

# Global Trends in Life Insurance: Claims

**Key claims trends and their implications for  
the life insurance industry**

# Contents

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<b>1</b>	<b>Highlights</b>	<b>3</b>
<b>2</b>	<b>Introduction</b>	<b>4</b>
<b>3</b>	<b>Emerging Trends in Life Insurance – Claims</b>	<b>6</b>
<b>4</b>	<b>Trend 1: Increased Implementation of End-to-End Claims Management Solutions</b>	<b>7</b>
<b>5</b>	<b>Trend 2: Increased Focus on Key Performance Indicators Leading to Improvement in Claims Process</b>	<b>10</b>
<b>6</b>	<b>Trend 3: Expected Increase in Adoption of Advanced Fraud Detection Technologies</b>	<b>12</b>
	<b>References</b>	<b>15</b>

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# 1 Highlights

The global life insurance industry witnessed growth in 2010 mainly in the Asian region. The growth trend is likely to continue in 2011, although profit margins are expected to remain under pressure. Regional differences exist, with emerging markets growing at a faster rate than mature markets.

The life insurance industry is witnessing shifting trends in front office, policy administration, and claims—the three core functions of the insurance value chain. This paper identifies key emerging trends in the claims management function of life insurance firms.

Life insurance firms continue to struggle with manual and time intensive claims processing functions. Legacy claims processing usually involves multiple systems, multiple processes, and multiple channels. As life insurers look to improve customer experience and control their claims expenses, they are increasingly shifting to an end-to-end claims management solution. Such an integrated solution can help life insurers reduce claims settlement time, minimize human error, and eliminate inefficiencies by streamlining claims processing.

Claims processes often suffer from large amounts of unstructured data collected from multiple sources and insufficient quantifiable performance metrics. This limits firms' capabilities to gain actionable insight from the claims experience. Life insurance firms are increasingly looking for real-time analysis of their claims process by implementing an approach built on key performance indicators (KPIs) and enhanced quality in deliverance. A KPI-based dashboard can provide financial, claims processing, operational, and efficiency perspectives. The dashboard allows a firm's management to make both tactical and strategic decisions to enhance claims efficiency and monitor and measure improvement.

Life insurers are expected to increasingly implement advanced fraud detection technologies to reduce fraud-related costs. Traditionally, the fraud detection process was manual, leading to poor detection rates and high occurrence of false-positive cases. Advanced fraud detection solutions use a combination of methods such as data mining, rule-based engines, predictive analytics, link analysis, and social network behavior / activity analysis. They help insurers to reduce fraud-related expenses, which leads to lower premium rates for customers.

Overall, life insurers are looking to claims transformation to reduce cost, improve customer satisfaction, and enhance fraud detection.

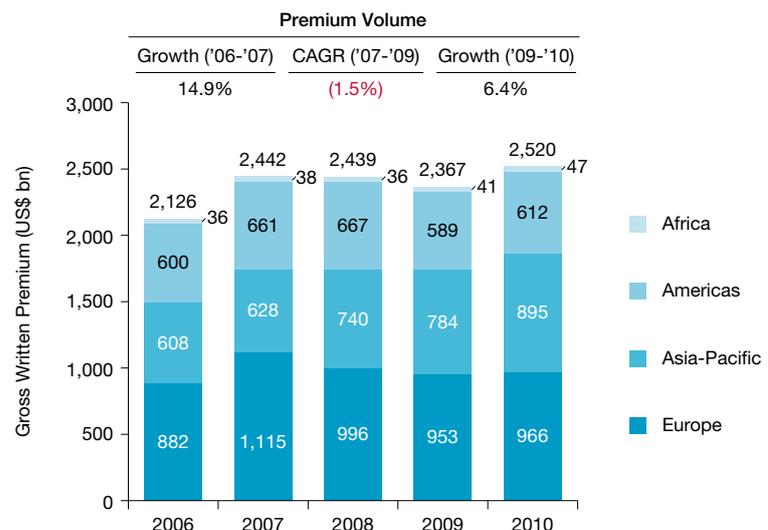
# 2 Introduction

## 2.1. Global Life Insurance Performance

The global insurance industry witnessed a positive growth of 2.7% (in real terms) of premium volumes during 2010<sup>1</sup>, after experiencing a decline during both 2008 and 2009. The return to growth in 2010 was largely a result of increased demand for insurance due to initial economic recovery across the globe. Looking to 2011 and 2012, the insurance industry is expected to witness a further growth in volume, though the uncertain outlook for further economic recovery will be a key determinant.

Global life insurance premiums grew by 6.4% in nominal terms (3.2% in real terms) to reach \$2.5 trillion in 2010. This increase was mainly driven by the growth of life insurance in Asia, which grew by 13.7% (in nominal terms)<sup>2</sup> and contributed over one third of total global premium volumes in 2010.

**Exhibit 1: Global Life Insurance Premiums (in US\$ bn), 2006–2010**



Source: Sigma Reports 2007-11, Swiss Re

The Latin America and Caribbean region witnessed the highest nominal growth rate of 29.1% in 2010<sup>2</sup>, although the contribution to total global volume remained minimal. The U.S. and U.K., two of the largest insurance markets, continued to experience a decline in life insurance premium volumes in 2010, although at a reduced pace compared to 2009.

However, while global life insurance premium volume has surpassed its 2007 peak, Europe and the Americas remain far below the 2007 levels. 2010 growth rates also do not match up to pre-crisis levels, and during 2007-2009 global life insurance premiums actually fell 1.5% annually due to the negative impact of the financial crisis.

<sup>1</sup> Sigma Reports 2007-11, Swiss Re

<sup>2</sup> World Insurance in 2010: Sigma Report, Swiss Re, 2011

Nonetheless, premium volume growth is likely to continue in 2011, based on further economic expansion in emerging economies and the increasing demand for life insurance products due to an aging population globally. However, life insurance firms' profitability is expected to remain below the pre-crisis level, primarily due to a lower investment return environment and increasing regulations that are encouraging clients to shift to less risky portfolios. Firms therefore need to find ways to differentiate across both their top and bottom lines.

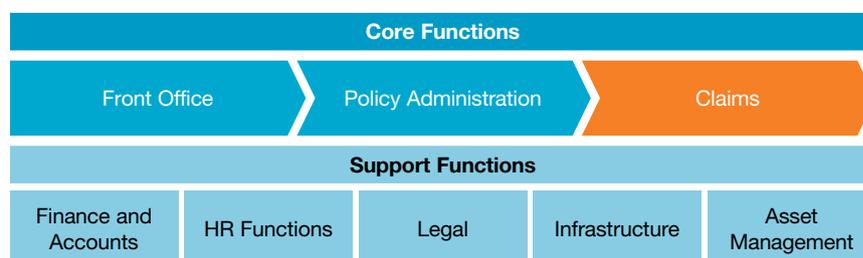
## 2.2. Insurance Value Chain

Insurance firms' operations can be broadly divided into three core elements, representing a value chain:

- Front Office
- Policy Administration
- Claims Processing and Payout

Along with these three core elements, a range of support functions are also required to ensure smooth operations of insurance firms, such as finance and accounting, HR, legal, infrastructure, and asset management.

**Exhibit 2: Insurance Value Chain**



Source: Capgemini analysis, 2011

This paper focuses on the claims management function of the insurance value chain for life insurers.

# 3 Emerging Trends in Life Insurance – Claims

Life insurers across the globe are looking to reduce cost and improve customer retention. Claims processing remains a defining factor in ensuring customer satisfaction.

The life insurance industry is suffering from inefficiencies in the claims management process, mainly due to manual processes and multiple systems. Legacy systems offer little flexibility and often lead to inconsistent data. Combined with multiple systems and inefficient processes, the legacy systems result in a huge amount of unstructured data. Moreover, claims fraud is on the rise due to the inability of life insurers to detect fraud at an early stage. Furthermore, firms are increasingly looking to retain as many assets as possible during a claims payout by providing options (or cross-selling products) like structured settlements (e.g. annuities) and guaranteed income vehicles.

Several key trends related to claims globally have emerged:

- Increased implementation of end-to-end claims management solutions.
- Increased focus on key performance indicators leading to improvement in claims process.
- Expected increase in adoption of advanced fraud-detection technologies.

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<sup>3</sup> Trends shown are not necessarily comprehensive, but have been highlighted due to their relevance and potential impact on the industry

# 4 Trend 1: Increased Implementation of End-to-End Claims Management Solutions

## 4.1. Background and Key Drivers

Traditionally, the claims process in life insurance has been largely paper-based, manual, and dependent on old technologies. Legacy claims systems have remained highly inefficient, requiring each customer to use different claims systems depending on the product line and channel. Firms usually have multiple systems which remain difficult to use for agents, brokers, and customers. Firms may also have multiple claims settlement processes (based on type of product or distribution channel used) which make it difficult for users to experience a standard claims process across products and distribution channels.

There are several main drivers leading to an increased investment in automation and management solutions for claims:

- Life insurers are looking for efficiencies in processing to reduce the cost of claims.
- The claims staff is looking for a faster and more effective way to access and analyze data related to claims. Claims data is often scattered across functional areas and multiple systems which makes the claims process more time- and labor-intensive.
- Firms' old claims systems are no longer suitable to handle multiple claims requests from single policyholder such as critical illness, disability, or long-term care.
- Multiple systems result in a longer claims processing time, negatively impacting customer experience.
- The manual process and data entry usually results in high redundancy and inconsistency in claims data, which often leads to errors in processing.
- Claims management solutions need to be flexible enough to allow for changes arising from new regulations or reporting requirements.
- An increasing internet penetration among insurance customers is also leading to need for web-based interface for claims processing.

## 4.2. Analysis

Global IT spending by life insurers on claims processing is expected to grow to \$6.04 billion by the year 2015<sup>4</sup>, with a Compound Annual Growth Rate of 4.9% in 2010-2015. The Asia-Pacific region is expected to witness the fastest growth rate in IT spending on claims processing, with a Compound Annual Growth Rate of 7.0% in 2010-2015<sup>4</sup>, fuelled by the high growth in insurers' business volume.

As life insurers look to invest in claims processing technologies, they are expected to implement end-to-end claims management solutions to enhance processing and reduce cost. An effective claims process can be a key contributor to a differentiated customer experience, improved customer loyalty, and the ability to attract new customers.

The new claims management solutions also allow life insurers to offer a web-based interface for faster claims filing, as well as process status and payout.

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<sup>4</sup> Datamonitor's Insurance Technology Spending Through 2015, Ovum Research, 2010

**Insurers are also looking for web-based modules allowing their claims staff to remain connected to the core claims processing system in the field.**

An end-to-end claims management solution integrates all the steps of the claims management process. The benefits fall under two broad categories discussed below.

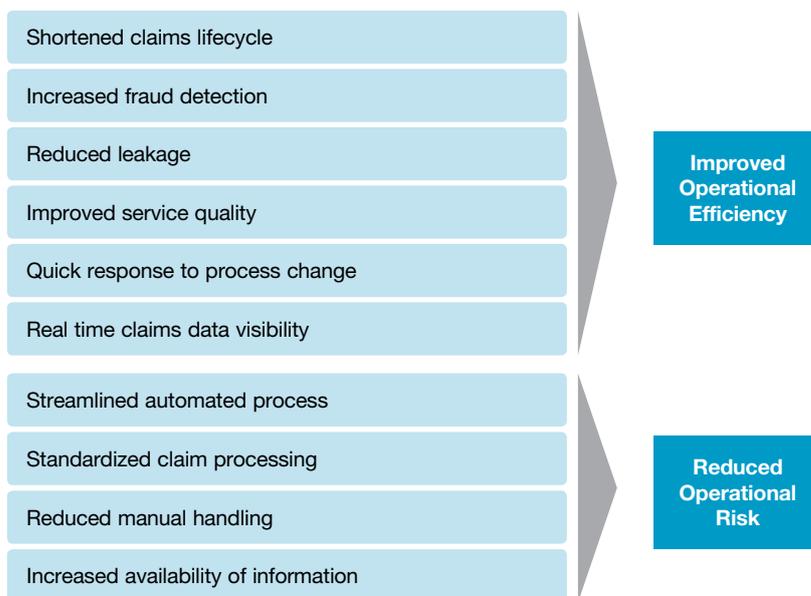
#### **Improved Operational Efficiency**

- **Shortened claims life cycle:** An integrated claims management implementation minimizes the manual process, which reduces the overall time for claims processing.
- **Increased fraud detection:** The data available in an integrated system allows the firm to improve its fraud detection.
- **Reduced leakage:** An integrated claims management solution helps to identify inefficient and redundant steps in the claims process, which allows minimizing the inefficiency in the process and reducing leakage.
- **Improved service quality:** As the claims process is automated and manual data entry eliminated, the human error factor is minimized. Reduced turnaround time and improved productivity leads to an enhanced service level for the end customers.
- **Quick response to process change:** Claims management solution offers flexibility to implement any new requirement due to process change or regulation change
- **Real-time claims data visibility:** This assists the claims staff to process claims much faster and allows them to concentrate on fraud detection instead of administrative tasks

#### **Reduced Operational Risk**

- **Streamlined automated process:** The end-to-end claims management solution provides streamlined automated processing, which minimizes errors arising from paper based and manual process.
- **Standardized claims processing:** An integrated system would offer a standard and consistent process to agents, brokers, and customers, replacing multiple system implementations which lead to inconsistent data.
- **Reduced manual handling:** The end-to-end claims management system minimizes the manual intervention in the claims process and helps to limit the human error.
- **Increased availability of information:** The end-to-end system provides easy access to claims-related information, helping staff to detect fraud, identify common mistakes, and minimize loss.

**Exhibit 3: Benefits of End-to-End Claims Management Solutions**



Source: Capgemini analysis, 2011

### 4.3. Implications

Life insurers, especially across North America and Asia-Pacific, are expected to upgrade their legacy systems to end-to-end claim management solutions. Leading firms are planning for a significant investment in this area.

Cost reduction and improved customer service are the primary benefits of implementing claims management solutions. Firms may replace their multiple claims processing systems with a single enterprise-wide implementation by consolidating systems.

Life insurers are increasingly looking for solutions with web-enabled claims processing modules which offer a fast and easy channel to customers and field agents. The claims solutions also need to provide support for mobile applications to offer an integrated approach.

# 5 Trend 2: Increased Focus on Key Performance Indicators Leading to Improvement in Claims Process

The increasing pressure for customer retention is driving insurers to gain actionable insights from the unstructured claims data.

## 5.1. Background and Key Drivers

An inefficient claims process continues to result in higher claims expenses and a poor customer experience. The existing complex manual process results in a number of challenges for insurance firms:

- The complex and inefficient process results in a long claims settlement cycle, leading to low customer satisfaction.
- The current claims process generates a huge amount of unstructured data, which prevents firms from deriving any useful insight.
- There has been a rise in claims fraud activities. Reducing process inefficiencies would help life insurers improve their response time and quality.
- There is often a lack of metrics for measuring the performance of the claims process.

These challenges have a significant impact on customer satisfaction. The increasing pressure for customer retention is driving life insurers to gain actionable insights on their current claims processing process and improve it.

## 5.2. Analysis

As life insurers seek to gain insights and real-time analysis of their claims process, they are looking to implement a key performance indicator (KPI)-based approach.

North American insurers have been using a KPI-based approach to analyze and improve their enterprise-level performance. A number of successful insurance firms have used an integrated companywide approach. The result is an alignment between their KPIs and strategy that enhances their performance.

In order to mirror this enterprise-level success, life insurance firms across the globe are looking to implement a KPI-based approach in the claims processing function. The real-time analysis through KPIs is expected to help management make decisions and improve the process.

Life insurance firms may look to implement a claims dashboard which measures the claims process with a set of standard key performance indicators. The dashboard can be used to measure multi-dimensional perspectives:

- The **financial perspective** provides financial analysis and may include parameters such as average claims payment per case, change in expense payment per case, share of legal cost, and change in costs of claims processing
- The **claim processing perspective** analyzes the activities in the process cycle on various parameters such as percentage of properly documented records, average claim settlement time, claims settlement ratio, and number of claims closed/pending in a year.

- The **operational perspective** identifies deviations in the claims process by monitoring parameters such as number of claims and new policies issued, claims-related expense as a percentage of first year premium and renewal premium, and number of claims per product type.
- The **efficiency perspective** indicates process improvement in a specific time period by monitoring parameters such as decrease in customer complaints, decline in fraud cases, decrease in average claim settlement time, and number of litigation per open files.

Thus, the claims management dashboard provides real-time analysis of the claims process in terms of its key performance indicators. The results allow a firm's management team to target inefficiencies, compare the results based on time periods, and to identify the deviations in the process. Management can locate areas of potential improvement and monitor the progress of improvement.

### 5.3. Implications

Life insurers should look to implement best practices in order to improve their claims management, as it would lead to better customer retention and satisfaction. The dashboard would also allow them to compare the values of KPIs, based on their claims process, with industry benchmark to identify areas of improvement.

Life insurers need to decide on the key performance indicators to be used for measuring the performance of the claims process. They need to come up with threshold levels for the indicators which classify the results in terms of poor, decent, or good performance. They may also look to identify the most important indicators in order to take immediate actions based on their results.

Firms may look to implement a business intelligence dashboard which provides real-time analysis of the indicators to management. They need to ensure that the dashboard is integrated with the core claims processing system to receive the correct and latest data. The dashboard should be flexible to allow change in indicators or process.

# 6 Trend 3: Expected Increase in Adoption of Advanced Fraud Detection Technologies

## 6.1. Background and Key Drivers

Life insurers are still using legacy tools that are based on out-dated technologies and offer limited fraud detection capabilities. There had been an overall low interest in the acquisition of new tools to help identify fraud through advanced data-mining techniques in the past. However, this started to change in late 2008 and early 2009 as insurers were pressured to seek new methods of reducing losses<sup>5</sup>.

The current challenges related to fraud detection are driving increased implementation of advanced technologies in the life insurance industry:

- Manual examination of claims to identify fraud involves a high risk of human error and does not offer protection against new fraud techniques.
- The legacy solutions remain difficult to integrate, making it hard to detect suspicious activity across product lines.
- Older technologies result in poor data quality due to their inability to integrate third party data.
- Legacy systems also result in a high cost of investigation and customer dissatisfaction due to delayed claims settlement, which sometimes makes it cheaper to pay the claims rather than investigate fraud.
- Apart from legacy systems, the life insurers suffer from lack of consolidated information from their past fraud experiences, third party information sources, and the industry.
- The old systems may lead to excessive false-positives where too many valid claims are identified as fraudulent.
- There has been a growth in organized fraud crime rings drawn to the low-risk, high-return nature of insurance fraud.
- A long claims settlement time and dissatisfaction among customers may also lead to increased number of litigation cases against the insurer.

The changing economic conditions also influence fraud activities. Insurance companies may experience a rise in the number of fraud cases during an economic slowdown. According to a 2009 survey in the U.K., the number of people who consider it acceptable to submit a fraudulent claim increased by 27% compared to 2008 and 1.4 million said that insurance fraud is more acceptable because of the recession<sup>6</sup>.

“While insurance companies generally have a formal fraud-fighting strategy in place, their approach to detecting and preventing fraudulent claims is far from optimal.”

*World Insurance Report 2011,*  
Capgemini

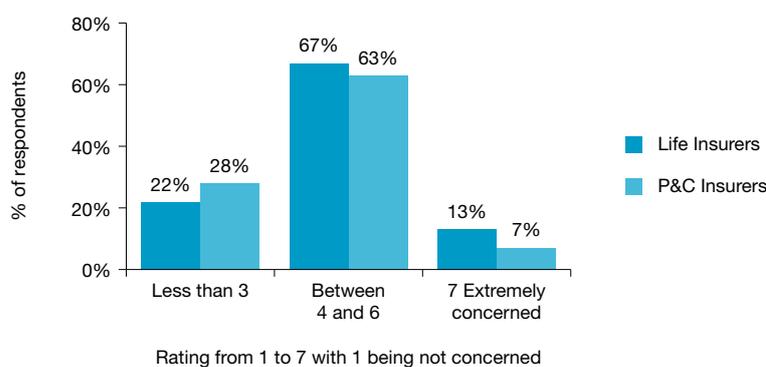
<sup>5</sup> Insurers Turn Attention to Fraud Detection, but the Solution Market Is Still Emerging, Gartner Research, 2009

<sup>6</sup> “Insurance Fraud More Acceptable During Recession”, Insurance Daily Article, 2009,  
<http://www.insurancedaily.co.uk/2009/02/03/insurance-fraud-more-acceptable-during-recession/>

## 6.2. Analysis

The current risks of legacy systems and a desire to lower the cost of claims fraud is driving life insurers to look for the latest and most advanced fraud detection technologies. Life insurers expressed a slightly higher concern and interest in improving fraud detection and identification processes than property and casualty insurers, according to a survey among the insurance firms in North America in 2009. Approximately 13% of life insurers<sup>7</sup>, compared to 7% of property and casualty insurers, were extremely concerned about fraud detection.

**Exhibit 4: Concern among North American P&C and Life Insurers in Improving Fraud Detection (%), 2009**



Source: Gartner Research, 2009

In 2010, the concern among the North American life insurers grew significantly. According to a survey in 2010, 50% of the life insurers reported that fraud detection and identification improvement were top concerns for them, compared to 29% of life insurers in a similar 2008 survey<sup>8</sup>.

Advanced fraud detection solutions should assist life insurers in the early identification of fraud. The new investigation solutions based on risk scoring and predictive analytics allows more granular analysis of data to identify fraud patterns. The scoring models use a combination of rules-based engines, data mining, database searches, predictive modeling, and network link analysis to identify the possibility of fraud in an insurance claim. Thus, the new technologies offer a better fraud detection process than manual processes.

<sup>7</sup> Insurers Turn Attention to Fraud Detection, but the Solution Market Is Still Emerging, Gartner Research, 2009

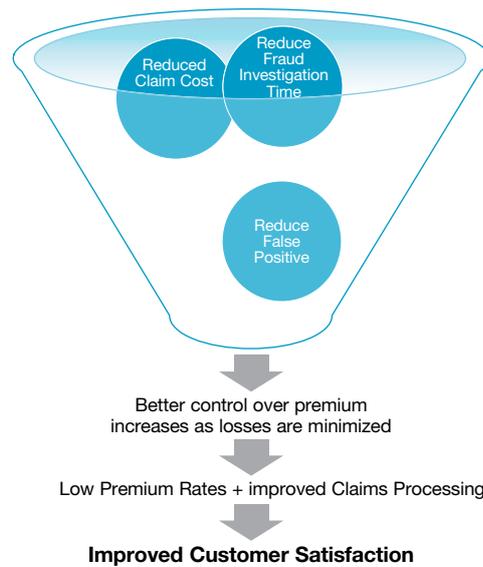
<sup>8</sup> Insurers Must Become More Aggressive at Addressing Underwriting and Claims Fraud, Gartner Research, 2011

The key is to ensure that the cost of detecting frauds is less than the potential leakage saved.

The newer technologies offer a flexible fraud detection system which is easy to adapt to the changing requirements in terms of business rules or claims process. The solution also allows better integration with the core processing systems of the insurer. Firms may look to implement an enterprise-wide data warehouse system which captures historical information from fraud cases and integrates information from third-party sources and the insurance industry.

These benefits result in better control over the premium rate increase as insurers reduce overall claims expenses. The customer experiences a dual benefit of a lower insurance price and better claims experience. Hence, a better fraud detection process leads to both low claims expenses and improved customer satisfaction for a life insurance firm.

**Exhibit 5: Benefit of Early Fraud Detection**



Source: Capgemini analysis, 2011

### 6.3. Implications

Life insurers need to assess their existing systems and fraud investigation processes in order to determine their current capability of fraud detection. They may look to implement a solution based on advanced techniques and modern technologies.

Insurers are expected to evaluate the offerings by vendors in terms of performance and past success. They need to analyze the method used within the tool, such as link analysis, rule execution, predictive analysis, or a combination of these. The insurers would also look to assess the existing engine rules in the vendor's solution and add new rules based on their specific requirements.

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