Business Case for a Claim Transformation Project

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Purpose of Document

This document provides a template to assist with the justification for the undertaking of a claims transformation project, based on the estimated costs of development and implementation, against the risks and the anticipated business benefits and savings to be gained.

This Business Case can be used to forecast why the effort and time will be worth the expenditure.

This Business Case provides a common understanding and agreement across the business of what is expected to be gained out of undertaking a claims transformation project.

1. Reasons for the Project

The overriding objectives of a claims transformation project are to:

1. Deliver service benefits to insured clients who have the misfortune to claim.
2. To ensure that more prudent management of claims will provide optimum protection of company assets.
3. To implement claim management best practices to reduce admin costs and streamline the claims processes.

Other drivers for change include:

- Insurance carriers and Third-party Administrators (TPA's) have become much more competitive in recent times in order to keep up with changing industry and market trends. This is evidenced by a number of key changes to product offerings and the demand for technology and process excellence.
- Life Insurance Research shows that earlier intervention in the disability claims process will result in an earlier return to work (RTW), and hence reduced payment duration.
- Updated systems and processes are necessary to help support an implementation of an early intervention strategy and duration management program.
- Internal processes are frequently highly manual and largely paper-based which makes them less efficient than they could be, subject to human error, and without a central repository for managing the claim we do not have a single view of claims. This also complicates reporting capability, which in turn impedes strategic thinking about claims management.
- Regulators have imposed many new disciplines on Insurers and Trustees in relation to managing insurance policies for their clients and members, including an emphasis on reporting claims experience regarding both the member's experience and the cost.

2. Scope

A claims transformation project delivers improved claims capabilities, which may include:

1. Developing an e-claims capability using web services technology together with a new claim management system.
2. Developing capability to enable electronic upload of documents required in the claim processes.
3. Integrating the components of the e-claims solution, including the claim management system, workflow, reporting data marts and member records.
4. Developing duration management tools to help control claims costs.
5. Developing a structure that accurately captures claims causes (including the ability to capture primary and secondary claims claim causes), which will in turn provide data to facilitate actions to improve claims outcomes.
6. Developing tools to assist with earlier intervention of claims to achieve optimum RTW for claimants.
7. Integrating with 3rd party service providers, insurers and reinsurers (where applicable) to streamline the claims assessment processes.
8. Enhancing and streamlining reporting to deliver real-time dashboard reporting, and accurate and timely periodic reporting.

2.1 Project Scope

The claims transformation project scope is defined as follows:

2.2 Included

Scope Area	
Product	• Income Protection • Health Claims • Life Insurance • Total & Permanent Disability • Long-term Care (LTC) • Accidental Death and Dismemberment (AD&D) • Critical Illness (CI) • Mortgage Protection • Voluntary Accident Only • Survivor Benefit • Waiver of Premium (WOP)
Systems, Interfaces and Tools	A number of system upgrades, additional tools, and system integrations may be required for a complete transformation: • E-claims solution with an online member, staff, employer and third-party interface • Case Management • Tele-Claims – Telephone Recording, Interactive Voice Response (IVR), and Retrieval • Out-sourced information gathering provider's system integration • Capture of SMS messages to workflow • Admin system (use of web service for member validation, member information for eligibility testing and general ledger transactions) • Online websites and portals • Workflow – capturing claims correspondence/documentation (form submissions, letters, medical information etc.), decommissioning of existing claims workflows and providing letter templates • Marketing Warehouse (supply with id of member and claim to ensure only appropriate communications are sent to claimant) • Business Intelligence (BI) reporting link to new e-claims system to obtain data with changes to claims reporting • System changes to support letters, reports, forms and statement data to be updated/maintained.

Scope Area	
Business Rules	• Claims processes • Legislation • Service Level Agreement's (SLA) Migration Processes: • Active Objective Claims migration to a new e-claims system
Description	Processes to be built in the e-claims system and may impact other systems. The chosen communication channel may impact the process activity and responsibility: **High-level processes:** Process 1. Claims process **Sub-processes of the high-level processes:** Process 2. Notification Process 3. Submission / Eligibility test. Process 4. Interactions with 3rd party providers Process 5. Information gathering (interaction with employers, financial and medical providers) Process 6. Early intervention Process 7. Duration management Process 8. Adjudications (Assessments) Process 9. Payment Process 10. Approvals by the relevant internal authorities Process 11. Upload documents from e-claims to workflow
Governance	Reference information to adhere to: • Service Level Agreements (SLA's) • Claims Assessment Policy • Regulatory requirements • Insurance Management Strategy • Claims Philosophy • Disaster Recovery • Business Continuity

3. Benefits Expected

3.1 Benefit Summary

The primary aim of a claims transformation project is to facilitate the implementation of claim management best practices and to provide members with options that will speed up decisions and improve the member experience.

Claims processes which are primarily manual and paper-based, significantly slow the process of gathering necessary information. A cloud-based insurance claims platform would enable the following:

- Submission of initial claim data either directly from the member or via a contact centre.
- Automated eligibility determination by drawing on data from other administration systems;
- Initial and on-going triage, to identify 'pay and close,' early intervention or complex long-term claims.
- Integration with existing workflow systems.
- Automated letter production and SMS messages for follow-ups and updates.
- Electronic uploading of evidentiary documents and medical information from doctors.
- Online completion of requirements by members, doctors, and employers.
- Data for real-time reporting, periodic reporting and experience analysis.
- Connectivity with third-party products for duration management.
- Benefit calculation program for disability benefits (e.g. part month or partial claim).
- Single 'source of truth' for claim management information.
- Capture and reporting on secondary claim causes.

There is substantial evidence to support the view that early intervention in a claim process will reduce the duration and improve the potential for an earlier RTW. With respect to Group business, specific employers can be targeted to introduce sophisticated early engagement strategies that will enable involvement in member rehabilitation even before receiving notification of a claim.

The old maxim of 'if you can't measure it you can't manage it' is particularly true in an insurance claims environment. Reporting needs will vary according to the audience; Internal line management needs real-time workflow management reports via dashboards (SLAs etc.) and duration management reports, while senior management would need periodical reporting of claims movement. Employers also look to report on specific claims by their members.

Medical information is the most critical information required in the claims process for disability benefits. Claims consultants have always struggled to solve the problem of obtaining quality medical information promptly. Often quality is compromised to expedite the decision-making process.

In a project of this nature, benefit realisation will vary depending on the different aspects that the transformation addresses. In terms of payback, there will be immediate small financial gains where process improvements result in greater productivity, while duration management and early intervention strategies will produce long-term, much higher gains through a reduction in the cost of claim benefits.

3.2 Financial Benefits

a. Operational Benefits

Assumptions	Calculation	Comment
FTE	37.5 x .9 x 44 weeks= 1485 hours per annum	Assuming that people are available for 90% of the time that they are in office and that they work an average of 44 weeks per year (allowing for annual leave and public holidays).
Online claims submission	50% of claims will be submitted online.	Assume members are engaged with technology and expect a relatively high acceptance of an online option. Reflexive questioning ensures adequate claim information is collected from the outset.
Data entry/claim set up time will be reduced due to direct entry by members, doctors, and employers.	Currently, the setup time is 30 minutes per claim.	With 50% of claims being submitted online a 50% saving on set-up times and costs is expected.
The number of follow ups required will be reduced as new processes provide better quality information.	Currently, each follow-up takes 10 minutes to process.	Estimate 4 follow-ups per claim. The number of claims requiring a follow-up will reduce by 50%.
Claims letters will be produced automatically	Currently, each followup takes 10 minutes to process.	Estimate 4 follow-ups per claim. The number of claims requiring a follow-up will reduce by 50%.
The use of call centres will reduce the administrative effort to gather claims information.	The current effort is in the order of 46 minutes per claim. Using call centre, this reduces to 24 minutes.	This provides a saving of 22 minutes per claim.
Eligibility review will be automated.	It currently takes 15 minutes per claim to complete the eligibility review.	This provides a saving of 15 minutes per claim.

For illustrative purposes, we have assumed that we receive 800 claims per year.

Operational Savings Calculation	
Data Entry saving = 800 x 50% x 30/60 =	200 hours
Reduced follow ups = 800 X 50% x40/60 =	266 hours
Workflow task allocation = 2 hours Per day x 250 days =	500 hours
Letter automation = 8 x 800 x 15/60=	1600 hours
Call centres = 800 x 22/60 =	293 hours
Reporting = 1 week per month x 1 person = 37.5 x 12=	450 hours
Automated eligibility check = 800x 15/60=	200 hours
Total	**3509 hours**
FTE Saving = 3509/1485 =	**2.4 FTE**

b. Claims Cost Benefits

For illustrative purposes, we have assumed a disability claim benefit of $2800 per month and a long-term cover benefit of $46,000. We are also assuming that a number of 2-year short-term claims will transition to long-term cover.

Assumptions	Calculation	Comment
With effective duration management, the length of accident and sickness claims will be reduced by 5%. The average duration of accident and sickness cover is 15 months.	0.75 x 2800 x 200 = $496K	A vendor Solution that provides built-in processes to maximize efficiency in claim management processing means more timely and effective claim outcomes.
We will reduce the number of claims that transition from accident and sickness cover to long-term cover by 10%. On average 40 claims move from accident and sickness cover to long-term cover annually. We will, therefore, reduce this cost.	40 x 0.10 x 46,000 = $184K	The average long-term cover claim is $46K per annum.
We will reduce the number of accepted long-term cover claims by 5%. There are 25 new long-term cover claims each year (claims that were never accident and sickness cover).	0.05 x 25 x 46,000 = $58K	The average claim is $46K per annum.
Total annual Savings	**$738,000**	

3.3 External Costs

The costs associated with a claim transformation are variable and include both the costs associated with the chosen vendor and the internal cost of the project:

- License and Subscription fees.
- Third-party Software licenses.
- Installation and set-up (which may include, customisation, integration, data migration, training, maintenance, and support).
- Hardware Investment.

3.3.1 Example

A sample calculation is displayed below using the following assumptions:

- Assume 52 users on the ClaimVantage SaaS platform (35 claims administrators, 5 customer service, 2 developers, 10 occasional users, and one test environment).
- No hardware investment required as the platform is Cloud-based.
- Annual Third-party software license is $100,000.
- Annual License cost for SaaS Platform is $130,667.
- Installation and set-up is $402,580.

The ClaimVantage solution costs are as follows:

Year 1	$402,580 + $130,667
Year 2	$130,667
Year 3+	$130,667
Third-party software licenses	$100,000

4. Cost-Benefit Analysis

Using the costs and benefits derived from the example in Section 3 we can complete the cost-benefit analysis to determine project viability.

Costs over a 5-year period	$1,555,915
Annual cost benefits calculated	$738,000
Benefits over a 5-year period	$3,690,000
Cost-Bene it Ratio	**= $3.69m/$1.55m = 2.4**

As the cost-benefit ratio is greater than 1, the claim transformation project would be worthwhile.

If the cost-benefit Ratio was less than 1 the project would not be a viable solution to the

problem.

5. Architecture

Another component of a claims transformation project is to summarise how the proposed future operational environment aligns with the enterprise business and technology architecture. If proposing to deviate from the existing enterprise business or technology architecture, provide a succinct explanation including credentials of the architecture SME consulted.

Architectural alignment	Does the proposed future operational environment align with the existing enterprise business and technology architecture?
Summary of architectural fit	Compare the current and proposed claims system architecture.

6. Operational Environment and Solution

Each insurance carrier, employer and TPA will have different processes for claims management. A SWOT analysis of current strength and weaknesses in claims operations will identify the need to invest in a claims transformation project.

There are a number of external factors currently affecting the global insurance industry.

1. Legislative change is an intrinsic part of the business and a number of changes in relatively recent times have created significant challenge and opportunity.

2. Insurance Carrier and TPA client behaviour has changed over recent times. They have become much more competitive and demanding in order to keep up with industry and market trends and changes. This is evidenced by a number of key changes to product offerings and the demand for technology and process excellence.

3. There are now technology solutions to the long-standing challenge of getting doctors to respond to requests for medical information and other technologies offer solutions for more effective communication with members and third-party providers.

4. E-claim systems have evolved in recent times to provide a better range of options to create and administer claims.

5. Technological advancements are putting additional pressure on Insurance carriers, Employers and TPA's. Mobile applications, Big Data, Analytics and Social Media are the big four big technological advancements expected to enhance the insurance industry over the coming years.

6.1 Future Operational Environment

The insurance claims environment is one of the few areas where insurers and industry funds can differentiate themselves from a service perspective. Through implementing more efficient claims processes and providing members with a better claimant experience at a time when they are likely to be feeling most vulnerable, insurers are seeking to get an edge on the market.

With 80% of insurance executives agreeing that their organisation's future success is closely tied to their ability to innovate ahead of their competitors, insurers are aiming to be 'best of breed' in claims handling. Almost without exception, every insurer is currently running a 'claims transformation' project. In many respects, the life insurance industry is running behind their general insurance counterparts in this area. In order for insurers to remain competitive, the current operating environment has to change. In this regard the following key features need to be addressed:

- Online (e-claims) facilities for insured clients, members, claimants, employers and medical service providers;
- Real-time and reliable reporting on multiple dimensions of claims performance;
- Streamline processes that enable us to reduce hand-offs and obtain the required information by the most effective means, including using third-party specialist organisations;
- Utilisation of duration management tools to set targets to better measure claims management effectiveness and performance outcomes; and
- Consider future technological advancements in the areas of big data and analytics.

6.2 Environment Gap Analysis

Some common process gaps and areas for better business practices include:

- No online claims submission capability is putting additional pressure on call centres.
- No source of truth claims management system.
- Lack of an effective claims philosophy that supports robust claims management.
- Limited reporting capability.
- Limited or no analytical capability.
- Lack of automation.
- Too many paper files and manual processes reduce efficiency.
- Duplicate data can be reduced by introducing reflexive questioning.
- Multiple systems in place need to be integrated to create one central repository to store all claim data.

6.3 Critical Success Factors

To successfully transform the claims process, company-specific goals must be supported. A number of successful outcomes include:

- A decrease in cost per transaction.
- No increase in the operational cost to more effectively manage claims.
- A positive impact to customer service, or the member experience.
- Reduced claim duration.
- Earlier return to work (RTW).
- Increase the rate of claims closed.

To keep up with claim technology trends, the claims transformation must offer:

- Online claims submission capability.
- A source of truth claims management system with real-time reporting functionality.
- A task and workflow system to support insurance claims processes.
- Duration Management tools and processes to better assist members in their RTW programs.
- Flexibility to integrate with other technology systems for potential expansion in the future.
- Improved claim processing efficiency, incorporating best practice processes.

6.4 Project Dependencies

There are a number of other areas to consider for the project to be a success, including:

- Other Insurance related projects.
- Insurer cooperation and support.
- Re-insurer cooperation and support.
- Workflow system capability.
- The cost of technology solutions.
- Onboarding of managers and employees – company culture may need to change.

7. Key Risks

Identifying project risks is important in order to ensure that the level of risk of the project fits within the profile of any impacted business units and the appetite of the organization. Preview any visible threats to the project and include costs to mitigate the risk and the cost of risk realization (i.e. if the risk becomes an issue). Demonstrate that you have carefully considered the risks of the proposed solution by identifying the major risks and suggest basic mitigation strategies for each risk.

7.1 Risk Assessment

The risk assessment captures the risk profile of the initiative and provides an indication of the level of governance required. Specifically, the purpose is to:

- Show due consideration to the initiative including, opportunity identification, risks of proceeding and risks of not proceeding.
- Capture the details of realised risks, including the impact and the action plans to deal with these risks.
- Ensure early identification of risk implications of proposed change initiatives (covering both execution and delivered risk), by accountable business owners.
- Ensure timely engagement of relevant stakeholders (including impacted business units, risk specialists, and subject matter experts) in the design and implementation of the change.
- Determine and tailor the extent of formal risk assessment appropriate for the change.
- Provide early and effective risk oversight of change initiatives.
- Conduct a Change Management Impact Assessment. Project Managers must work with the Program Change Manager to complete a Change Management Complexity Assessment. Once completed, summarise the outcomes of the Assessment.

Indicate how the proposed solution will impact the organisation and describe how this will be managed. Ensure that all organisational change and stakeholder management activities are considered.

8. Project Timeline

A project timeline will provide the expected completion date of the project and the major milestones along the way. The timeline will be revised and expanded when the detailed plans have been completed during the initial phase of the project. Using agile development strategies, the overall end goal of the claim transformation project can be broken down into small achievable goals. The timeline can then be adjusted according to meeting the small goals along the way.

8.1 Key Project Milestones

- Outline key project milestones to be presented on completion.
- Analyse project outcomes based on critical success factors on a regular basis to gauge the overall success of the project.

9. Assumptions

In evaluating the various options and arriving at your conclusions, perceived benefits, etc. numerous assumptions will have been made that may not be apparent to all parties. It is important to clearly, state the assumptions that have been made and what outcomes they affect. A categorised list is better than one long list of bullet points.

10. Appendix 1- System Diagram