

# Transforming Procurement to Create a High-Performance Claims Organization

By Michael Costonis and Anu Sekhri

>  
**accenture**

Procurement Solutions

In an era of heightened competition, increasing customer expectations and the need to deliver greater shareholder or policyholder value, insurers are faced with significant pressure to make noticeable improvements in business performance. Historically, insurers have viewed the claims function as an area that offers considerable opportunity to address all of these dimensions.

For instance, up to 10 percent of loss costs can be saved via negotiated volume discounts and streamlined claims-procurement processing—without compromising customer service. That can translate into savings of up to \$100 million per billion dollars in loss claims.

## About the authors

**Michael Costonis** is a partner in the Accenture Financial Services solution group who oversees the development of the company's claims strategies, assets, capabilities and sales for property and casualty insurers worldwide. He writes and speaks frequently on various business issues in property and casualty claims. Based in Philadelphia, he can be reached at [michael.a.costonis@accenture.com](mailto:michael.a.costonis@accenture.com).

**Anu Sekhri** is a senior manager in the Accenture Supply Chain Management service line who specializes in procurement and sourcing activities. He is an expert in implementing and managing supply chain strategies in the insurance and the broader financial services sectors. Based in London, he can be reached at [anu.sekhri@accenture.com](mailto:anu.sekhri@accenture.com).

Streamlined procurement processes also dramatically reduce the amount of time that claims professionals spend on administrative activities that do not affect the outcome of a claim (Figure 1).

The opportunity to improve the performance of the claims function is very real, yet insurers have struggled in their efforts to capture this value—for reasons that include a highly diverse supplier base and inadequate technology infrastructure in the claims organization. Based on Accenture's experience, insurers can begin to address these challenges by adopting the supply chain management and procurement techniques found in the manufacturing industry.

## Claims procurement: High, untapped potential

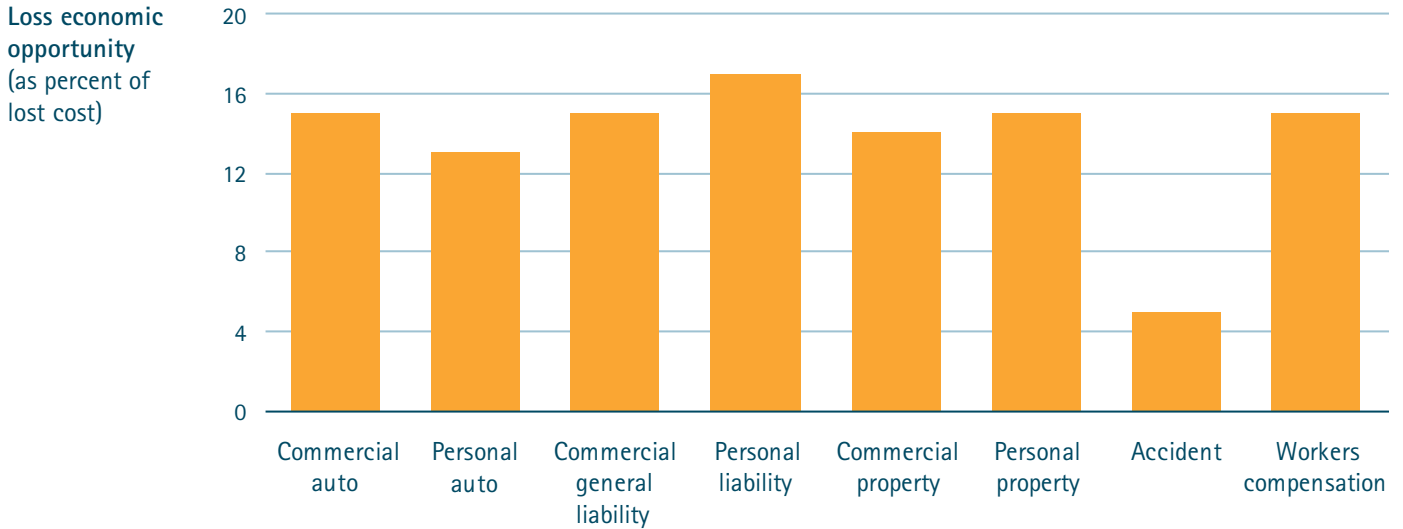
Capturing the value in claims procurement requires either reducing the amount of loss paid or reducing the cost to process the claim. Ideally, both

can be achieved. A closer examination of these areas yields some interesting opportunities:

- For the typical insurer, claims payments represent payments to insured, claimants or third parties to replace, repair or purchase a discrete set of goods or services to restore claimants to their pre-loss condition. Note that the categories of goods and services tend to be fairly consistent across the claims portfolio and even from market to market, which offers significant opportunity to leverage volume purchase agreements (Figure 2).
- On the processing side, nearly half of the administrative time spent by a typical claims professional is consumed by interacting with the appropriate parties to settle the claim. Some of this administration is avoidable via streamlined claims procurement (Figure 3).

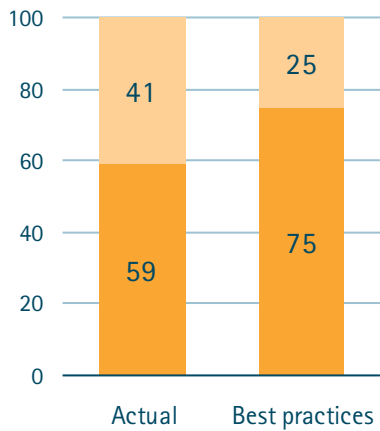
### Figure 1: Unlocking the value in claims

Average loss economic opportunity by line of business

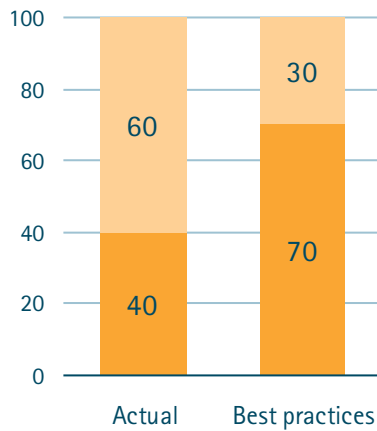


Loss cost typically can be reduced by up to 15 percent across all lines of business without compromising contract or service.

Field adjuster time allocation



Claim handler time allocation



Supervisor time allocation



■ Non-core activities ■ Core activities

A significant amount of time and money is wasted on non-core activities. More than 40 percent of time is typically spent on "overhead" activities that do not influence the outcome of the claims.

Source: Accenture analysis of 15,000 closed claims files and activity-based costing of 5,000 claims professionals across North America and core Europe. Core Europe is defined as Belgium,

Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom.

## Figure 2: Goods and services most frequently procured for claimants

### Top goods categories

#### North America

Electronics  
 Jewelry and watches  
 Furniture  
 Clothing  
 Home appliances  
 Sports/golf equipment  
 Tools  
 Carpets  
 Camera equipment  
 Other scheduled property  
 Bicycles

#### Core Europe

Jewelry and watches  
 Carpets  
 Electronics  
 Furniture  
 Bicycles  
 Camera equipment  
 Garden equipment  
 Sports/golf equipment  
 Tools  
 Clothing  
 Home appliances

### Top service categories

#### North America

Automobile repair providers  
 Rental car providers  
 Legal services  
 Independent adjuster  
 Medical providers  
 Other automotive (e.g., towing, glass)  
 Fraud services  
 Building repair  
 Specialist services (e.g., salvage/subrogation)  
 Data vendors

#### Core Europe

Automobile repair providers  
 Rental car providers  
 Other automotive (e.g., towing, glass)  
 Building repair  
 Legal services  
 Independent adjuster  
 Medical providers  
 Specialist services (e.g., salvage/subrogation)  
 Fraud services  
 Data vendors

Goods and service categories are ranked by the percentage of claims transactions where supplier and/or good type was involved. Note that the categories of goods and services tend to be fairly consistent across the claims portfolio and even from market to market, which offers significant opportunity to leverage volume purchase agreements.

Source: Accenture analysis, predominantly personal lines. Core Europe is defined as Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom.

On the basis of these findings, claims seems ripe for the application of procurement disciplines to drive value—both by lowering indemnity spend through discounts and by lowering the processing cost of claims through streamlined interaction with the supply chain. In fact, Accenture analysis suggests that leading-edge claims procurement practices can yield 5 percent to 10 percent savings on loss costs and upwards of 25 percent on processing costs for the average personal lines insurer (Figure 4).

The challenge becomes how to effectively put these procurement disciplines into operation in an environment where the claims professional essentially acts as the procurement manager on a transaction-by-transaction basis while dealing with an extremely diverse supplier landscape.

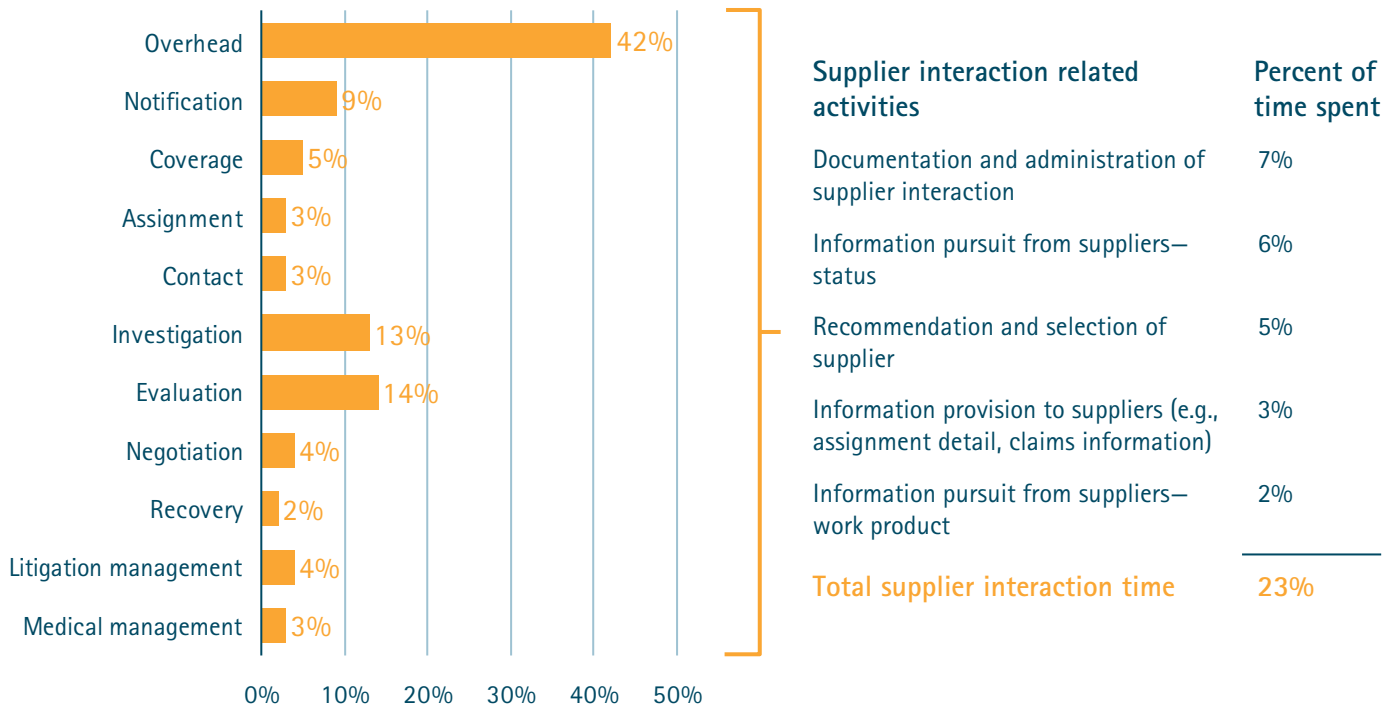
## Claims procurement capabilities

To begin transforming claims procurement, it's necessary to first understand the four foundational capabilities the function requires:

- **Strategic sourcing** involves investigating a broad selection of suppliers for each of the goods and service categories procured, and then negotiating volume purchase contracts with those suppliers that offer the best combination of price, delivery speed, reliability and processing integration.
- **Catalog management** is the ongoing management of an online catalog that displays the universe of goods and services available from suppliers. This activity requires continuous update and review of what is available and by whom, so that claims professionals can rapidly match a service request to a supplier.

**Figure 3: Supplier interaction time**

Average time allocation of claims personnel



Nearly half of the administrative time spent by a typical claims professional is consumed by interacting with the appropriate parties to settle the claim. Some of this administration is avoidable via streamlined claims procurement.

Source: Activity-based costing analysis.

- **Claims fulfillment management** includes the timely and cost-effective selection of a good or service, planning and scheduling of the suppliers, and efficient coordination of the goods or services delivery.
- **Financial management** is the "back office" of claims procurement involving the execution and reconciliation of the financial activities related to the transactions with the supplier base. This requires effective budgeting and ongoing measuring, analyzing and improving cost of operations, as well as the processing of timely payments reconciliation.

Successfully incorporating these capabilities into the claims environment entails overcoming two major obstacles: legacy systems that are not necessarily equipped for the job, and gaining the mindshare of the typical claims professional for whom claims procurement is not a top priority.

From Accenture's global research, we found the typical claims application is far from being a leading-edge, open, Web-based platform that captures detailed data and manages a supplier interaction effectively. In contrast, Accenture learned that existing claims systems are largely financial transaction processors that support reserves, payment processing and

statistical coding. Notwithstanding a few more recent PC front-ends or client/server workstations, these systems largely have their roots in the late 1970s and early 1980s and are disconnected from the actual claims-handling process. In nearly every instance, claims handlers complete their work manually and then use the system after the fact to code and record data, set up financial reserves or process payments. Paper files, copy or fax machines, and the telephone still dominate the business process. In no instance did the claims handlers studied in our research find the existing technology to be highly supportive of the business process. Virtually all organizations described

## Figure 4: Example—Personal auto benefit potential

### Example sources of value in personal auto

- Increasing the proportion of repairs by preferred motor repair network
- Negotiating better volume discounts with preferred repair centers
- Taking process cost out for the insurer (and repair provider) from simplifying and automating end-to-end claims process
- Negotiating financing discounts for paying repair centers within 10 days (from typically 45+ days)
- Increasing the proportion of estimates undertaken by in-house field appraisers from improving their efficiency through field force enablement
- Channeling rental car requirements to national suppliers
- Replacing existing salvage arrangements with an in-house administered electronic auctioning operation

Benefits

10 percent to 15 percent savings

### Lessons learned

- The quantifiable savings principally relate to loss cost reductions from the greater provision of replacement goods and services at preferential rates for the insurer, rather than for restitution via cash.
- Additional benefits come from leveraging volume and process improvements. This also provides an opportunity for an insurer to gain control of specific customer interaction, previously done by suppliers.
- Example of benefits:
  - Strategic sourcing: 5 percent to 7 percent improvement in supply chain costs through demand aggregation, item and supplier consolidation, improved direction rates to preferred suppliers, and fact-based negotiation
  - Process efficiency: 1 percent to 3 percent improvement in supply chain costs through increasing compliance, ongoing price improvement, error-free ordering, and accelerated roll-out of new contracts
  - Elimination of administration: 30 percent reduction in claims finance administration costs by automating the matching/accounts payable

Accenture analysis suggests that leading-edge claims procurement practices can yield 5 percent to 10 percent savings on loss costs and upwards of 25 percent on processing costs for the average personal lines insurer.

Source: Accenture analysis.

their current claims information systems as an inhibitor to innovative business practices like claims procurement, distributed work processing or even the relatively simple act of capturing refined and accurate claims information.

Overcoming legacy system deficiencies may require a significant upgrade to claims technology to provide for:

- Complete, accurate and granular data capture across the full claim life cycle
- The ability to distribute work outside the four walls of the insurer to incorporate suppliers into the claims transaction
- The ability to effectively match the claim type to the relevant goods and services for that given claim

At the center of the claims process is the claims professional, without whose compliance it becomes nearly impossible to consistently execute on the promise of claims procurement. Any large-scale change in the claims operation must be thoughtfully planned, communicated and trained so that people understand the change and embrace it. Claims procurement is not a contracting or technology play; it is a value play that requires a full alignment of tools, business processes, employee motivation and performance management for successful execution. To achieve high performance in claims procurement, claims professionals must fully embrace the concept, understand where and how it can improve their performance and—most importantly—they must quickly become proficient in how to use the new procedures in the course of a claims transaction.

### Options for insurers: build, borrow or outsource

How can insurers overcome the challenges to improving claims procurement? Depending on the relative size of the insurer, there are three possible ways to achieve leading-edge claims procurement capabilities:

#### 1. Build

The most capital-intensive approach is for an insurer to construct its own proprietary supply network. However, the "build" approach is limited to the few insurers with sufficient scale and corresponding operational budgets to fund the substantial investments required. Only the biggest insurers in the world have a large enough spend in claims (and, consequently, large enough potential savings) to justify the costs associated with building the required systems and hiring the (scarce) expert personnel.

## 2. Borrow

Another route is to collaborate with other insurers, where feasible, to aggregate claims volumes across a shared supplier base. This approach is more suitable for middle-tier insurers that lack the savings potential or investment capital to justify building supply networks and procurement capabilities on their own. Insurers following the "borrow" path can effectively aggregate transaction volumes into the same supplier base to achieve the economies reserved for the larger players in the market—although this may entail the sharing of contracts, employees and technology infrastructure to be fully effective. A recent example of this within the United Kingdom has been the announcement of a joint venture supply chain collaboration between Royal & SunAlliance and LloydsTSB Insurance.<sup>1</sup> These companies are planning to pool their joint spend across certain categories to negotiate better deals from suppliers, and also are combining elements of their procurement departments to more effectively manage their supplier bases while reducing their individual overhead costs. However, this level of cooperation among competitors is complex, rare and difficult to sustain when circumstances change.

## 3. Outsource

A third way to improve claims procurement is by outsourcing the management of the claims supply chain to a third party. Using this approach, an insurer gains the benefit of scale coupled with the operational disciplines of a procurement service provider. This approach generally requires a lower investment from the insurer because some of the foundational investments (for example, legacy system overhaul) may not be fully required. The most common example of such outsourcing arrangements to date has been the use

of an external loss adjustor organization, which can provide insurers with access to its preferred supplier networks. However, while such arrangements can optimize the direction of the claim, they do little to improve the overall process of claims management and compliance. The insurer still must match the hundreds of invoices it receives from suppliers to the appropriate claims so they can be correctly accounted for and paid—which can take considerable time and effort. Instead, by outsourcing the entire claims process, the insurer not only gains access to a large supplier network (and, thus, better discounts on products and services), but it also receives a consolidated invoice from the managed service provider for each claim settlement. This enables the insurer to dramatically reduce the time and effort it takes to fulfill each claim and, consequently, improve customer satisfaction.

## The path forward

The insurance claims process can benefit from the same efficiencies, controls and technological breakthroughs that have transformed the supply chains of manufacturers and retailers around the world. While the claims supply chain of an insurer is quite different from those of Nokia, Peugeot and Wal-Mart, the principles of effective supply chain management apply nonetheless.

But for this transformation to occur, insurers and their suppliers must throw off the weight of tradition. The benefits of claims procurement are real—up to \$100 million per billion dollars of loss cost. Insurers should take note of those early adopters that are already realizing substantial savings and are taking major strides toward achieving high performance in claims procurement.

## About Accenture Procurement Solutions

Accenture Procurement Solutions is one of the world's leading providers of procurement business process outsourcing services. Providing a broad range of outsourced "sourcing-to-settlement" procurement services to enterprises and governments, Accenture Procurement Solutions helps clients achieve high performance by delivering measurable and material improvements to their bottom lines. By drawing on our market-leading and proprietary technology-enabled solutions, our global network of solution delivery centers, and our proprietary integrated approach to strategic sourcing and procurement, we help our clients achieve sizeable and sustainable savings in procurement operating expenses and aggregate spend in indirect commodities. Accenture Procurement Solutions is one of eight BPO businesses wholly owned by Accenture. Its home page is [www.accenture.com/procurementsolutions](http://www.accenture.com/procurementsolutions).

<sup>1</sup> "LloydsTSB unveils claims joint venture," *Post Magazine*, October 7, 2004.



*High performance. Delivered.*

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources, and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 100,000 people in 48 countries, the company generated net revenues of US\$13.67 billion for the fiscal year ended August 31, 2004. Its home page is [www.accenture.com](http://www.accenture.com).

Copyright © 2004 Accenture  
All rights reserved.

Accenture, its logo, and Accenture  
High Performance Delivered are  
trademarks of Accenture.