Solving the subrogation problem

Inefficient subrogation processes have persisted for decades, driving up costs, upsetting policyholders, damaging brands and draining insurance companies of potential profits. Unwilling to continue the status quo, companies are nonetheless unsure what to do about it. This article gives an overview of the subrogation problem and insights into three potential solutions.

The subrogation problem

The scenario is a familiar one: A policy holder reaches out to his or her insurance company to recover property or casualty losses suffered as the result of a third party's actions; a claims adjustor jumps into action.

The adjustor works to quickly find temporary housing for the claimant, arranges for repairs or replacement of property, or ensures that the policyholder receives necessary medical care. The adjustor's singular focus is fulfilling the explicit promise of the policy: making the policyholder whole.

Meanwhile, the process of recouping out-of-pocket expenses (subrogation) incurred by the insurance company (in the form of paid claims) and the policyholder (who paid a deductible) languishes. The collection file collects dust, literally or figuratively in the case of automated systems.

Lacking the full attention of the claims adjustor or a dedicated system for recovering payment from at-fault parties, the subrogation process drags. The consequences of institutional inefficiency are longer cycle times and diminished recovery yields. On the customer relations side of the equation, delays in reimbursing policy holders' deductibles leads to customer dissatisfaction.

Low customer satisfaction, in turn, eventually leads to damaged service reputations, diminished brand value, policy pricing erosion and shrinking market share.

At a time of persistent economic anemia, the environment for growing premiums continues to be challenging, at best. Insurance companies are recognizing that they can no longer afford the high cost of ill-conceived and poorly executed subrogation systems. Savvy insurance executives

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have come to view streamlined subrogation as imperative, a necessary and effective means of cutting costs and bolstering competitive advantages. In both cases, the bottom line benefits.

Anatomy of inefficiency

There is a better way. Repairing a poorly performing subrogation system first requires an understanding of the problem, which frequently arises from a lack of discipline and focus. The process of subrogation often is entwined with a claims system that supersedes it. Professionals trained to expertly resolve policyholders' demands for restitution are less adept at recovering financial losses that accrue during the claims process. And the IT systems relied on to manage subrogation exist in most cases primarily to handle the processing of those claims.

Modeling and mining are as effective as their practical application to meet business goals. Analytics partners need to demonstrate they understand the claims process, policy nuances, insurance risk and other facets of the business to deliver business impact to the top and bottom lines as well as value beyond dollars.

Moreover, subrogation is not a core competency of insurance companies, which cultivate expertise in risk management, generation of new business, collection of premiums, and allocation of claims. Historically, subrogation has been an afterthought conducted as an ad hoc activity, one marked by inefficiency, insufficient IT support, poorly-trained personnel and a lack of scale.

For many insurance companies, subrogation has been an idiosyncratic function handled by a small cadre of long-time employees who have been forced by past practice and antiquated systems to process recoveries in an inefficient manner.

The solution requires a two-part approach. The first action is to disaggregate subrogation from the claims process and make it a dedicated functional area. Once disentangled, focus can be created, dedicated systems can be explored, and recovery processes can be improved. Insurance companies have three main options for attaining high-level subrogation capability.

Subrogation Solutions

With the largest third-party subrogation platform in the world, Subrsource™, and having returned more than $4 billion to property and casualty providers, EXL understands the issues the insurance industry faces in this issue. Choosing the best option for overhauling and streamlining the subrogation process requires a careful weighing of several factors, among them company size, resources, culture and the importance of quick, effective solutions.

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Option one: Internally managed on propriety platform

The most straightforward option, if not the easiest, is to make it an inside job. This approach might appeal to companies that have the resources to develop both a proprietary subrogation platform and a workforce of subrogation specialists to operate it. If the desire to maintain tight control trumps the need to quickly realize tangible results, this may be a viable option.

Before assuming the internal option, an insurance company seeking to improve the subrogation process should ask itself three questions:

- Is it wise to embrace subrogation as a core business process, and does the cost of mastery justify the end?
- Does the company possess the skill and technological capabilities to build and maintain a robust subrogation function?
- Is there sufficient in-house business intelligence and analytical capability to win the battle?

Option two: Acquire a dedicated subrogation platform

Most carriers still manage financial recovery processes on legacy platforms built for claims management. Over time, those platforms have proved to be poor substitutes for robust subrogation-management systems. Even among the new generation of claims platforms, there is an unnerving tendency to not incorporate subrogation as a core capability module.

Insurance companies that recognize the benefit of having dedicated subrogation IT capabilities without incurring the high cost of building an in-house proprietary system are candidates for acquiring a specialized subrogation platform.

Organizations in the market for a system that will dramatically improve the subrogation process should ask these questions:

- Was the platform built specifically for subrogation?
- Does the system bring discipline to the process of recovering subrogation dollars?
- Does it allow users to unbundle tasks required to achieve recovery? Unbundling provides opportunities for having multiple people or teams work on various subrogation tasks.
- Does the platform provide measurable improvements, including higher recovery yields of at least 10 percent; productivity improvements of 30 percent or more; and cycle time reductions of 20 percent to 25 percent?
- Does the platform generate business intelligence that predicts the behaviors of adverse parties?
- Unlike claims systems that handle subrogation in a linear "queue" fashion, does the dedicated platform use modeling and business intelligence to manage workflows and route each file to the right place at the right time, all the way through to arbitration, litigation or collections, if necessary?
- Is the system codified, predictable, manageable and scalable?

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Option three: Partner with a subrogation specialist

In most cases, entrusting the subrogation function to a services firm with proven industry expertise is the most efficient means of quickly and dramatically improving the collection of funds from adverse parties. The key is to choose a partner with "proven expertise" and to insist on the alignment of financial interests pursued by the insurance company and the subrogation-services partner.

Before entering into such an agreement, due diligence entails getting credible answers from prospective partners to these questions:

- Does the service provider bring a "one size fits all" mindset or is it willing to customize a solution to meet your needs?
- As subrogation evolves into a subspecialty that requires specific expertise, does the service provider have the skilled workforce to perform subrogation at a high level?
- Does the prospective partner have a sophisticated IT platform (See Option Two.) that creates measurable and significant cost savings and a discernible impact to the company's bottom line?
- Can the service provider disaggregate the subrogation function for maximum efficiency and cost savings? Does the provider offer a blended approach, such as off-shoring back-office functions and keeping higher-level tasks close to home, that allow an insurance company to focus on core competencies? Will it work alongside the client in a shared-processing arrangement?
- Does the provider have skin in the game? Does it earn revenue as a percentage of dollars recovered on behalf of the client? Or does it charge clients on the basis of FTEs plus costs, regardless of performance?

Summary

Insurance companies can no longer afford inefficient subrogation processes that compromise operations. An under-performing financial recovery function is a drag on customer relations, brand, cash flow, profit and the fiduciary responsibility to shareholders.

Multiple solutions exist for streamlining subrogation, but there is no panacea. Whether fixing the problem in-house, acquiring a robust subrogation IT system or partnering with a trusted partner, choosing and executing the best solution requires careful consideration of all options.

Insurers are increasingly asking themselves that, while important, is subrogation really core to their mission of managing risk and underwriting claims. More often, the answer is no, but that decision point triggers other questions and new decision points. Having returned $4 billion to top property and casualty insurers to providers with Subrosource™ platform, EXL partners with its clients develop the right subrogation solutions for an increasingly dynamic market.

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