

**The Claims Department**  
Factors Influencing Customer Loyalty and Retention  
by Don H. Donaldson

What is single most stable, reliable influence associated with profitability and customer loyalty within the insurance industry? Underwriters might suggest market competitive pricing of insurance products would be the answer. Many agency owners and producers would agree with that suggestion and perhaps add good availability of coverages to round out the list. In the ever-changing world of market availability and pricing rhythms, there remains the constant and very critical customer concern for prompt, efficient claims services.

Jonathan McNeil of First Notice Systems proclaimed “staple yourself to the claims process”<sup>i</sup> in his compelling research article detailing the study of 256,000 personal and commercial insurance policyholders, 63,000 of whom had made a claim within the past five years. This is just one of many competent research studies which have demonstrated the direct links between customer retention, claims services and *profitability*.

There are many of us in the “post underwriting” side of the insurance business which have long maintained a wide range of significant improvements would result from reducing workloads for claims personnel, maintaining a long term commitment to outside claims adjusting, and increasing communication between claims, underwriting and the agency force. Our mantra foretold that the staffing and related expenses associated such a transition would be more than offset in immediate and recognizable industry and consumer benefits. Only in the past four to five years, has there been any significant and reliable data to substantiate our promises of profitability. Today there is a growing wealth of confirmation that prompt, effective and focused claims handling is the key to decreasing loss ratios and maintaining customer quality and loyalty.

For those proponents of automation within the insurance industry who believed that the digital camera, personal computer and the Internet would be the ultimate salvation of all understaffed or under-trained claims departments, a closer look at the public's perception of our business is in order. The data in Figure 1<sup>ii</sup> reflects the overall decline in the public's trust in the claims process during one of the most automation intensive periods in the insurance industry's history:

**Figure 1**

	<u>1993</u>	<u>1996</u>
<b>Public believing a fair settlement <u>without</u> an attorney is likely</b>	31%	49%
<b>Public believing a higher settlement likely with an attorney</b>	42%	66%
<b>% believing hiring an attorney will speed up the claim process</b>	35%	53%

While the insurance industry was busy singing the praises of intranets, voice mail, email and the paperless office, the tide of unpopularity and distrust among the general public about the overall fairness of the claims process increased substantially. Clearly, the improvements in automation and the development of intelligent systems failed to check a tide of rising dissatisfaction among personal and commercial consumers.

A decade before the wave of automation improvements, the advent of inside or telephone adjusting came with similar promises of improved efficiency and service improvements. The typical *outside* adjuster in 1978 received approximately 10-12 new claims each month and maintained a pending workload of about 50 open claim files. The current day *inside* counterpart must contend with 50-75 new claims per month with an average of 150-200 pending, open claim files. Based on an average of 22 work days in each month, the 1978 adjuster received about one new claim every other day. Two decades later, that responsibility has risen to an average of 3 or more new claims *per day*. Concurrent with transition to completely inside adjusting operations, came a trend to centralize the claims function into large regional processing centers responsible for vast geographic regions which frequently include more than one state. The combined result of all of this fundamental restructuring of the claims delivery process has been backlogged claims departments with inadequate staff resulting in investigation and processing delays.

One recent study put a price on these delays in terms of the amount of time that elapses between the date of accident to the date of first contact by the adjuster. Figure 2 reflects the costs associated with workers compensation claims, however, the results for other casualty lines and property claims were very similar<sup>iii</sup>

**CLAIMS HANDLING & SEVERITY COSTS BASED ON TIME BETWEEN ACCIDENT DATE & FIRST CONTACT**

<u>Days</u>	<u>Total Claims Settlement Costs</u>
0-10	\$12,082
11-20	15,582
>31	17,920

**EFFECT OF TIMELY LOSS REPORTING ON LITIGATION RATE**

<u>Days to Report</u>	<u>Litigation Rate -- % of Cases Litigated</u>
0-10	22%
>30	47%

A 1997 Gallup Organization study of 500 W/C lost time cases nationwide indicated that injured employees contacted by a company representative, and insurance adjuster, or seen by a primary medical provider within 1 day of the injury producing event were **40% less likely to sue their employers**. Those injured employees not contacted within this critical 24 hour period, returned to work later, achieved a higher disability or impairment rating, and were less likely to remain employed by the employer at the time of the injury over the next 5 years.

## **Time is Money**

In the context of the claims process and the overall impact to the entire insurance community, *Time is money*. Putting aside all the social and political issues about claims service being the fulfillment of the aleatory promise between the insurer and the insured, a claims department can be the greatest ally or the worst nightmare in terms of public relations and client retention for agents, brokers, and carriers. Automation and efficiency within the claims process are important elements in a service oriented delivery system, however, these improvements have not overcome the effects of staff reductions, increased workloads, and lack of training which has become a common thread throughout the majority of the insurance industry.

The stewardship of personal and commercial claims service is a crucial element in both the public's perception of this business and its long-term viability. Adequate, well trained, and properly compensated claims staffs provide the necessary ability to respond rapidly to claims as they occur. Prompt post-loss response is not only the fundamental obligation of every claims department, it may also be the key to unlocking long term profitability and customer retention.

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<sup>i</sup> McNeill, If You Want to Discover Retention and Acquisition Drivers, Staple Yourself to the Claims Process!  
*RESEARCH REVIEW*, 1995.

<sup>ii</sup> Insurance Research Council, 1996 Public Attitude Monitor Survey

<sup>iii</sup> First Notice Systems, 1995 Survey of 256,000 Policyholders