Commentary

The true cost of a non-digital P&C claims process

Insurance providers may be losing funds during the claims process as a result of out-dated legacy platforms.

By **Zviki Ben Ishay** | August 13, 2020 at 10:00 AM

Insurance carriers looking to create a leaner, more cost-effective insurance cycle should consider digitizing the entire end-to-end cycle, from FNOL to final settlement. (Photo: Shutterstock)

By now, most P&C insurance providers are well aware of the customer experience and efficiency benefits of digitizing their customer-facing processes. Yet partially rather than fully digitized claims processes remain the norm for many carriers, who don't necessarily draw a clear connection between digitizing and the company's fundamental *raison d'etre*: turning a profit. Failing to sufficiently digitize can lead to significant waste in funds, some of which may not seem obvious.

Below, we'll look at some of the main reasons why providers may be losing funds during the claims process due to legacy platforms.

1. Prolonged time paying for Additional Living Expenses (ALE)

Paperwork processes really drag out the time it takes for P&C carriers to process the claim. First Notice of Loss (FNOL) reports are manually submitted, and there is always the likelihood that not-in-good-order (NIGO) documents will require re-work and re-submission. Together this adds to the time it takes for the insurance company to issue a payout to the policyholder.

But between FNOL and settlement, most policies require insurers to cover additional living expenses while the property is uninhabitable. This means that until the damage is fixed and the settlement is finalized, the insurer is footing the bill when it comes to things like hotel stays, rent, restaurant meals, storage, and more.

2. Paperwork processing costs

Customers that are forced to rely on legacy channels such as printers, scanners, and fax machines to submit their FNOL are significantly more likely to have reports containing omissions or errors. This requires the agent to chase them to re-send the documents and start the initial process over again rather than move closer to a final settlement.

All this time chasing and reworking NIGO documents takes up a significant part of an agents' time, and time equals money. If the average cost of reworking a claim is $25 and 150 claims a month need to be reworked, that's $3,750 down the drain each month due to time spent on fixing mistake-filled documents. In addition to the agents' time and therefore money going to rework, there are additional overhead costs associated with processing physical paperwork such as agent benefits, filing fees, and equipment costs.

3. Post-claim retention issues

Net Promoter Score (NPS) refers to the degree to which a customer is satisfied (i.e., a "promoter") or unsatisfied (i.e., a "detractor) with a company. **Research shows** that promoters can be worth five times more than detractors in lifetime value. This is primarily due to superior retention, which ensures that insurance premiums are paid for more years. 44% of promoters stay with their car insurance company for more than six years, while just 27% of detractors stay for that period.

Considering that policyholders file claims infrequently (at a rate of every nine to ten years for property insurance, and nearly 18 years for car insurance), carriers have few opportunities to make an impression. A choppy, prolonged, and non-digital claims process means a greater likelihood of the customer churning once a settlement is reached.

4. Lost referral opportunities

According to **recent Medallia research**, almost 60% of customers expect to have real-time communication with their P&C providers. Instant digital processes and customer satisfaction are closely related, and satisfied customers are significantly more likely to refer others to the company. The same study found that 44% of consumers who had a positive experience with their insurer told family and friends about it.

McKinsey found that **word-of-mouth referrals** account for 20% to 50% of purchasing decisions, showing that happy customers are a free, effortless, and highly effective form of marketing. But this opportunity is lost if the policyholder walks away with a bad taste in their mouth.

While most unsatisfied policyholders voice their discontent directly with the insurance company, a sizable minority (29%) simply tell people in their life about it — in other words, the opposite of a referral.

It makes sense: Imagine a customer who loses their home in a natural disaster. The devastation and trauma that's inherent to such an experience would only be exacerbated by their insurance company making the claims process an additional frustrating nightmare with too many touchpoints, cumbersome paperwork and wasted time when customers are at their most sensitive. There is no chance that customer will be a source of referrals, and there's a good chance they will actively criticize the insurer to anyone who will listen.

Non-digital claims shrink profit margins

Prolonged time to pay for ALE, paperwork processing costs that add up over time, lost referral opportunities, and issues with retention following settlement are all major sources of lost profit for P&C insurance companies. The consequences of failing to digitize and streamline show up not only in the diminished customer experience but in the diminished financial strength of the company. That's why the urgency to digitize, especially today, is about immediate and tangible ROI for insurers who choose to switch to technologically enhanced processes.

Insurance carriers looking to create a leaner, more cost-effective insurance cycle should consider digitizing the entire end-to-end cycle, from FNOL to final settlement. By incorporating eSignatures, eForms, digital document collection, automatic ID verification, and digital payments into the claims process, insurers can avoid the costly re-work and chasing that's so prevalent in non-digital processes.

Insurers who take the digital leap see an average of 85% less time to settle a claim, 60% reduced touchpoints per policy, and 15% increased customer satisfaction – and it was what **90% of customers want**. Each one of these areas directly contributes to better profit margins and reduced waste.

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