

## PROPERTY/CASUALTY CLAIM OFFICER SURVEY: KEY CHALLENGES FOR 2008

### INTRODUCTION

*This is the first installment of Towers Perrin's Property/Casualty Claim Officer Survey, focusing on key challenges facing companies in 2008. The survey, conducted by the firm's Claim Management practice, examined the top concerns of claim officers across the country. Specifically, the survey asked claim officers how they are responding to the competitive pressures facing the property/casualty (P/C) industry in general, and claims in particular. The responses provide insights on the emerging issues that will shape the future claim environment, including the strategies that claim officers will be deploying to stay competitive.*

*The vast majority of participants see the familiar challenges of competitive pressures and unrelenting demands for tighter expense management as major strategic challenges for the industry. Yet, interestingly, although claims are a significant driver of company costs, the more immediate concerns for claim officers are the shortage of talent and effective use of technology.*

*We see these responses as signaling a shift from the traditional attention to budgets and operational controls to a need for more sophisticated approaches for managing claim performance and results.*

*This inaugural survey will be followed by surveys conducted once or twice each*

*year on topics of interest to claim officers, allowing them to share perspectives on emerging issues, stay informed on hot topics in the industry, and benefit from the independent analysis and perspectives from Towers Perrin's claim experts.*

### CONCERNS ABOUT COMPETITION AND COST MANAGEMENT

Not surprisingly, claim officers cited the competitive business climate — increased competition, consolidation and convergence — as the leading challenge in meeting company objectives in 2008. Nine out of 10 (90%) picked competition as a top concern (Exhibit 1). Expense and cost management emerged as the number two challenge, cited by 79% of participants.

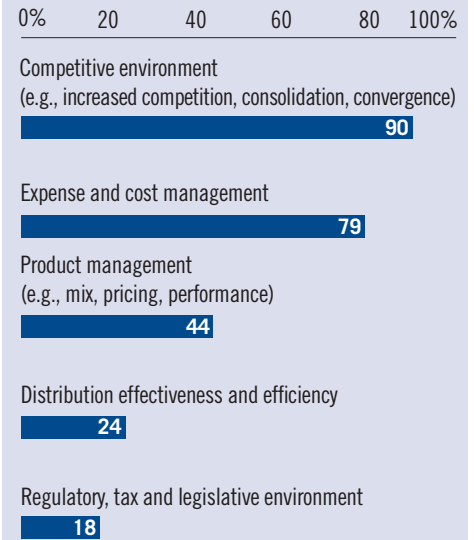
While competitive environment and expense/cost management are consistently top business concerns, secondary challenges vary significantly by respondent demographic, with distribution and product management listed as more important concerns for larger carriers, while regulatory issues get more attention from smaller carriers and carriers that write smaller accounts.

### TECHNOLOGY AND TALENT ARE CONSIDERED TOP PRIORITIES

Claim departments have traditionally looked to lagging indicators such as productivity, file-handling quality and cost control as key success indicators. The survey shows that, while the predominant

#### EXHIBIT 1

#### Top Three Challenges to Achieving P/C Industry Objectives in 2008



goals for claim operations have not changed, a growing number of leading carriers — typically the larger ones — are turning to data analysis and technology to improve operational efficiencies and lower costs. People issues — recruiting and retaining top talent, and a growing need for increased business savvy — are also surfacing as major issues, particularly in middle/lower management.

# UPDATE

## A growing number of leading carriers are turning to data analysis and technology to improve operational efficiencies and lower costs.

Attracting and retaining top talent emerged as the current top priority for survey participants. It was cited as a challenge by more than four out of five (82%) companies. Effective use of data and analytics ranked second and was identified as a challenge by more than half (52%) of respondents, followed closely (50%) by interest in better ways to use technology in general (*Exhibit 2*).

Clearly, claim leaders view talent management, metrics and technology as more immediate challenges requiring their attention than the traditional goals emphasizing management of expenses, overall cost and

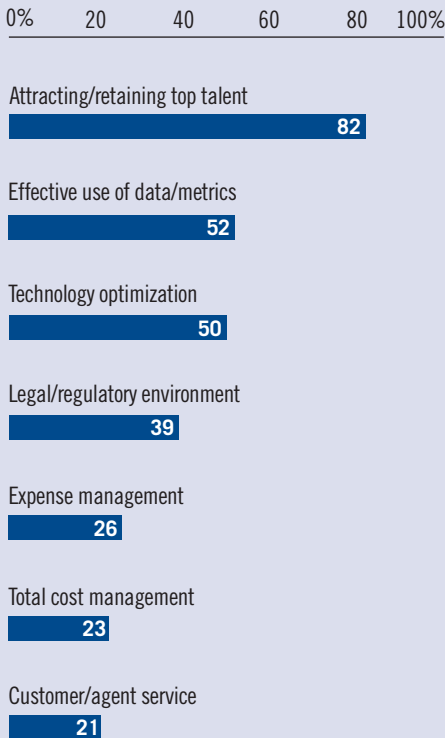
customer service. At the same time, the survey found that, in assessing current challenges, claim leaders differed in their responses depending on the mix of company business and the size of the company. For large accounts, for example, customer service replaces expense management as a key priority.

Claim leaders are looking for technical solutions to meet their increasingly complex business needs, and they recognize that they need people with high-level skills to stay with, and help guide, the organization in today's competitive marketplace.

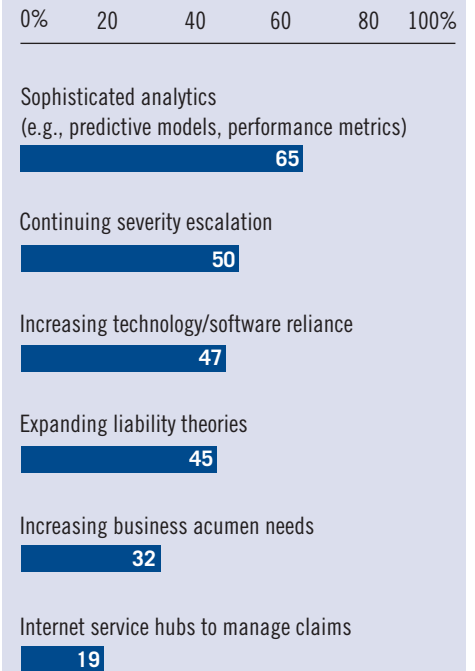
As successful companies look toward future performance and capabilities, it is clear that, while increased use of data analysis and more sophisticated technology are needed to gain a competitive advantage in claim management, investment in people and skill development are critical for sustaining and improving claim-handling fundamentals.

Unfortunately, in recent years, investments in claim training have lagged during the soft market. It is obvious that there is a need for renewed emphasis in this area.

### EXHIBIT 2 Top Three Challenges Facing the Claim Industry Today



### EXHIBIT 3 Emerging Issues and Trends Bringing Change to Claim Industry Operations



### CLAIM LEADERS IDENTIFY EMERGING CLAIM ISSUES

When viewed more broadly, our survey shows that the new challenges around technology dependencies and the need for better analytics have joined traditional issues such as escalating claim severity and expanding liability theories. Asked about emerging claim issues and trends, nearly two-thirds (65%) of survey participants chose sophisticated analytics (e.g., predictive models, performance metrics). Increasing technology needs and reliance on software ranked as the number three emerging issue (*Exhibit 3*).

## It is clear that investment in people and skill development are critical for sustaining and improving claim-handling fundamentals.

There appears to be evidence that companies are not always acting in ways that meet the challenges faced. Just under a third (32%) of respondents cited increasing business acumen needs as an emerging issue. This does not seem to square fully with the fact that 68% identified technical skills and training as an approach they are following to meet industry challenges, or with the high level of interest in analytics and technology in general. There appears to be a disconnect, at least in the minds of some claim leaders, between acquiring technical skills and having people with better knowledge of the business — an arguable proposition given the increasing dependency of claim management best practices on more sophisticated information.

### CURRENT INDICATORS OF RESULTS MANAGEMENT

In terms of more specific findings in the area of results management, the survey revealed the following:

- Claim officers continue to view case reserving as their biggest responsibility, followed by customer service, loss cost containment and expense containment.
- Respondents writing long-tail coverages, commercial lines or small volume rely heavily on case reserves and actuarial analysis. Companies with short-tail lines, personal lines or large volumes of business rely more on average paid loss and leakage metrics.
- Large-carrier respondents view communication, silos and turnover as the key obstacles to satisfying customers, while smaller carriers see process gaps and technical-handling skills as equally important.

### WHERE CLAIM AND TECHNOLOGY MEET

Claim operations utilize technology in a number of different ways. The following are some common categories that fall under the broad definition of claim technology.

|   |   |
|---|---|
| <b>Front-End Claim Systems</b>                | Primary electronic claim data capture and transactional-handling systems — many new applications with cleaner data now available    |
| <b>Back-End Claim Systems</b>                 | Management information systems collecting and aggregating claim transactional data for MIS/Reporting and feeds to corporate systems |
| <b>System Integration</b>                     | Linkage of claim data to policy/underwriting and other business data  |
| <b>Vendor and Other Software Applications</b> | Includes vendor and internal expert systems and support tools for specific claim activities outside the front-end systems           |
| <b>Operational and Results Metrics</b>        | Leading and/or traditional lagging indicators of claim operational effectiveness and results  |
| <b>Predictive Analytics/Data Mining</b>       | Use of internal and industry data to forecast key claim results drivers — heavily dependent on nonfinancial claim information       |

### DELIVERING BETTER OUTCOMES VIA NEW TECHNOLOGY

Today's technology enables companies to go beyond metrics based on traditional claim oversight methods that mix past performance and trend analysis. Tracking baseline performance and subsequent trends associated with cost drivers can be accomplished using operational metrics. This promising area serves as a leading indicator of claim outcomes and gives claim management a better assessment of business opportunities. Operational metrics also enhance benchmarking to test actual performance against best practices.

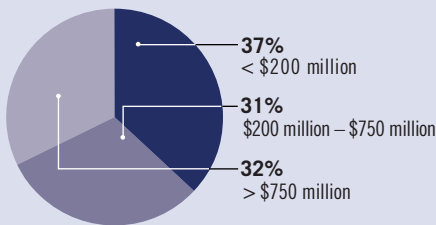
While claim officers apparently recognize that they need technology solutions, including better analytics, the continued emphasis on traditional measures indicates a gap between aspirations and operational commit-

ments. *In our experience, this gap is often related to technology and claim system constraints, particularly among midsize and smaller carriers.* Simply put, there are untapped opportunities using claim technology investments (with the people to manage them) to improve the bottom line.

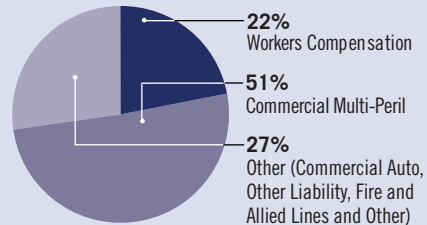


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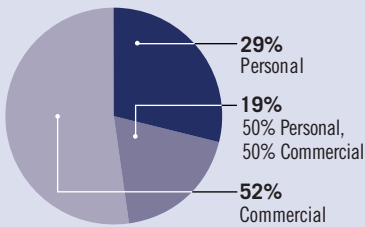
**EXHIBIT 4  
2006 Annual Direct Written Premium  
Business for All P/C Lines**



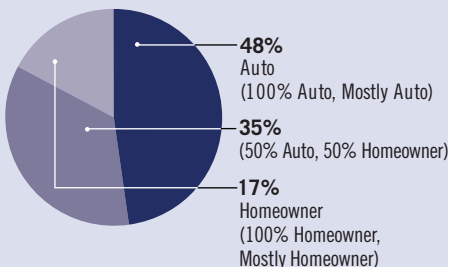
**EXHIBIT 7  
Primary Commercial  
Lines of Business**



**EXHIBIT 5  
Business Split Between Personal  
and Commercial Lines**



**EXHIBIT 6  
Primary Personal Lines  
of Business**



**PARTICIPANT PROFILE**

In this survey, 62 claim officers (78% of the program’s 80 registered members) participated. Since all survey questions were not applicable to all companies, the respondent base varied from question to question. Respondents represented small, medium and large carriers in roughly equal proportions (*Exhibit 4*). Approximately half the participants write a significant amount of premium in commercial lines (*Exhibit 5*). Within personal lines, about half the participants write predominantly auto (*Exhibit 6*). About half of the commercial line respondents describe commercial multi-peril as their primary line of business (*Exhibit 7*).

**ABOUT THE U.S. P/C CLAIM OFFICER SURVEY**

This pulse survey is dedicated to exploring issues important to the U.S. P/C industry and its claim officers.

Survey participants received a separate, more detailed report on the survey results, with breakdowns by participant subgroups, along with an executive summary.

Future surveys will delve into the current challenges and emerging areas of interest identified by the participants, supported by the analysis and observations of Towers Perrin’s Claim Management practice.

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*Note: These results reflect claim officers’ opinions at the time they completed the survey and may or may not reflect company performance actually emerging.*

**ABOUT TOWERS PERRIN**

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