

Insurance transformation

Modernising the claims function



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Claims is often one of the most underutilised strategic assets within insurance organisations, and many insurance leaders recognise it will likely take nothing short of a transformation to unlock the value that the function could deliver.

The claims function plays a leading role in defining the customer experience and bringing the organisational strategy to life for clients. For insurance leaders, the claims process captures some of the organisation's most important customer data. However, it also poses a level of complexity involving a wide range of data inputs, supplier engagements and customer interactions that can significantly influence the organisation's operations. The integration of this data with advanced technology, including artificial intelligence (AI), and a proficient team can help equip insurance companies with a competitive edge and strategic leverage.



Claims as a catalyst for change

Insurance organisations understand that claims can make a material difference to their balance sheets. Take the case reserving process, for example. Data from these calculations is used by actuaries to determine how much money the business needs to put aside to cover potential claims. For many organisations, this is a highly fluid process involving multiple data sets and calculations that evolve as new information becomes available. Accurate and timely input forecasting on the cost of claims helps to provide a more robust and accurate balance sheet.

A great claims reputation can attract new customers and enable the business to grow profitably. But a poor claims process — perhaps leading to a late payment, an underpayment, or an overly complicated and drawn-out interaction — can undermine the customer experience and hamper growth. Claims is where insurance companies can truly differentiate at moments that matter to customers.

The function is also key in helping to drive organisational transformation and organic growth. Collated data and insights can enable the business to develop better products and pricing, optimise prevention services and enhanced response processes. It can help product originators gain a deeper understanding of the impact of features or options and uncover new business opportunities and segments. It also provides a solid foundation upon which new and emerging technologies, particularly AI, can be tested, developed and deployed.



Time to transform

To unlock the true potential of the claims function, we believe a deeper, more holistic and transformative approach is needed. At its core should be a steel thread that connects claims with underwriting, actuarial, finance and other key functions through an integrated end-to-end business architecture.

New foundations will likely need to be created; data will likely need to be unlocked to access new insights, processes should be optimised, infrastructure will likely need to be modernised and further capabilities developed. Some insurers will be inclined to do this through transformation, while others may decide to totally reimagine their claims processes and restart from scratch.

Claims leaders will likely find enthusiasm for functional transformation, both across the function and within the C-suite. Many claims leaders are keenly aware the function is being underutilised and want to provide more value to the business. Many insurance leaders have recognised that the claims function holds much of the data needed to help drive strategic value and, as a result, are elevating claims transformation from an operational consideration to a strategic imperative.

Technology will continue to be a key enabler of transformation. The rising service expectations of digitally proficient customers has already encouraged many insurers to adopt mobile applications, virtual assessments and AI-powered automated processing tools to enhance the customer experience and organisational performance. Yet some are quickly finding they do not have the technology environment they need to support them appropriately.

Data should underpin and inform strategic transformation design. For example, claims leaders could be analysing key performance indicators such as claims processing times, claims closure and finalisation rates, settlement ratios and customer satisfaction scores to identify areas of improvement and track progress over time.



The business case for transforming the claims function is clear. Claims transformation, or reimagining of the function using advanced AI technologies, both offer significant scope for productivity and efficiency improvements, while also being able to deliver significant uplift in customer experience at this key moment of truth. The claims function represents a broad cost base across which to identify leakage reduction opportunities, which alone should help deliver the return on investment needed to underpin a business case for investment.

Hampered by legacy

Traditional claims functions were not typically built to deliver on this strategic value. More often, Claims Functions were built upon a foundation of technical claims handling expertise. Now the function is being asked to augment this with technology in order to redesign and transform how the claims function operates. Yet the vast majority are either still using legacy systems linked in their policy admin platforms, or they have invested into an upgraded system that has created a complex web of different point solutions woven one over the other.

The problem with this situation is that data is key in helping to drive strategic value, and the current mix of legacy technology and point solutions makes it difficult to capture the right data, analyse it and develop the most valuable insights. Data can often be stuck in silos across legacy platforms, spread across various point solutions and is rarely consistently labeled. It is notoriously hard to access and move, meaning the true value remains locked up.

The current web of solutions and legacy systems also leads to increased system complexity which, in turn, often results in increased costs, manual intervention and opportunities for errors. It can also create poor visibility across the end-to-end claims process. From claims notification through to closing and payment, dozens of third parties and suppliers may be involved in the process — each with their own systems and data. These are important parts of the customer experience, and few insurers have visibility into how they are being managed.



Effective claims management stands as the cornerstone for non-life insurers, defining customer satisfaction during the critical 'moment of truth' and influencing interactions with stakeholders. The outputs are integral to actuarial expertise and impact reserving strategies, and are also a pivotal factor in managing claims payout and handling costs through optimisation and end-to-end processes.

Seven connected forces that are helping to change the claims landscape

KPMG professionals experience suggests there are a set of themes currently disrupting the traditional approach to claims. These forces are connected, and we believe that an effective response requires a deliberate strategy. It's important that insurance leaders consider and understand the impact of each to help ensure their organisations can make the most appropriate decisions.



Forces helping to drive change	How the claims landscape is changing	Considerations for leaders as they respond to change
01 Driving Operations	<ul style="list-style-type: none"> Claims functions should improve ways of working to help increase flexibility, advance automation and focus on prevention. 	<ul style="list-style-type: none"> Embed a solid foundation to promote a strong operational management structure in the short term, enabling evolution and development in the future.
02 Supply chain (ethical and visible)	<ul style="list-style-type: none"> For many organisations, supply chain management is currently a manual and opaque process, with 'back and forth' between claims handlers, supply chain partners and the policyholder. 	<ul style="list-style-type: none"> Redesign supply chains using automatic instruction and virtual technology, while helping to ensure that both supplier and insurer values align. Deepen relationships and investigate the use of micro supply chains.
03 Workforce of the future	<ul style="list-style-type: none"> The claims workforce will likely evolve and the skills needed may change. We anticipate that engagement and empowerment will also increase. 	<ul style="list-style-type: none"> Focus on capabilities required for the claims workforce of the future. Create a partnership with employees to build a strong culture for continuous improvement.
04 ESG and the community	<ul style="list-style-type: none"> Increasing focus on sustainability across businesses, with the claims function likely coming under scrutiny over the role it plays in promoting a more sustainable future. 	<ul style="list-style-type: none"> Focus on sustainability in decision-making, taking into account potential regulatory requirements, evolving customer requirements and social impact.
05 Risk, compliance and conduct	<ul style="list-style-type: none"> Increasing regulatory scrutiny over conduct within the claims function, remediation activity and high costs of compliance. Existing culture, values, capabilities and processes do not consistently meet regulatory expectations. 	<ul style="list-style-type: none"> Develop clear principles and decision making criteria, and work to adjust the culture to focus on 'doing the right thing' to help prevent costly and damaging future remediation requirements.
06 The power of data	<ul style="list-style-type: none"> The volume of available data is multiplying, as are analysis techniques and capabilities. However, many insurers are behind in their ability to use data to support effective decision making. 	<ul style="list-style-type: none"> Create a core data strategy, enabling machine learning and augmenting the use of wide data sets to improve customer experience, optimise indemnity spend and reduce cost.
07 New claims-led solutions	<ul style="list-style-type: none"> As products change, the service which the claims function provides should adapt, with the potential for handlers to be focused on complex claims and preventative opportunities. 	<ul style="list-style-type: none"> Identify the impact of future developments across the industry. Build new business and technology capabilities, and increase agility to adapt services provided accordingly.

Key considerations

KPMG professionals believe that transformation should be business-led, technology-enabled and outcomes-oriented. Our network of professionals have helped a wide range of different insurance organisations transform their claims functions. Here are five key considerations for getting started.



01 Create the foundations

Transformation starts with a vision of what the organisation wants to become. That means understanding how the claims function can add value to the business and how the business wants to evolve in the future. A clear strategy — well-articulated — can help the business make the right investments and decisions as the transformation progresses and specific business use cases and needs change.

At all times, the customer should be kept at the centre of the business strategy and the claims strategy. That will require claims functions to really get to know the business's customers, what they want and how they want to interact with the claims handlers. It will also be important to understand your internal customers and how they plan to use claims data and insights in their processes. Helping to ensure the alignment of the customer experience across distribution, service and claims will be key.

In our view, traditional claims foundations will also need strengthening. Risk appetites and case reserving philosophies should be reviewed and reassessed, with potential control gaps or challenges identified and broken down into achievable tasks to overcome. Governance and policies should be tested, helping to ensure the organisation has the appropriate systems and team in place to maintain compliance.

Policy language should also be assessed and clarified to help reduce any ambiguity regarding coverage terms, exclusions and conditions. Ambiguity can lead to disputes between insurers and policyholders during the claims process, thereby delaying resolution and potentially leading to legal action or poor customer experiences.

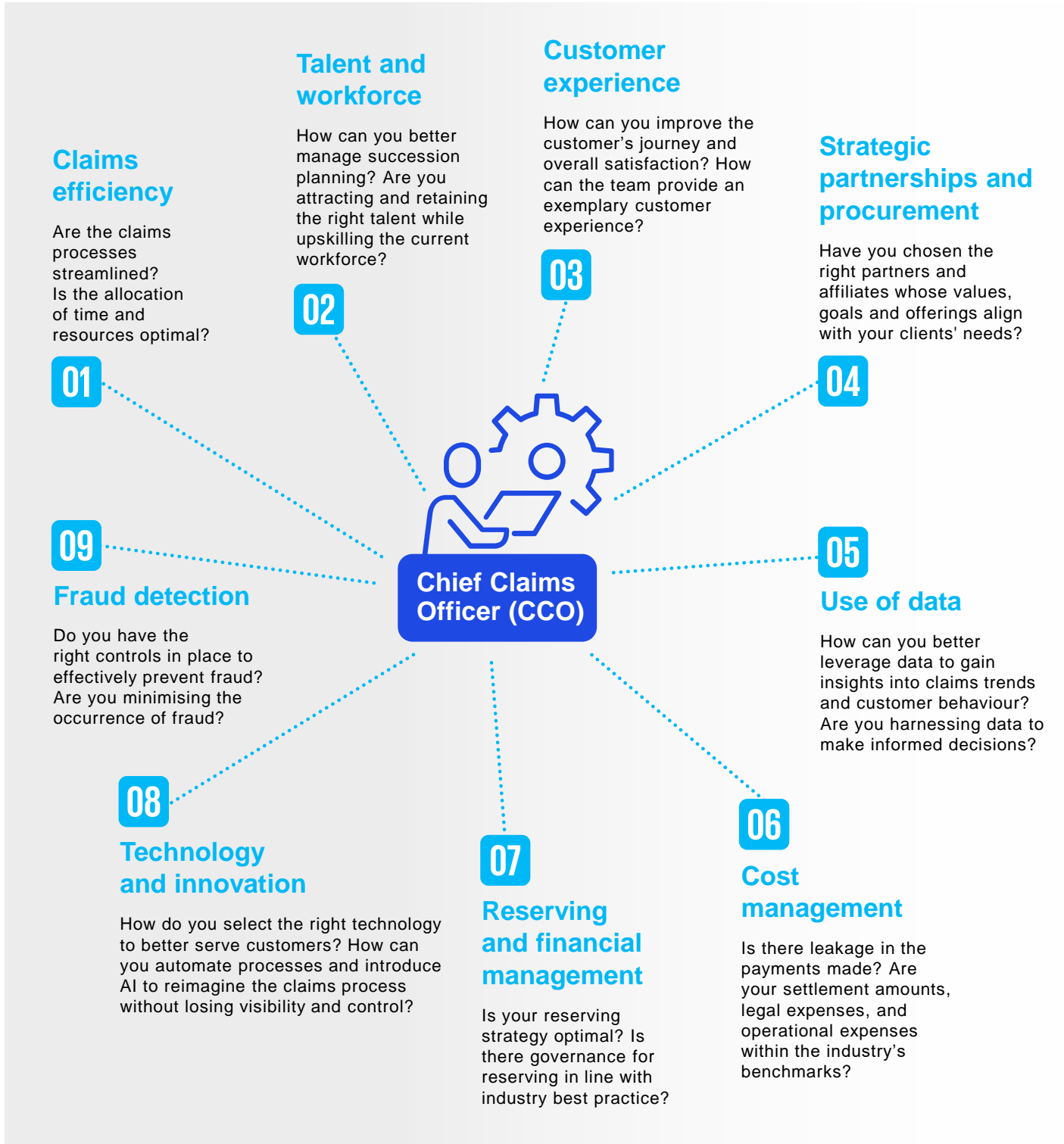


Regulators look towards insurers for proactive and leakage-free claim payments to customers. Insurers should look to devote considerable effort to ensure compliance, without compromising the significant transformation in claims management driven by technological advancements and changing customer expectations.

01

Create the foundations (Continued)

Nine constructs to help create a strong claims foundation



02 Focus on the data

Data is central to unlocking the strategic value of claims. By leveraging data analytics, organisations can develop more precise risk and behavioural profiles for customers, allowing them to tailor pricing, coverage and underwriting decisions accordingly.

The problem is that insurance data is often spread across the organisation, locked up in silos or inconsistently tagged. However, there are now a range of technologies that can be applied to help improve data access and enhance consistency. It does not necessarily require a massive lift and shift.

Machine learning algorithms, for example, can analyse vast amounts of data to identify complex relationships and patterns that may not be apparent through traditional analysis methods — thereby enabling organisations to discern patterns, detect trends and uncover correlations that can offer valuable insights into customer behaviours, preferences and requirements throughout the claims process. This could also help to automate certain processes and enable agents to focus attention on areas that require particular focus or deliver additional value.

However, this requires a truly clear data strategy, not only within the claims function but also across the wider organisation and driving value will likely necessitate strong analytics capabilities, skills and tools. Insurance leaders will likely need to create a core data strategy to enable machine learning and augment the use of wide data sets to help improve the client experience and reduce costs. Understanding how those interplay and where they should be harnessed is an integral part of the data strategy itself.

The claims function should also take some accountability for data governance and quality management, both for itself and the rest of the organisation, keeping in mind that the data strategy should bring together both internal and external sources of data from across the claims and insurance ecosystem. Open architectures and collaborative development may be required.



By accurately predicting claims outcomes, organisations can proactively tailor their claims handling processes to meet the specific needs of their customers, helping to ensure timely and appropriate responses.



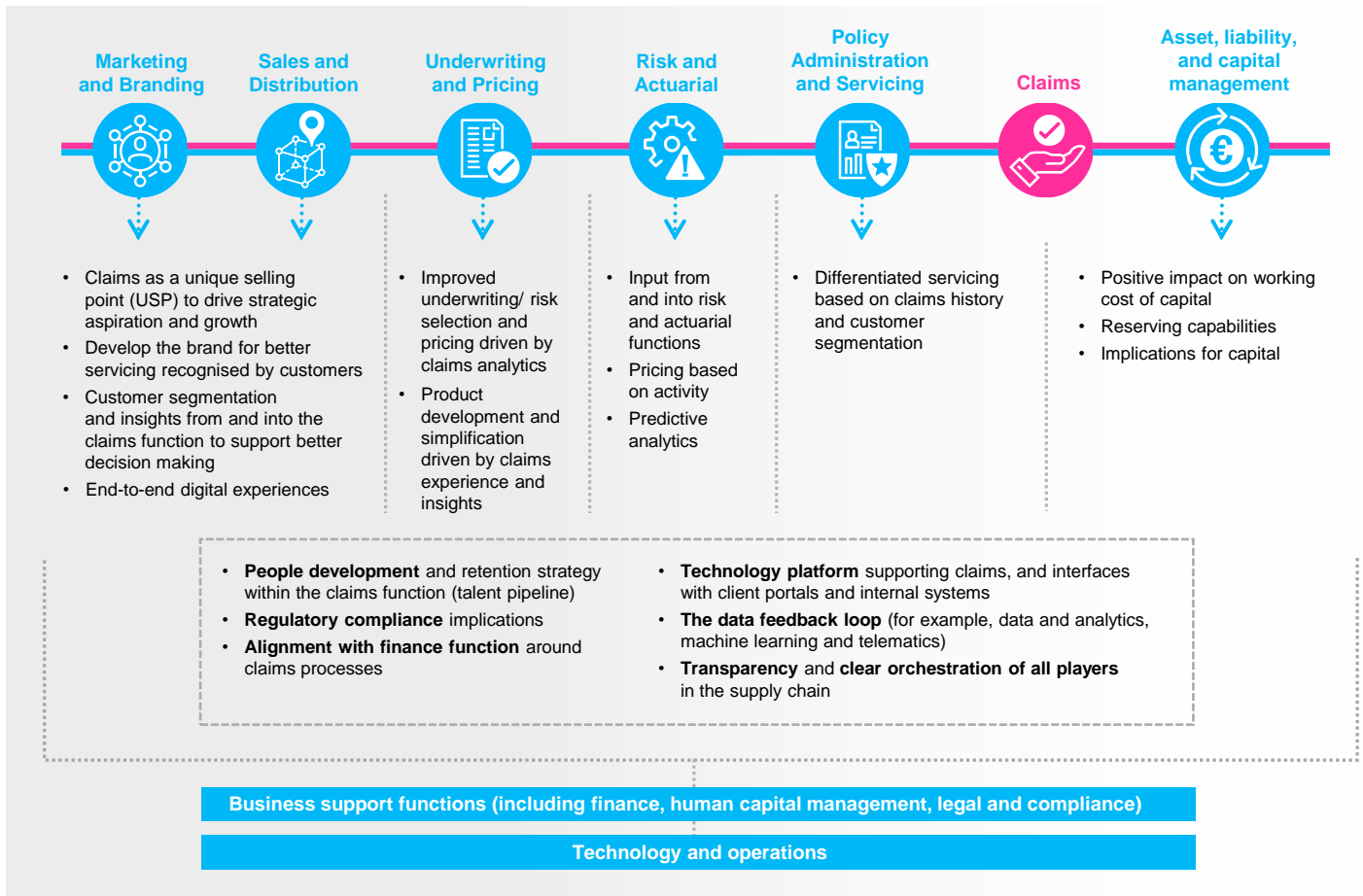
03 Update the process

Supercharging existing processes with technology may not be the transformation needed. It could add pace (which may or may not be a good thing depending on the quality of the process), but we believe that true transformation comes from reimagining processes with the desired outcome in mind.

This is about combining the best of business design with the best of digital claims capabilities so that the business can orchestrate all parties to support a claim and get deep visibility into each step of the process. Often it is the business process design, data flow and data integrity validation requirements that dictate the eventual technology and capability requirements. The process redesign itself should consider the end-to-end process that cuts across departments and stakeholders.

While thinking end to end, also think function to function. There are handoffs that should be considered, integration opportunities that can be found and data that can be shared. Better data sharing and handoffs between claims and specialist investigations units, for example, could improve the overall effectiveness of both functions. As such, the claims function should work collaboratively with the rest of the business to develop processes that enhance the data and capabilities available.

The level of insight and impact that claims delivers to the wider organisation is significant and, when harnessed correctly, can add tremendous value.



Process redesign needs to consider the end-to-end processes that cut across departments and stakeholders. Organisations should understand how the integrated processes can help deliver on the expectations of customers, vendors and employees while still delivering on business objectives.

04

Change the ways of working and capabilities

As the claims function transforms into a source of strategic value, new and different skillsets and ways of working will likely be needed. In part, this is about how the claims function can interact with the business so that — together — they can deliver value to the customer and help to maximise financial efficiency. Some of this will be dictated by the reimagined processes, data requirements, and the business's appetite to adopt AI technologies.

At the same time, capabilities should shift to support business architects, operational leaders and those who understand how to connect data with insights. As the more manual activities start to become automated, claims leaders will likely be able to shift their capabilities to focus on architecting the end-to-end experience using data and analytics to engage business partners and suppliers in new and different ways.

The idea here should not be to replace people with technology, but to adopt automation and AI technologies that support improved decision making. Many insurers are apprehensive about becoming overly dependent on technology, fearing it might detrimentally influence the customer experience during critical moments. Instead, the strategy should aim to strike a balance between implementing efficiency-improving automation and maintaining personalised service by breaking down the complexity of claims processes, enabling the function to be more collaborative, integrated and capable.



Despite technological advancements, there will always be a need for human interaction at the key moments of truth. Technology does not deliver the customer experience — it enables it.

05

Make sure the transformation sticks

One of the main reasons that many transformations fail is because people tend to fall back into old habits. But there are tools and mechanisms that can be put in place to help assess and manage how new approaches are being adopted.

For example, KPMG firms have helped organisations set up centres of excellence (CoE), where dedicated teams assess to what extent new processes are being

followed — and KPMG's transformation teams have worked with clients to empower them to validate and check themselves. Indeed, there are a lot of very practical steps that can be taken to provide confidence that the new ways are working. These teams can also provide insights into the things that are not working, thereby allowing claims functions to reassess their processes or approaches as part of a program of continuous improvement



Real and sustainable transformation requires insurance organisations to take a holistic approach that goes beyond technology implementation. Knowing what measures to track and how they can be influenced is key to driving value from claims transformations.



Seize the moment

This is a unique point in time for the claims function. The business often wants the function to transform — the tools and technologies for transformation have matured, and the risks of functional transformation are better understood. It is an opportunity to create competitive advantage across the industry, to encourage innovative ideas and models, and to significantly differentiate the customer experience. We believe that now is the time for insurers to start reimagining how the claims function can live up to their full strategic potential. And we can show you how.

Key considerations for insurance leaders



Questions to consider before undertaking claims transformation

- Have you assessed your claims capabilities? Are your claims assets being used to drive wider business performance?
- Have you considered how you will actively develop and retain talent for the future? What role will training, career development and performance management play?
- Have you identified the potential benefits of new technologies? How can technology and people investments be combined to help streamline and automate claims operations?
- Have you evolved your financial controls and governance frameworks? Do you have a plan to mitigate emerging risk and ensure ongoing compliance with regulations?



Case

Reimagining the claims strategy

Having made a public commitment to transform their client and colleague experience, this global insurance broker engaged with KPMG to assess the effectiveness of their claims business and operating model across Europe, and to help enhance their market position.

KPMG worked side by side with the insurer to identify the costs and associated benefits of the claims services offered. The teams analysed the systems and processes that underpinned their claims services and examined the formal roles and responsibilities of those tasked with delivering them. Through this work, the teams identified a number of instances where infrastructure was being maintained for services that were not being used. KPMG professionals then helped the client to optimise their claims processes across European operations, supported by a technology architecture that helped standardise best practices while ensuring the requirements of the various geographies were being met.

Today, KPMG professionals continue to work with the organisation to evolve the operating model across their core business processes, technology, structure, people and culture — including measures and incentives — to develop an execution roadmap that can guide the organisation to its new ambition.

Case

Delivering measurable improvements

KPMG helped a leading insurance organisation to achieve 20 percent productivity improvement across their claims function.

The KPMG teams started by diagnosing the current state of each claims department before identifying improvements across people capabilities, processes, and technology, to generate efficiencies and to develop an improved customer experience. This resulted in a series of initiatives to implement change throughout the organisation and enhance efficiencies.

Beyond the 20 percent productivity improvement, KPMG professionals also enabled the client to enhance the customer experience across the function.

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