

The Next Frontier in Auto Physical Damage Technology

Looking back over the past couple decades one can either be impressed or disillusioned with the development of the technology and tools that support the processing and management of Auto Physical Damage claims. Watching an Auto adjuster work their wireless laptop to manage assignments and create detailed, data driven estimates proves just how far we have come from the days of paper logs, pen and ink, carbon paper and 3” thick crash guides. On the repair side, DRP shops can retrieve and close assignments electronically, transmit estimates across the country and even get paid via EFT. Customers can have their rental automatically delivered to them wherever they want, whenever they want. Vast databases of vehicle values can be instantly accessed to almost effortlessly establish the value of a customer’s vehicle in the case of a total loss. Shop management systems can import estimate and administrative information to help the shop owner better manage their operation. CSI surveys can be automatically triggered based on the completion of repairs. All this electronic processing creates volumes of data and reports that can dissect every nook and cranny of the estimate, supplement or valuation.

Given all this technology, why haven’t things changed that much? Field adjusters still average four assignments or so a day, drive-in’s still have no shows and relatively poor utilization, supplements are rampant, drivable cars still end up being inspected by field adjusters, repair and/or claim handling cycle times have not improved significantly, valuable salvage still gets “lost” for months, and we still need to create additional manual reports (albeit in Excel) to analyze how we are performing. This is where the disillusionment comes in – we really haven’t made the gains other industries have achieved deploying technology to enable fundamental change and improve operational performance.

Why not?

Before answering that question lets give credit where credit is due. *We got just what we asked for.* Whether built in-house, co-developed with a technology partner or purchased outright, APD technology is generally what I call estimate-centric. There is no doubt that if an estimate is involved, we have great technology to: create it, modify it, communicate it, audit it, report on it, and even archive it. There is no limit to the slicing and dicing we can do to identify estimating components, facts, trends, best and worst performers, how we compare to our peers and on and on. These tools have been instrumental in providing carriers the data by which they have monitored and influenced severity on either repairables or total losses. I believe it is a fair statement that carriers have a very good handle on APD costs – and how to react if they begin to stray from the norm.

What is missing, however, is that effective auto claims handling is not about costs and is definitely not estimate-centric. It’s claim-centric. Think flexible business strategies, efficient resource allocations, effective method of inspection practices, optimal fixed asset utilization, speed of settlement, high employee productivity, an effective shop or IA network, and most importantly – information to assess how we are doing in all these areas that have little to do with the estimate.

That is not to say we don't have technology to support most of these business functions. We obviously do. Unfortunately, many are old green screen applications with limited flexibility and imperfect management reporting systems. Other, newer systems were built as add-ons to the FNOL or internal claim management system that's primary function is to gather data about the claim rather than optimize the claim processes & workflow related to handling APD claims effectively. Compounding the problem is that our estimate-centric technologies are isolated from other business functions due to a lack of an effective, flexible interface. Many of us will recognize this picture as a far too real illustration of one of those multiple silos our IT friends always warned us about.

This segmentation of disparate technologies is the real barrier to effective auto claims handling, and the reason operational performance has not changed significantly over the past few decades. These technologies have, no doubt, enabled role-based functional improvements in productivity and efficiency. We do have better information and improved workflow within the context of the specific auto function being accomplished. The real question is why haven't these technologies enabled the implementation of new business strategies, new business models and organizational change. The answer, in my opinion, is that none address the auto physical damage claim process *across* functional areas and business units. And how could they, given they have been developed internally for one functional area (FNOL processes, for example) and externally for another (damage evaluation and settlement).

What do I mean "across functional areas"? Well, if you think about the auto claims process in simple terms, there are really only three functional areas. First, we have the initial claim processing that includes taking the loss report, coverage verification, making physical damage assignments and perhaps scheduling of that assignment. Second, we have the evaluation and settlement process that includes estimating, supplements, quality control/re-inspections, ACV valuations and the like. Finally, we have the disposition and recovery process, where vehicles are repaired, salvage is disposed of and subro potential is pursued to a conclusion. Pretty simple, right?

Wrong – go back to paragraph number two. If it was simple we would have overcome the serious operational issues raised there. In fact, the issues raised are indicative of an industry that has failed to recognize and address the process of *auto claims management* vs. the process of *auto claim handling*. The former is strategic while the latter is functional. While we have built or bought technologies that are excellent at improving role-based performance, few if any address the strategic implications of improving overall operating performance.

This is the next frontier of technology development – tools built to address issues such as the execution of current auto business strategy, appropriate resource allocation, true productivity, efficiency, transparency of information, and my pet peeve – organized and effective management information vs. reporting. Let's call this concept "Integrated Claim Management for Auto" and explore what it is, why it's important and how we might go about assessing where a company is relative to the ideal.

But what is the “ideal”?

The ideal is not a 100% accurate estimate, customers who are 95% “completely satisfied” or 60% of all new loss reports concluded within 23 minutes. These are results that must be related to benchmarks, not ideals unto themselves. The more experienced claim manager would certainly question whether an estimate can ever be 100% accurate, a 95% satisfied customer won’t defect or that a speedy loss report gathered all the correct loss information.

In addition, there is no single “ideal”. Each and every carrier operates differently based on their current and projected auto business strategies. These strategies are driven by scale, organization and structure, resources and their operating philosophies toward customers, efficiency and cost management. Integrated claim management technologies have to be flexible to account for these differences. More importantly, technology providers and internal IT departments need to understand how their tools enable (or disable!) expert execution of auto processes regardless of where those strategies are executed and by whom.

For example, let’s say Carrier A is dissatisfied with local management of their current DRP shop program and has adopted a strategy of putting more company eyes on auto physical damage claims. They have expanded their adjusting staff and set up Drive-In claim centers throughout a major metropolitan area. Carrier B, on the other hand, still prefers their DRP program over Drive-in claims as their primary service tool, but has just finished a difficult task of reducing the number of shops in the area to improve their buying power. Both carriers have significant investments in dispatching, scheduling and estimating technology, and have communicated their new philosophy to their claim personnel.

Claim #1 is called into Carrier A’s FNOL call center several states away, operated by a third party administrator. Claim # 2 is called into Carrier B’s local agent. The common element in this example is the non-claims make-up of the person involved in the initial claim processing role discussed earlier. At the call center – young, inexperienced, non-claim types measured against speed of loss report and service. At the agent office – experienced sales-driven folks that know their customer personally and want them serviced the way the customer wants. Both have access to a tool that allows for the creation of an assignment to their DI, Field and DRP programs.

Given this example, what is the probability that Claim #1 will be scheduled into a Drive-in and Claim #2 will be assigned to a preferred DRP shop? The answer, of course, is anybody’s guess – and that’s the point. *Anybody’s guess is totally unacceptable.* The inspection preference (please, not the customer’s ultimate choice of repair shop!) will likely be driven by customer convenience and other factors, not the business strategy of the APD management team. The technology used to gather loss facts and make assignments has no capability to “imbed” the preferred (and sometimes changing) business strategy into the claim process. The technology is great for making an assignment to any particular business function, but it fails to integrate the business

strategy into the process. Hence we have great auto claim handling, but poor auto claims management.

The above example is somewhat contrived, but the greater issue is that each and every auto claim for each carrier has as much potential to be sub-optimized as brought to the desired conclusion. Taking the example up a level to management, how would auto claims management address the issue on a large scale? How would auto claims management get to Sales management to plead their case? How would auto claims management get an audience with the call center staff several states away and beholden primarily to the Fixed Operations business unit? My sense is it would take much time and too many meetings to impress upon non-claims management the need to execute on the APD business strategies.

Here's where we have to break new ground. Method of inspection is but one auto business strategy – there are untold more that need good decision support tools to imbed strategy into the auto claim process. Think early total loss or subro identification, salvage follow up, re-inspection triggers, status on “uncaptured” or late DRP/IA assignments, and the like. Most if not all are fairly simple “if > then” decisions that are second nature to good APD personnel – but somewhat mysterious to others not experienced and/or charged with auto claims operating performance. We need tools that recognize and compensate for the lack of experience/skills of the personnel in APD claim handling roles, including management. There is a difference between call center personnel, agents, processors and even dispatchers vs. appraisers, adjusters, evaluators, quality assurance and auto claims management personnel. For years, however, we have asked the former to think like experienced auto claims handlers. That may have worked in the days of the old claim office, where there was an “answer man” support infrastructure across the room. Today, however, we have geographically dispersed, centralized and specialized locations and business units, segmented roles, and as mentioned earlier – disparate technologies.

I would stretch the definition of decision support to include the business information necessary for auto leadership to assess operating performance. In this sense, decision support would take the form of a new portfolio of information. Information that is organized around operating performance vs. functional performance. Rather than ten measures of how an estimate was written, how about one measure of estimate accuracy and nine measures about how the estimator was used, what type of claims they inspected, if an inspection was necessary, assignment capture rates, success at referring to preferred shops, quality assurance productivity, et al – and rolled up by office, business unit, Region and Countrywide. This information is critical to Sr. Auto leadership's understanding of the effectiveness of their business strategies – and where the top and bottom performers can be found.

Gathering, much less organizing this information continues to elude us, as the data necessary to assess operating performance is housed across those “disparate technologies” discussed earlier. Combining data from multiple data bases has always been technically complex and difficult to cost justify – and then there would be the requirements meetings where consensus on just what are “fundamental operating

measures” would be debated ad infinitum. (As an aside, insurers may want to look to the repair segment, especially the MSO’s, for examples of possible new approaches to management information. Their much smaller scale and lack of legacy systems have enabled more innovative and focused approaches to managing service, efficiency and profitability across multiple locations.)

So is our concept of achieving the ideal of integrated claims management hopeless? I would suggest not – it simply is in need of an innovative new framework which we and our technology partners must build upon over time. The framework must be adaptable to different carriers having different business strategies. In addition, the framework must not be burdened by role-based functionality, but focused on the overall operating performance of the business unit and department. The framework must imbed decision support where the skills, motivation and experience of the end user is less than optimal. Finally, management information on key operating metrics must be readily available in almost real-time, with flexible hierarchies and intuitive interfaces that “shout” for management’s attention.

This final point above is where I truly believe the next frontier lies. It’s time to build tools for management with the same fervor we have built tools for assignment makers, appraisers, dispatchers, shop estimators, back office personnel, et al. These role-based technologies have served us well, and created huge databases of information about all things Auto. The next frontier belongs to those companies that can create and effectively use tools that serve the role we call “management”, much of whose time and effort is currently wasted gathering numbers and creating reports to analyze what happened in the past. We need tools that clearly identify what is happening today, where success stories are developing and the effectiveness of current business strategies.

Much has been written to date about the power of data, analytics and business intelligence – it’s time for our industry to recognize the importance of management tools that support the need to gather, organize, display and effectively use Auto information to improve operating performance. Then we can get on with the challenge of improving the fundamental operating performance that so far seems to elude most of us.

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