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Having it Your Way

How small and medium insurers can take advantage of the latest technologies – cost effectively

Remember the story about Burger King's competitive battle with McDonalds many years ago? BK's marketing strategy was simple and very cost effective relative to its plans for expanding its local market footprint and store placement. Instead of funding extensive and costly market research about where its customers were, BK recognized its customers were the same as McDonalds. The fast food giant adopted a strategy which, in part, meant sitting back and letting McDonalds spend millions on market research and once it committed a store to a particular high traffic location, Burger King put one of its own stores across the street!

Whether this story is true or urban legend, I'm not sure. It does, however, illustrate how smaller companies can leverage the scale, R&D costs and intellectual assets of larger companies to their own benefit.

Such a situation exists today in the Auto Physical Damage (APD) technology arena. Large, well funded insurance companies have done much of the work for small and medium insurance companies relative to identifying best of breed APD technology. Think about it. Although on a much larger scale, the major carriers have spent the last 20 years working with third party technology companies to develop efficient, cost effective ways of processing and servicing *the same types of claims you handle every day*.

Their scale is your friend. In their R&D efforts, the larger carriers and their technology partners have evaluated almost every conceivable APD scenario relative to the varied business strategies employed and have worked to develop solutions to address remote workforces, third party claim administrators, seamless connectivity with thousands of collision repairers and/or their suppliers, integration with technology infrastructures, legal issues, regulatory compliance, and the like. This effort has been extremely expensive in terms of the staff required to develop and perfect business requirements, develop, pilot, and implement the systems themselves, and create internal support systems to ensure almost exception-free performance. In addition, and perhaps just as important, these efforts have forced the technology companies to build the legal, technical, functional and quality assurance protocols necessary to service the carrier's processes once these systems are implemented.

The end results of these efforts are sophisticated off the shelf products and services, and a complimentary (to you) infrastructure dedicated to quickly resolve most business or regulatory issues related to their use.

There is no doubt that the very substantial investments made by technology companies to satisfy their large customers are built into the cost of these products and services. There is certainly no free lunch. However, the turn-key nature of these products means little to no up-front costs before you begin to enjoy the benefits these technologies bring to our industry. In addition, these costs are likely transactional in nature – you only pay for what you use. It's true, you will not get the benefit of volume discounts like the big boys, but you have not invested millions in their development and integration either. And, if internal integration scares you, the technology companies have become quite adept at integrating their solutions into older claim systems like yours, and can even offer end-to-end solutions for those that dare to think that Auto Physical Damage can be effectively supported outside the scope of your own internal claim system.

While costs are certainly important, benefits are what drive technology purchases. My sense is that most major carriers have invested substantial time and resources developing the business cases to justify the cost of technology improvements to company leadership. Those business cases are likely structured similar to one you might create - there will be an analysis of costs and benefits relating to LAE, superior customer service and effective loss cost management. What smaller and medium size carriers have over large carriers is that they can point to these larger, arguably more sophisticated companies that are already using these technologies – the business case has already been proven or they would not have purchased the product or service in the first place. And we all know there is a constant incremental improvement process in place to develop additional features, fix bugs and improve the user interface – all driven by these larger carriers.

So how does one know if these newer APD technologies can benefit small to medium size carriers? I would start by analyzing the questions you have about your operational performance. Despite the proliferation of automated assignment and estimating systems, do you continually ask yourself or your staff questions about estimating quality (not just the specific make up of an estimate at any point in time)? Is your desk review process still quasi or totally manual? If you use independent appraisers, can you compare results between IA's that use different estimating systems? If you have a DRP program, can you compare shops in a specific marketplace? What is their CSI and how does it compare to others in your program. If you want to develop a DRP program, how do you find quality shops? Can you compare your staff, DRP and IA estimating to better understand their value to your APD program? Assuming you have limited internal APD resources and appraisers, are the assignment makers in your company using these resources on the right claim at the right time? Can you compare any area of your performance to industry benchmarks?

One could go on and on with questions, but the bottom line is whether or not you have sufficient insight into the three critical components of your APD claim process – 1.) the initial notification, assignment and scheduling process, where all your internal and external resources are allocated to the claim at hand, 2.) the damage evaluation process, where your customer service, LAE and cost management processes are executed by myriad personnel with differing skill levels, motivations and/or objectives and 3.) the disposition process, where customer vehicles are repaired, salvage is sold and

subrogation potential is pursued and answered – all “after the fact” and potentially out of sight, out of mind until results or regulatory issues come knocking at your door.

What does “sufficient insight” mean? To most, sufficient insight means the ability to measure, track and analyze APD results at the local, regional and home office levels in these three general areas. It also infers the ability to *successfully* implement APD handling strategies in response to your analysis.

For example, let’s take a smaller regional carrier with a two state presence. One state and claim office has a fairly mature APD program – experienced staff appraisers in the metro area, a defined electronic DRP program and some use of IA’s. The other state office is very IA dependent, although there are a significant number of APD assignments emailed to shops with estimates faxed back for review and payment. How does one compare the results between the two offices to determine the performance of your overall APD program? Or how do you begin the process of establishing the best and most consistent method of inspection strategy across both states? You probably can’t – you lack the data to compare apples to apples. Despite the obvious process issues, the second state may actually be performing better due to better management - but how do you know without information on the performance of their shops and IA’s? How can you contract with quality IA’s without the data that provides service and estimate quality for multiple IA’s that use all three estimating systems?

The big boys have very similar issues, but on a larger scale. Think 20, 30 or 50 states and a multitude of inspection, appraisal, and approval processes. Their answer, of course, is to require automated assignments and estimates from all methods of inspection. They don’t do this out of a love for a particular estimating system or portal. They do it to gather the data necessary to accurately assess the performance of geographically dispersed and sometimes unique APD operations against themselves, their internal peers and even the market place they serve. Process efficiency aside, the data and resulting management information afforded by this approach allows APD leadership to analyze the numbers and implement strategies to improve operating performance. Their objective is likely no different than yours.

Measuring performance and implementing business strategies to improve that performance both require technology, and this capability exists today thanks to the larger carriers and the competitive state of the business. Their pain, so to speak, is your gain.

There are certainly a number of technology suppliers in this space, from the big three to the young upstarts and several in-between. Choosing one over the other will likely involve a combination of products aligned with your business processes, the ability to link at least two of the three above components together in an integrated fashion, and depth of management information across functional areas. If you are ready to move toward a fully automated solution, you’ll need to allocate a reasonable percentage of your time and about 90 days to the RFP and supplier selection process, so plan accordingly.

Finally, larger carriers not only service the same types of claims you do, they also have a similar customer base. That customer base has expectations about service and process efficiency based on the technologies used by their bank, credit card company, email and Internet provider and even their employer. It is not a big leap to think they will expect the same efficiency from their insurance company during claim processing – and won't care much about size, market share or tier. Don't fall into the trap of thinking you need big IT dollars or resources to improve performance – the big boys have already set the table for you to "have it your way", so to speak.