

## Using BPM to Improve Claims Performance

After a difficult 2008, analysts are projecting a tough economic environment for the Property and Casualty (P&C) insurance industry for 2009 and possibly beyond. With carriers struggling to remain profitable even with a hardening market, there is an increased focus on performance improvement across all operational areas. This is especially true in Claims, typically an insurers' largest expense area.

Unfortunately, Claims is a particularly difficult area within which to realize rapid and cost effective performance improvements. This stems from the tremendous dependence on and staggering complexity of existing claims technology. Adding in the human factor, as a consumer of this technology, further complicates this environment. The typical P&C carrier maintains approximately 60<sup>+</sup> different claims applications. This technological complexity, and functional dependency, increases both the expense and time to market for any strategic claims initiative.

Bridging the gap between human activities and computer interactions across a diverse set of Claims systems is the first step in addressing this complexity. Business Process Management (BPM) software provides users with a dashboard offering a high-level view of the operation that crosses application boundaries. The dashboard integrates with all the applications that perform processes as well as related databases. It can be used to trigger the start of a unit of work and it provides a single interface to the end-user. This integration across applications enables a level of oversight typically not available when Claims processes are spread across applications. A BPM system can monitor and analyze Claims activities in real time and set off alerts when specified limits are exceeded or a response is not received within a specified time. It can also automate the typically ad hoc, human-centric processes associated with responding to these alerts.

Operations such as Claims require a mix of people and system processes. Employing BPM as a higher-level management system can keep track of them both. Over time, BPM can provide historical data of human-machine interactions that might be extremely difficult to obtain from information systems, especially disparate systems running on different platforms. BPM enables expert process execution and oversight driven by technology, as opposed to thousands of claim professionals trying to do the same things, but in slightly different ways.

BPM provides a powerful solution that puts the control of claims process improvements back squarely in the hands of the business. If implemented properly as part of an overall Claims business performance improvement program, BPM is a powerful, proven tool that reduces dependence on Information Technology (IT), thereby helping provide substantial enhancements in claims processes without excessive cost or delays.

### A Closer Look at BPM

BPM is essentially a convergence of a number of existing technologies and approaches, with roots in the process management capabilities of workflow tools. However, it also includes capabilities derived from process modeling, application integration, process analytics, rules management, and collaboration tools. BPM creates value through integration of these parts. It brings together all these technology elements into a single platform that manages the lifecycle of a process starting from definition, through design, execution, measurement, change, and deployment.

The following are key components of a BPM software suite:

1. **Process Definition Tool:** A process definition tool is a graphical drag and drop tool allowing business process analysts to define a process in terms of activity flow, business rules and information flow.
2. **Analytics & Simulation Tool:** The simulation tool allows process analysts to simulate real life conditions and identify process bottlenecks or resource requirements. Process analysts

- can predict and overcome business issues at design-time, while claims Business Managers can monitor performance of the various processes and take corrective actions proactively.
3. **Application Development Toolkit:** Business process applications built using BPM systems require system development for building User Interfaces (UIs) such as forms, and bringing about integration of BPM engines (Workflow and Rule servers) with business applications deployed within and beyond the organization boundaries. Application development toolkits provide developers with a set of tools, thereby minimizing initial system implementation efforts.
  4. **Integration Component:** System administrators can configure servers, monitor server performance, perform user and access rights management, etc. This is sometimes referred to as orchestration.
  5. **Business Process Engine:** The process engine, along with an integrated UI, provides a run-time environment that allows users to initiate process instances, view tasks and associated priorities, and carry out tasks assigned to them.

In a nutshell, BPM promotes a process-centric view of IT where the management of end-to-end processes is separated from the underlying applications and the data.

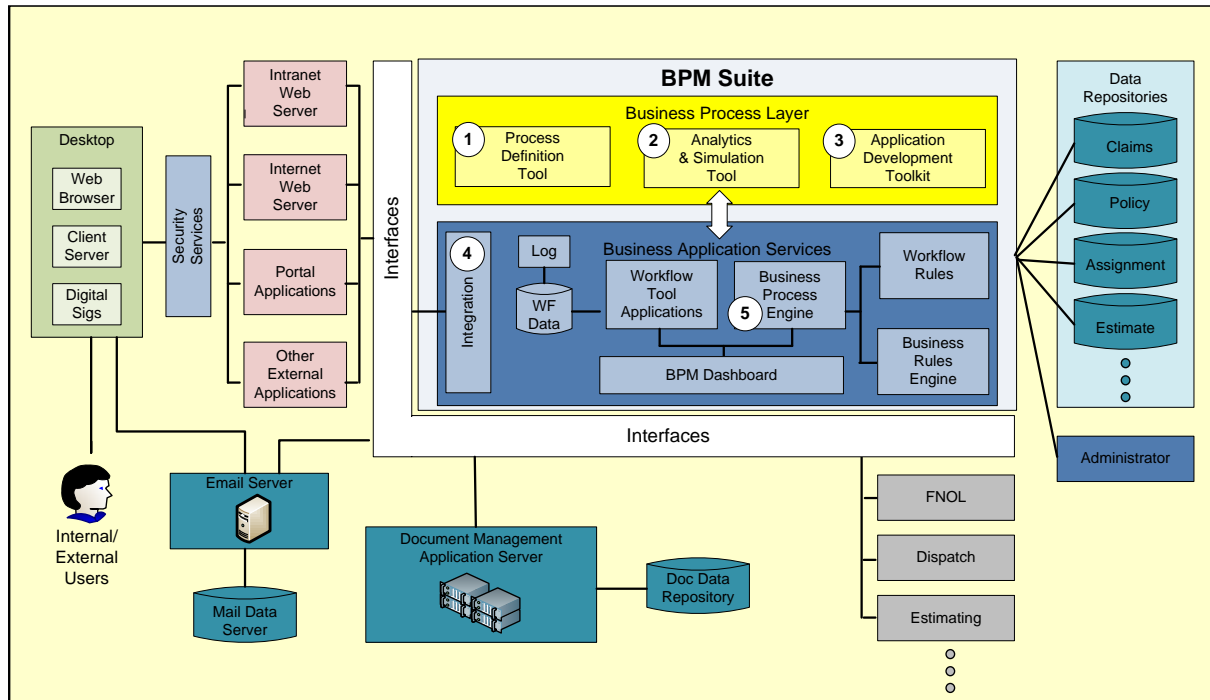
### **Advantages of a BPM-Enabled Claims Organization**

Traditionally, there have been two sets of challenges faced by IT when trying to respond to business demands in a timely manner.

- **First**, Claims organizations with their own packaged applications actually own a hard-wired set of cookie cutter process elements whose implementation is generally slow and expensive and difficult to change after implementation.
- **Second**, a complete process for a key claims business function, for example First Notice of Loss (FNOL), is rarely captured within a single application; typically, many people and groups of applications requiring integration are involved. These tend to further embed processes into the infrastructure, increasing the complexity of the overall IT environment.

BPM, by contrast, involves the creation of an independent business process layer that can be managed by Claims Business Analysts trained in BPM tools. This layer contains a complete view of all the activities necessary to execute a particular business process. Using a standards-based interface, BPM can manage the flow of these activities whether they involve different applications, people, or a combination of both. The result is a fundamental change in the way Business and IT think about the structure and maintenance of claims related IT system.

The figure below depicts the BPM architecture necessary to support the typical Claims organization. The business process layer, highlighted in yellow, serves as the orchestrator of the Business Application Services.



Separating the management of processes into an independent business process layer provides a number of advantages:

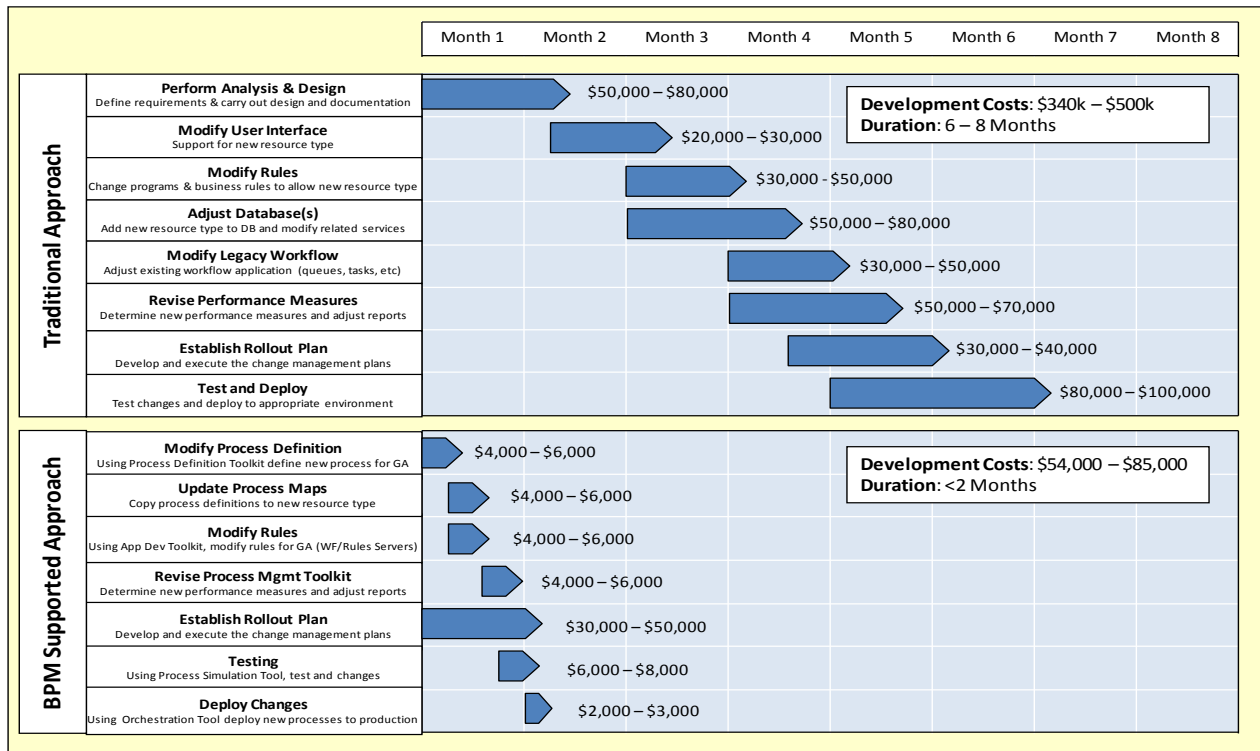
- **Improved Value of Current Infrastructure:** It allows an organization to quickly improve the degree to which claims processes are automated by linking existing systems together and filling the gaps between systems that have previously been difficult to automate and manage.
- **Disciplined Process Management:** It enables a more disciplined approach to process management, critical to managing LAE and Severity. Claims processes can be clearly defined, actively controlled, and executed by the independent business process layer, and they can be measured at every step.
- **Continuous Improvement:** It provides an effective environment for continuously improving claims processes. Using BPM analytics and simulation tools enables process adjustments in a simulated production environment prior to production.
- **Business Ownership:** Most importantly, it enables the business to take ownership of their processes and allows IT to support the business far more effectively and efficiently.

In short, a well-deployed BPM suite enables faster and more cost-effective process improvement for a Claims organization.

### A Simple Case Study

A claims business unit wants to introduce a new resource type, Specialty Adjuster, critical for reducing LAE and controlling severity. The new role will specialize on a single claim type, Auto, Property, or Bodily Injury. As part of the project initiation and development process, IT staff would typically be required to complete a significant number of activities, at a substantial cost. In our experience, this normally requires a turnaround time of 4 – 6 months and could cost between \$350 - \$500k. Based on our project management experience with and without BPM<sup>ii</sup>, we have seen the same project, when undertaken by a Claims Business Analyst trained with a BPM tool, to take 2- 4 weeks and cost anywhere from \$55 - \$85k, requiring little or no IT involvement.

The figure below illustrates the typical activities, durations, and cost estimates, of these two scenarios.



The costs for implementing process changes within the BPM-enabled Claims organization can be about 5 times less and the project typically takes one-fifth to one-seventh of the time. Multiples like these are typical in organizations that have successfully implemented BPM. In addition to the costs, the financial benefits for implementing new strategies and processes can be realized in a much shorter timeframe.

## Conclusion

Many Claims legacy applications were built to service a particular strategy at a point in time. However, Claims may want to change the strategy based on business conditions, regulatory events, or leadership biases. To support the strategy, legacy modifications may be required and can create the need for extensive changes to existing systems, at a cost that might make the project and strategy cost prohibitive. Effective BPM technology enables claims organizations to adopt a more flexible and agile stance, adapting business processes and strategies far more effectively and efficiently as they develop winning capabilities.

Properly implemented and managed, BPM allows a Claims organization to truly close the gap between strategy and operational innovation. While a BPM investment for Claims typically costs \$750k to \$1.5 million, the return on investment can be rapid and substantial as the above simple case study shows.

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<sup>i</sup> Based on Celent survey 2007

<sup>ii</sup> Experience based on engagements with several medium to large scale US-based P&C carriers