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Case Study: *Motor Claims Management*

There are two elements in Motor claims - own damage and third party. This paper relates to OD portion and gives an approach through a case study how to increase profitability through practical and high-tech solutions.

The main steps suggested are:

- *Strict underwriting*
- *Fraud prevention and control*
- *Various claim minimization methods*
- *Training of surveyors*
- *Accurate assessment of Motor OD claims*
- *Professional and un-biased approach to salvage disposal*

The above steps will lead to win-win situation for insurance companies and customers. It will also ensure higher profitability in motor portfolio. These solutions reduce and eliminate chances of unethical practices in motor claims and salvage matters.

As a case study, we have presented two solutions - Audatex and AutoOnline. Globally, it is now being accepted in over 80 countries and operations span for the past 60 years.

In India, half a dozen insurance companies are currently using the two solutions mentioned.

Keywords:

Anti-fraud technologies, salvage disposal, motor portfolio profitability, Audatex solutions, AutoOnline solutions, Solera group

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Introduction:

Customer's expectations are increasing day by day. These expectations can be fulfilled only by providing much shorter Turn Around Time (TAT) and transparent processes. Along with insurance companies' processes, there is scope to improve expertise and competence of surveyors - both in-house and external. The need for technology is increasing day by day as the entire claims landscape is changing and becoming more and more demanding on processing time, at the same time vehicles are becoming more and more complex requiring a much higher level of expertise for proper assessment.

Salvage disposal is another area of concern for the insurance companies as the processes today is very archaic and manual with several parties involved (claims engineers, surveyors, auctioneers, salvage buyers, etc.). This leads to an incoherent and lengthy process, but most importantly there is a high propensity of fraud in this entire process.

About Solera Group, Audatex and AutoOnline Solutions

Solera is a global data and technology company headquartered in Dallas, Texas (USA) with operations in over 80 countries. It is a holding company with over 50 companies under its umbrella, all of which has the focus to improve the insurance claims process. Audatex and AutoOnline are two Solera companies present in India.

Audatex is a very user-friendly in its approach & uses exclusive data from Indian auto manufacturers and latest software and intelligence providing exact cost of repair for over 90% of the vehicles on Indian roads.

AutoOnline is a close bid online salvage auction platform which provides the most transparent and audit proof process for auctioning salvage vehicles. With over 400 salvage buyers on the platform, it creates a very competitive marketplace providing the highest value for the salvage.

The Solution - Embrace Technology

The answer to these pain areas lies in higher adoption of technology in the claims management process.

As some Western world countries are much advanced in technology adaption in this field, here are some interesting facts:

- In Belgium, regulators have made the usage of Audatex as a system mandatory
- In the UK, over 90% of claims are settled on Audatex
- >40% of all claims settled worldwide uses Audatex

Short for Auto Data Experts, Audatex was the brain child of German scientists in the post-World War II era, who wanted to bring in more science into the vehicle repair process via mathematical models. Audatex is based on a core estimating system used and trusted in over 80 countries around the world.

Transition of Motor insurance business

Over the years, newer types of vehicle models have entered the market. Cost of spare parts have gone up considerably. Customers have become aware of their rights. Depreciation has always been a point of dispute. PAYD (Pay As You Drive), which is based on embedded devices, has remained unpopular method due to privacy factor. IEV (Insured Estimated Value) has been introduced as a method of expressing sum insured in the policy. Needless to say, the environment has become severely competitive, leading to unethical practices in matters of underwriting and claims settlement, and disposal of salvage.

In current scenario, many new underwriting factors are used by insurance companies in motor business. Basically, the transition is from vehicle related factors to insured related factors such as drivers' behaviour, record, style of driving, moral hazard, LSP (Loss Sensitive Pricing), pre-inspection of vehicles (for break-in insurance periods), road conditions, parking facilities, and vehicle maintenance. In the matter of salvage management, important factors are: proper valuation of salvage, dislodging salvage buyers syndicates, taking adequate number of photographs, choice of competent surveyors, discouraging cash loss settlements to name a few.

Typical pain areas in motor claims:

- i. Disputes in amounts - referred to arbitrators
- ii. Settlement on total loss basis vs. cash loss basis
- iii. Removal of accidental vehicles from the spot without survey
- iv. Bad moral hazard of customers

Typical pain areas in salvage matters:

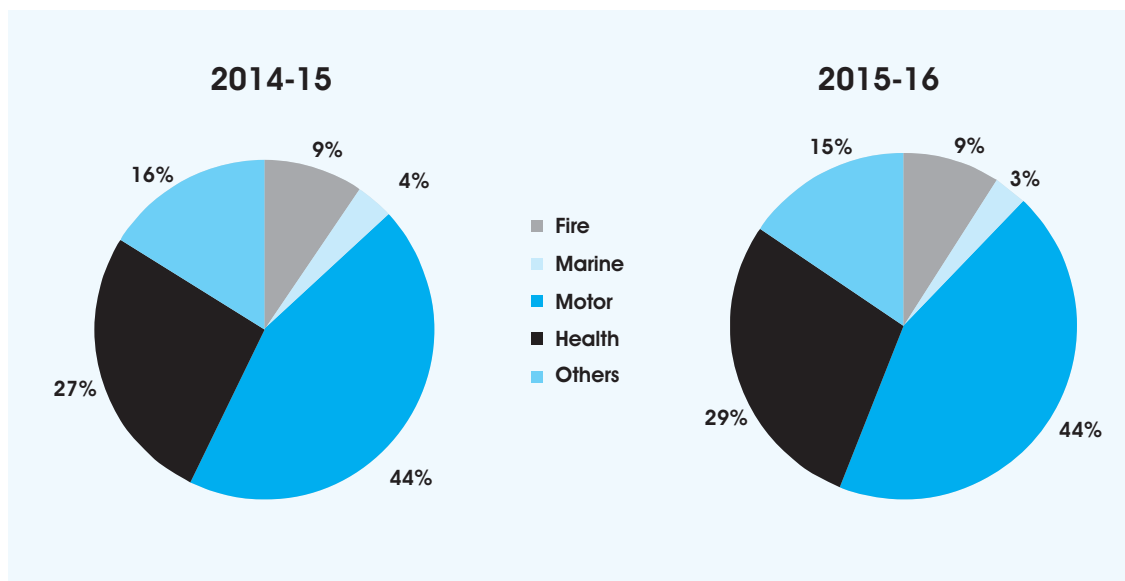
- i. Lower valuation of salvage by surveyors
- ii. Syndicates of salvage buyers
- iii. Backing out of salvage buyers after bidding
- iv. Space problem for storing salvage items
- v. Irregularities in the records/registers of salvage

India today is one of the fastest growing nations in the world. One of the benchmarks of a growing economy is its car parc (number of cars on the road). Today, India's reported car parc is approximately 30 million. According to estimates from IHS Automotive, this figure will grow to 40 million by 2020. With a reported accident rate of 20% every year, the number of automotive claims in the country today comes to approximately 6 million annually. These numbers highlight the growing pains of an emerging nation that has the potential to overtake the likes of China and the United States but due to slow developing infrastructure, as well as a slower adoption towards technology - has taken a longer time to reach its potential.

The Motor insurance business is the largest non-life insurance (general insurance) segment in India with a share of 44 % of total non-life insurance premium. It is growing at a healthy pace and reported a growth rate of 13.17 % in 2015-16 (higher than 10.52 % growth in 2014-15). However, at the same time Motor insurance has one of the highest claim ratios among the non-life segments and is increasing year on year. The incurred claims ratio of the Motor Segment was increased to 81.18 % in the year 2015-16 from the previous year's ratio 77.14 %. Figure 1 shows a detailed breakup.

Figure 1

Break up of Premium (Within India) Underwritten by Non-Life Insurers - Segment Wise



Case Study

In light of the various problems enlisted hereinabove, it will be only appropriate to substantiate the solutions based on high-tech companies' practices in India and around the globe. There are a few technical groups and companies globally, who have designed effective software solutions for dealing with motor claims and salvage disposal problems. They have effectively experimented and implemented solutions to win over the pain areas. The case study given below is only indicative and a sample study to bring to the readers the effective solutions in this regard.

General insurance companies are under high pressure to reduce motor claims ratio to cut their losses.

Pain points in the motor claims process for insurance industry:

- High Assessment cost
- System Leakages - variations in claims settlement amount
- Salvage valuation and disposal
- Increasing Customer Demands

High Assessment Cost

Due to low technology adoption in motor insurance industry to remotely assess damages, majority of the claim assessments are conducted physically on site by third party or in-house surveyors. This leads to cost being incurred by the surveyor to physically travel to the garage to inspect the vehicle and also the professional fees of the surveyor. In many instances, the surveyor makes multiple visits for a single claim assessment, thus increasing costs.

We analyzed the scenarios comparing current practices with this approach that makes Passenger Vehicles and 2-wheeler assessment easy to do with a very high level of accuracy and enables remote assessment.

The result from our study, conducted over 6 Metro cities in India is shown in Table 1 below:

Table 1
Results of Assessment Cost Study Pan India of Closed Claims

	Passenger Vehicles	2-wheelers	Average Claim Size
Average cost of assessment	Rs. 1,650	Rs. 900	Rs. 18,600
Possible cost of assessment with technology	Rs. 900	Rs. 400	Rs. 5,100
Potential Savings to insurance companies - per claim - if approach is used (minimum)	Rs. 750	Rs. 500	n/a
No. of claims per year	48 lacs	12 lacs	n/a
TOTAL potential savings to insurance companies	Rs. 360 Crores	Rs. 60 Crores	n/a

System Leakages

In India majority of the claim estimation is done at the garage in a very archaic way on "paper and pencil" by workshop service advisors. With increasing complexity in vehicles there is high occurrence of inaccuracies in such estimates and growing day by day. The inaccuracies can be exploited by dealers/garages as well as surveyors to encourage unethical practices thus adversely affecting the insurance companies. During our field work while collecting data, we encountered several such cases. Furthermore, it was observed that there are several regional differences across India in the way claim estimation is conducted and approved - i.e. claim with same damages are paid higher in one region of India vs. another.

There is a need for a scientific, accurate and consistent method for claims estimation that can help the insurance companies to reduce the leakages.

During the study conducted for a leading Indian Motor Insurance company, it was observed that some dealerships of a premium car manufacturer were overcharging insurance companies anywhere between ₹ 2,000 to ₹ 28,000 per accidental repair claim. Producing an estimate on paper leads to other disadvantages such as longer estimation creation times, missed labour operations as well as the possibility of supplementary estimates being created which leads to a loss of productivity and most importantly - **customer dissatisfaction**. During a pilot study at 4

authorised body shop locations of a leading Indian car manufacturer, it was found that estimate creation takes ~ 30 minutes for low to medium level damage and for severe damage it could take up to 4.5 days to prepare an accurate estimate using conventional methodology. Also supplementary estimates were required in 30% of the cases, and over **28 % of the estimates created had part inaccuracies.**

Salvage Valuation and Disposal

There are estimated 90,000 vehicles each year that are sold as salvage vehicles to the salvage market by insurance companies in India. Salvage disposal in a transparent and efficient manner is a key issue for insurance companies. Traditionally in India the task of salvage disposal is conducted through surveyors who try and get the best value for salvage vehicles from their personal network of salvage dealers. However, as each surveyor has a limited network, the value realization for insurance company is low and the process is also not transparent and encourages corruption.

There are companies which dispose these salvages in a very transparent and efficient manner providing the highest possible salvage value to insurance companies. However, there are only a handful of insurance companies in India today utilizing such approach.

Increasing Customer Demands

The 21st century customers expect a high level of service with digital solutions that gives information and quick decisions "at the palm of their hands." Today, with a non-transparent and confusing estimation and assessment processes, the customer loses trust - both for the workshop and the insurance company. The customer is not made aware of his exact liability in the incident of a claim and the delays due to manual and inaccurate process - increasing both his turnaround time for vehicle repair and his frustration level. A single bad experience leads to loss of customer by the insurance company.

This is leading to a very high level of customer "disloyalty" and customers switching insurance companies is far too common as this industry is also highly competitive today.

This is a cloud based system that:

- Leverages manufacturers time and methods to construct estimates and provide a 3D visualization of the repair process
- Provides a user friendly graphical interface that does not require high skilled manpower for creating estimates

- Provides a comprehensive, transparent and consistent with the standards mandated by the vehicle manufactures themselves.
- Provides immediate information to customer regarding insurance liability
- Reduces the service TAT
- Reduces supplementary estimates due to accurate capturing of damaged parts
- Reduces unnecessary assessor visits to the garage thus reducing assessment costs for the insurance company.

Our study, conducted over 4 locations in different regions for a leading Passenger Vehicle manufacturer in India showed drastic improvement in processing time, which is shown in Table 2 below.

Table 2
Value Drivers and Results of Solution Application (Times Are Approximation)

Value Driver	W/O AX (mins)	With AX (mins)	Remarks
Average time in estimate preparation claim	30 (min)	7.2 (min)	Time saving of 23 mins per
Average savings in negotiation time	30 (min)	5 (min)	Time saving of 25 mins per claim
Average time savings due to less supplementary estimates	20 (min)	0 (min)	Saved 20 mins per claim (supplementary estimates required in ~ 30% of total claims)
Average time savings by increased accuracy in parts ordering	30 (min)	0	Saved 30 mins per part for wrongly ordered parts for Parts Officer, 20% of total estimates had reported part inaccuracies
Transparent system - does not allow for manipulation of the estimate - easy to audit	-	-	The ability of the system to not allow manual entries without automatic audit flag curbs inaccuracy and corruption/fraud in the estimation process.

Arguably, of course, the grander monetary value for insurance companies lies more on improving efficiency. Our analysis showed losses ranging from INR 430 to INR 22,000 depending on the size of claim and OEM type. Furthermore, the value derived by increased customer satisfaction due to faster Turn Around Time and transparent estimation at the beginning can be debated to be significant as well in today's highly competitive insurance industry.

On the salvage disposal side, technology adoption has been higher and there are several auctioning portals now in India to effectively manage the disposal process. A closed bidding salvage exchange platform for determining residual value as well as the sale and purchase of vehicles damaged through accidents or through natural disasters. This involves comprehensive expertise, knowledge of the industry and process analyses to produce a service and software support that allows all users of the system automated and quick access to the entire market directly at their desk. Experts and insurance companies can advertise damaged vehicles and buyers from all over India can submit their bid at the click of a button.

The future of claims management and fraud prevention is here with technologies that are proven and working or needs to be developed to suit the need. The silver bullet is technology which can not only address the pain areas of insurance companies but also be able to do so efficiently, in a cost-effective manner and improve customer satisfaction. Any insurance company resisting this paradigm shift will be left behind and eventually become non-sustainable.

Ideal strategies for Insurance Companies (A questionnaire)

Insurance companies should take the problem of claims service seriously and take steps to improve it, at the same time keep an eye on the sustainability factor.

The relevant questions to address will be:

- How can we curb chances of Fraud?
- How can one ensure accuracy in Claims Management?
- How can quality of assessment in damages be improved upon?
- How can we further train our empaneled Surveyors?
- How can we improve the performance of our In-house Surveyors?
- How can we reduce TAT?
- How can the entire claims process in Motor be expedited?
- What steps need to be taken to reduce Claims ratio in Motor OD?
- How can Insurers realize a higher salvage value in accidental damages?
- How can we empower our Customers to build a better overall relationship with Insurers?

