennies compared to dollars.<sup>2</sup> Considering the number of claims a large insurance carrier processes annually, that differential can tally into the millions or hundreds of millions of dollars a year. From the perspective of cost, it is certainly beneficial for insurers to improve their claims process and processing technology to lower the volume of exception items.

Another hurdle to cost reduction is the volume of information that arrives via paper. Sixty to eighty percent of life and commercial property and casualty (P&C) transactions, which include claims, are initiated by paper.<sup>3</sup> In fact, information does much more than arrive by paper. As a Celent study points out, information “enters, leaves, and lives in the insurance life cycle in the form of a paper document. Although the industry is slowly progressing toward a less paper-intensive workflow, the majority of incoming and outgoing communications in most stages of the insurance life cycle is still paper-based.”<sup>4</sup>

Paper and manual processes usually go hand in hand. Manual processes that rely on paper documents can never be optimized for speed or accuracy. Nor can they be standardized to eliminate variance and leakage—the tendency for information to be lost as it moves through process steps. In particular, paper forces claims professionals—supervisors and staff and field adjusters—to spend nearly half their time on non-core activities such as inbound and outbound processing, filing, error correction, and rework.<sup>5</sup> And a slower, more error-prone process is a costlier process.

<sup>1</sup> As described by George Gilder and Bret Swanson in a 2008 Discovery Institute report.

<sup>2</sup> *ECM in 2006, AllIM E-Doc, November/December, 2005, James Watson, Jr., Ph.D., DocuLabs*

<sup>3</sup> Gorman, Mark. “Providing Actionable Information: The Quest for Competitive Advantage in the Insurance Marketplace” (2007 The Tower Group, Inc.), 6.

<sup>4</sup> Goldberg, Jeff and Evans, Ashley. “Document Automation Solution Vendors for Insurers 2007” (2008 Celent, a division of Oliver Wyman), 11.

<sup>5</sup> Costonis, Michael. “Rethinking Claims” (2008 Accenture), 3.

Finally, fraud adds appreciably to the cost of claims. A rule of thumb in the insurance industry is that claims fraud accounts for up to 10 percent of total premium costs.<sup>6</sup> Reducing claims fraud can have direct impact on top line revenue because it enables insurers to cut premiums and acquire or retain more customers. It is feasible to shave 50 percent off fraud losses through more effective and strategic detection.<sup>7</sup>

### **Streamlining the claims process**

In Alice in Wonderland, Alice falls down a rabbit hole and finds herself in a fantasy world. Welcome to claims processing from the insurance customer's perspective; it can truly be a fantasy world—and a frustrating one at that.

From first notice of loss (NOL) to settlement, many things can go wrong in processing a claim. But they share one thing in common: they cause delay. Vital documents are lost. Additional information is required. Customers are forced to deal with multiple claims representatives. It all adds up to unhappy customers—customers who just might take their business elsewhere and who certainly won't be providing any referrals. One survey found that nearly one in five policy holders said their claim experience would keep them from referring their insurance company to their friends.<sup>8</sup>

Customer expectations are also rising, in no small part because companies outside the insurance industry have made giant strides in improving their customer service channels. Take FedEx, for example. FedEx is convenient and reliable. There are no surprises whether package tracking is done from a FedEx retail location, online, or by phone.<sup>9</sup>

But this kind of customer experience is not possible unless the activity is supported by a streamlined and efficient process. Beyond happier customers, insurance carriers have another reason to streamline their claims process—it's faster. Generally, the longer it takes to settle a claim, the costlier it becomes simply because settling the claim consumes more operational resources. But for some claims, such as workers compensation, a lengthy settlement process can also increase the ultimate payout.

So what stands in the way of a streamlined claims process? Again, manual, paper-based processes are a factor. Another problem is coupling the appropriate information to the claims process at the right stage—particularly unstructured information such as accident or police reports, property descriptions, and photographs. In fact, any system or personnel resource that touches a process can be an “enabler” or a “disabler” of streamlining.

### **Ensuring regulatory compliance**

Insurance is one of the most regulated of industries. Insurance regulation casts a wide net, the scope of which includes:

- Information privacy, including HIPAA personal health information (PHI) provisions
- Selling practices
- Product literature
- Pricing
- Underwriting procedures
- Claims payment policies

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<sup>6</sup> Rose, Stuart and Patrick, Bart. “The Optimized Insurer: Using analytics to optimize business performance” (2008 SAS Institute, Inc.), 7.

<sup>7</sup> Ibid.

<sup>8</sup> Costonis, Michael. “Rethinking Claims” (2008 Accenture), 5.

<sup>9</sup> Ibid.

The consequences of violating a state's insurance code can be quite severe. For example, in a 2008 Texas case (*Texas Mut. Ins. Co. v. Morris*), a jury awarded the plaintiff \$750,000 when it found that Texas Mutual had acted in bad faith and knowingly violated the state's insurance code.<sup>10</sup>

This case had its origins in 2000. The verdict has been appealed once and upheld. But it will likely be appealed to the Texas Supreme Court. So, by the time the case is finally settled, even if the award is overturned, the company will have expended a substantial amount of time and money. And this is just one regulatory incident. For large carriers, with thousands or even millions of policy holders, the monetary risks of non-compliance can be enormous.

## Enterprise content management—the path to improved claims processing

Enterprise content management (ECM) combines content services and business process management—with compliance and customer communications technologies—in a single application environment. An ECM platform provides the ideal foundation for any initiative that aspires to improve claims processing because it can:

- Reduce dependence on paper documents
- Increase visibility into the claims process
- Enforce internal processing guidelines and regulatory mandates
- Integrate with purpose-built, line-of-business (LOB) applications or third-party systems
- Provide detailed process audit trails
- Deliver personalized communications to policy holders

While useful in themselves, the aggregate worth of these individual benefits is even greater because it enables claims professionals to spend more time on value added activities. The most efficient claims operation is the one in which people spend the majority of their time doing what they do best. One of the strengths of ECM is managing consistent processes or repetitive tasks that can be driven by automated business rules—straight through processing. Exceptions and inconsistencies—situations that require the nuances of judgment and experience—will always be the province of individuals more than technology.

## From capture to archive—an ECM model

With an effective ECM platform in place, insurance providers can process claims faster and more efficiently—from first NOL to settlement—while reducing costs, errors, fraud, and customer attrition. The ability of transactional solutions based on ECM to drive process efficiency rests on several technology components.

### Intelligent information capture

Intelligent capture is the first step in automating manual processes. Taking the input from scanners, fax machines, and multi-functional peripherals directly into an ECM repository reduces the need for manual data entry. The result is a faster process and fewer errors. Intelligent capture can:

- Enable distributed or centralized capture
- Eliminate manual document preparation and presorting
- Extract data from every document type, including unstructured content

<sup>10</sup> "TMIC Loses Bad-Faith Appeal" *Claims Magazine* (Nov. 2008), <http://www.claimsmag.com/cms/Claims/Monthly%20Issues/Issues/2008/11/sb1%20texas?origin=channels-Legal>. (accessed November 7, 2008).

An ECM repository can manage any type of input as usable data—regardless of its source or format. Information can arrive as paper, electronic forms, e-mail, XML data, computer-generated reports (COLD/ERM), or electronic documents.

### **Business process orchestration**

Once documents and data have been captured, the ECM platform's process engine and other process services manage the claims environment. ECM's ability to define, automate, optimize, and orchestrate business processes enables insurers to:

- Assign claims in real time based on criteria such as adjuster skill sets and claims status
- Validate claims against line-of-business data from applications such as SAP® and Guidewire
- Apply and enforce business rules, including those that deter and detect fraud
- Monitor claim processes to identify bottlenecks
- Establish work queues that speed processing and efficiently allocate staff resources
- Merge acquired content with templates to create personalized communications
- Enforce records management and retention policies

### **Virtual claim file management**

The combination of integrated capture, a unified repository, and business process services allows insurance claim files to be managed as virtual files. A virtual claim file contains all the relevant content for a single claim and keeps track of security settings, retention periods, and archiving policies.

Only one person at a time can handle a paper document. But virtual files can be automatically routed to multiple parties simultaneously via workflow and queue management, which enables parallel task processing and slashes inquiry response time. This also enables claims adjusters to leverage domain expertise such as special investigative units, medical experts, and legal counsel without creating delays.

Discrete documents and their components can participate in multiple workflows and become part of related documents while maintaining their relationship to the virtual file. The file audits changes to documents and maintains version control so that no matter how many people interact with a virtual folder, they're always using up-to-date information. The powerful technology behind virtual files helps streamline the claims process by:

- Enabling faster throughput
- Reducing exceptions and ensuring accuracy
- Decreasing printing, document storage, and real estate costs
- Boosting responsiveness and enhancing service delivery

Virtual files also provide a realtime, 360-degree view of and access to claims information and customer data—regardless of content type—throughout the claim resolution process.

### **Personalized customer communications**

An ECM platform provides powerful tools to link transactional content and LOB system data with easy-to-use document templates. These templates automate the creation of personalized customer communications and ensure the use of mandated forms, disclosures, and correspondence that address regulatory requirements. The templates also enable multi-channel distribution in real time or in high-volume batch.

With these tools, claims managers and adjusters can develop clear, precise correspondence, including NOL letters and other coverage-related communications on demand. Claim processes have inherent milestones that can automatically trigger customer communications by leveraging business rules within the ECM platform's process engine.

### **Automated retention, storage, and archive**

An ECM platform provides retention policy, storage, and archiving services. Retention policies define the specifics of why, when, and for how long claims information must be kept. They apply across all arbitrary boundaries that isolate information within an organization. Retention policies eliminate ad hoc retention decisions by end users and enable administrators to standardize and control the archiving and storage of claims information.

Likewise, archiving services ensure that when claims documents are archived or become inactive, they are protected to prevent alteration. When an inactive document is accessed, a new record is created, including metadata that describes who made changes and when. This ensures the original record is preserved—a basic requirement of regulatory mandates.

To accommodate the volume and size of documents involved in the claims process, insurance carriers must carefully consider their storage strategy. One of the most difficult issues insurance companies face in mitigating the cost of claims processing is reducing the cost of storing critical coverage data.

ECM provides intelligent storage resource management, which moves archived documents from primary, high-performance storage devices to disk-based storage devices for less frequent access. Storage resource management features include:

- Active archiving with online access to claims data and customer information
- End-to-end object retention for records management and regulatory compliance
- Improved storage efficiency—identical data is stored only once
- Guaranteed data integrity

## **The EMC solution for digital claims processing**

EMC and its partners draw upon years of proven experience in creating and deploying industry-leading solutions for insurance companies that seek to gain greater control over their critical business information. The EMC® Documentum® enterprise content management platform is ideal for digital claims processing, allowing organizations to:

- Capture paper documents, images, other data close to the source
- Store all claims content in a unified repository
- Manage and automate repetitive tasks and processes
- Coordinate the actions of people and systems
- Create highly personalized claimant correspondence, such as notice-of-loss letters
- Enforce records management and retention policies
- Improve storage efficiency and reduce the complexity of storage environments

With the Documentum enterprise content management platform, claims management becomes more efficient, more cost effective, and more responsive to customer needs.

## Where to start?

Realistic assessment is the first step in determining a deployment strategy for any technology. Digital claims processing is no exception. During assessment, some insurance carriers may decide to tackle the biggest challenges first. But often it's more practical to choose a less ambitious goal, one where success is assured—the quick win approach. This helps build consensus for a larger roll out.

For example, intelligent capture and a unified repository are logical starting points for any digital claims solution. These are components that can be deployed for claims processing and leveraged for other business units as well. They do not require “re-engineering” of process models or workflows to deliver value. They also allow for a foundation of best practices, which boosts user adoption.

In either case, solution vendors must be able to offer a range of options based on a common, extensible platform that supports modular deployment. This enables organizations to make informed, cost-effective choices. The EMC Documentum content management platform is a unified, standards-based platform that supports web services and SOA, making it ideal for modular deployment and a gradual expansion across departments and functional business units.

## About EMC

EMC Corporation (NYSE: EMC) is the world's leading developer and provider of information infrastructure technology and solutions that enable organizations of all sizes to transform the way they compete and create value from their information. Information about EMC's products and services can be found at [www.EMC.com](http://www.EMC.com).

## Take the next step

To learn more about enterprise content management from EMC and how it can serve as a foundation for digital claims processing, visit [www.EMC.com](http://www.EMC.com) or call **800.607.9546** (outside the U.S.: +1.925.600.5802).

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