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The Bigger They Are, the Harder They Fall: Re-engineering large loss management

By Jeffrey T. Bowman

While all losses are significant to those who experience them, in terms of dollar value, a relatively small number would be considered large losses by the industry. However, that small handful of large claims can cost insurers millions if they are not handled appropriately. While most organizations believe they address claims leakage effectively, opportunities may remain on larger, more complex losses. Some carriers have documented average leakage of several hundred thousand dollars on traditionally defined large claims; recouping even half that amount would significantly improve the bottom line. The bigger the claim, the greater an impact even a small mistake can make.

To take advantage of opportunities for improved claims performance and achieve the best financial outcomes, insurance organizations are implementing several new approaches to handling large losses. First, they are:

Redefining the financial threshold of a large loss. In today's world, small-value, low-risk, high-frequency claims are subject to claims adjusting and managed repair processes that speed up closure and reduce costs. On the other end of the spectrum are large losses, which receive significant scrutiny and aggressive handling. Though the financial parameters of a large loss vary depending on the organization, many claims fall somewhere in the middle—too large to fast-track and too small to gain as much attention as losses worth hundreds of thousands of dollars or more. In addition, adjusters handling this type of file often have a higher and more diverse caseload than might be expected, so this middle ground can suffer from less-than-thorough adjusting.

To address this issue, insurance organizations are reducing the financial threshold of large losses and applying large loss adjudication practices to such claims, bringing us to our next trend:

Improving large claim handling best practices. Ensuring that large claim handling best practices are engineered, documented and executed consistently and effectively across the enterprise is another area of opportunity. Insurance organizations are analyzing and redesigning best practices into rules-based protocols that can reduce variance in large-loss adjusting and enable development of applications that can control the processes associated with large losses. Part of these efforts can involve capturing the knowledge base of an organization's experienced adjusters in shared databases. Such organizations are, in effect, developing best practices for documenting and executing best practices, which can lead to:

Using project management techniques to manage large losses. Large claims often come with complexities such as coverage and subrogation issues, multiple forensic experts and litigation—to name just a few. However, the vast majority of claims are captured in claims systems that don't differentiate among their values or complexity.

Though that element of claims platforms is changing, organizations are beginning to use project management techniques and commonly available applications to supplement claims system capabilities. Project management templates contain project tasks, target dates, resource and critical path mapping, dependencies and risk factors to help develop plans specific to each case. Rules and logic that are triggered when certain events occur can be embedded in the templates. With these tools, organizations can integrate best practices and project management techniques to achieve optimal financial outcomes on large claims.

As is true with any claim, at the heart of the issue are people—in this case, managers and adjusters whose expertise is key in rethinking large claims management and applying changes to their daily work. Re-engineering these processes may be best accomplished with a team of individuals that includes both those who understand claims and those who have backgrounds in other disciplines, such as advanced project management and statistical process control. Together, they could open up conventional ways of operating more quickly and produce a better approach to large-loss management—proving, once and for all, that two heads are definitely better than one.

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