

WHITE PAPER

THE TRUTH BEHIND THE NUMBERS



verometrix



XCHANGING IS A LEADING
PROVIDER OF OUTSOURCED
BUSINESS PROCESSING,
TECHNOLOGY SOLUTIONS AND
PROCUREMENT FOR THE
GLOBAL **INSURANCE** MARKET

THE TRUTH BEHIND THE NUMBERS

TACKLING THE MANAGEMENT AND PAYMENT OF THIRD PARTY EXPERTS

London insurance market uses many external third party experts such as lawyers and loss adjusters to assist in the claims process. As a market today, we use over 2,000 different professional advisers and experts around the world and collectively pay more than £1bn a year for their services.

In return those experts play an important role in ensuring that customers' claims are resolved equitably and efficiently and that underwriters are given advice on the most appropriate course of action to follow when resolving claims. With such a high level of dependency on these experts, it is important to ask how well the market manages the process of selecting and paying the experts it uses.

Some of the high level questions that impact all insurers should be easy to answer, but are they?

For example

- How much is your organisation spending a year on experts? Are you getting value for money for that spend? How do you know?
 - How do you measure the experts' performance? Anyone in the London market that tells you that this is either "too hard", "not relevant" or "subjective" probably doesn't know the answer to those questions.
 - How much are your underwriters influenced by brokers in the expert selection process? Is the broker's desire to have an expert written into the slip really beneficial to your business? What can you do about it in a broker-driven soft market?
 - How do you ensure your experts are focused on getting the best result for your business – reducing costs and delivering the best customer-driven outcomes – rather than on keeping their meters running as long as possible?
 - How much has your expert spend increased in the last three years? How do the rates you pay compare with your competitors in the market?
 - How much validation goes into reviewing fee bills? Does a \$50,000 fee bill get the same level of attention in your organisation as a risk with a \$50,000 premium? With a major claim what is the process for an expert to be selected?
- Who are the top 10 experts engaged by your organisation? Do you understand why they were selected? What level of procurement process have you been through to select the best experts for your business?
 - Are experts being paid efficiently and on time? If so, are rates being leveraged in exchange for the fast movement of money?
 - What have we got as a result of brokers exiting fee collections? Is the market best served by having a number of sub-scale "cottage industries" attempting to solve bite-sized bits of the market? Or does this fail to provide an overall solution and lead to inefficiency, handoffs, delays etc.? How much extra are you paying for the inefficiencies in the process?

So with all of those questions, is the market really managing the process as well as it should be? It is of course incumbent upon the market to find efficiencies in the way it manages and pays its experts for their services, but the evidence suggests this is an area where many fear to tread.

The availability of effective management information (MI), a real desire to manage the process, and the ability to leverage based on a prompt payment track record are the catalysts that can help bring discipline and rigour to the relationship we enjoy with our experts.

But is the desire to improve really there? For many years the whole area of expert management has been shrouded in mystery and has been on the whole, with few exceptions, left alone.

Most organisations have a disciplined procurement process for other areas of significant spend, such as consultants, IT and external service provision, but experts have largely remained exempt from any such processes. However, with persistent soft market trading conditions, this is an area where insurers can seek to differentiate themselves and make a difference to their bottom line.

THE TRUTH BEHIND THE NUMBERS

THE CASE FOR TECHNOLOGY

The challenge in delivering effective MI as a tool to enable the better management of the expert process shouldn't be an issue. And yet, historically, capturing enough reliable data to provide meaningful analysis has been cited as an impassable hurdle. The provision of MI would enable the carrier to:

- see where they are incurring their expert spend by identifying the most commonly used experts and revenues paid to those experts – the start point for any discussion about leveraging rates
- test reserving accuracy (both fees and indemnity) and highlight areas for refinement/improvement
- have increased visibility of expert spend
- provide better granularity of data to assist review of expert fee bills
- exploit a methodology of ensuring experts are adhering to your terms and conditions of appointment and your strategy
- evidence control of third party spending (an important requirement under Solvency II).

In addition to the above, an automated fee checking system offers other distinct advantages to assist the claim handler when reviewing a fee bill. This in turn would enable them to make better-informed decisions.

The provision of accurate and timely MI also assists the claims department in undertaking a file review of expert performance in order to drive continuous improvement. Even the most rudimentary of MI, could really support insurers in identifying where any savings, efficiencies or improved utilisation of their experts could be made without undermining the integrity of the services those experts provide, or the quality of input they bring to the claims process.

A LESSON FROM AMERICA

So is this all too difficult for us to introduce? There is already precedent if you look across the Atlantic. In the US, concepts such as procurement of expert services, e-billing and automated invoice reporting have long been embedded in business processes. These initiatives go back to the late 1980s and have been constantly evolving ever since.

Of course, good experts welcome such initiatives – they provide clarity over what is expected by their customer as well as useful information and feedback in areas where they can improve their business.

With the US market already benefiting from the use of technology when it comes to payment of third party fees, London cannot afford to lag behind in such a globally competitive arena.

OPTIMISING SPEND

Indeed, preserving the status quo for expert management may well be putting your organisation at a competitive disadvantage. In an on-going soft market, optimising expert spend to get the best value is a crucial factor that can improve or reduce an insurer's bottom line profitability and can also help to differentiate an underwriter from the competition. Obvious areas include the costs of services and how these are changing over time and the accuracy of the information received from the expert.

What insurer would not be better served with meaningful data in relation to areas such as how much they are paying individual experts on an annual basis; how much those fees have gone up over the last two, three, four years; what type of work they are paying for; whether the work is being performed by the right level of staff within the expert or not; and benchmarking charges, reserving accuracy and ultimately overall results achieved between experts?

How often does your organisation review what your experts are doing on your behalf? Certainly the claims department, or someone suitably qualified, should regularly be conducting audits of files in order to:

- confirm that the selection and appointment of experts is appropriate in the circumstances
- ensure that the experts are adhering to agreed terms and conditions and are responding to a claim in the way a carrier wants and identify areas for improvement
- highlight issues to raise with the underwriter (for example reserving, reporting or billing issues)
- ascertain the end customer experience and how it might be improved.

'It is surely now time to look more closely at a system-based fee review and settlement solution that can deliver key benefits both in terms of the swift payment of invoices for the expert (once agreed by the claims department) and the provision of meaningful and valuable MI to insurers that can in turn help deliver real savings and efficiencies'.

These audits when reviewed in conjunction with the MI provide the necessary tools for insurers to improve the level to which they manage their third party experts.

But there still remains the problem of effective payment of expert fee bills...

PAYING THE BILLS – BUT HOW QUICKLY?

There are numerous word of mouth horror stories circulating of some experts allegedly waiting upwards of 18 months for payment of their invoices. There are also anecdotal suggestions that some of the better experts may be reluctant to work for the market if it takes a long time to be paid for their services, or that they may even be billing higher hourly rates to compensate for an anticipated tardy settlement. Either that or, in large cases, there is an increasing trend towards insurers providing a 'fee fund' – forward paying a large sum to ensure that the expert is not out of pocket. Fee funds have their own problems. Why should the insurers have to advance fund fees? In this day and age surely we have the tools to deliver fast payment when it is actually billed?

From a reputational standpoint payment issues cannot help the London market.

It is surely now time to look more closely at a system-based fee review and settlement solution that can deliver key benefits both in terms of the swift payment of invoices for the expert (once agreed by the claims department) and the provision of meaningful and valuable MI to insurers that can in turn help deliver real savings and efficiencies.

When it comes to a claim, it's no surprise that an insurer's primary focus will always be on resolving and then paying its client's claim. A consequence of this understandable prioritisation is that, quite often, less urgency is applied to processing the associated fees from third party experts.

Invoices sometimes get stuck in a triangle between the broker, underwriter and collection agent. Sometimes, with periodic invoices, the record of what has and hasn't been paid can become blurred. The picture can become further confused if, as sometimes happens, the records from the expert and the insurer over what has been paid and what is outstanding do not fully reconcile.

The ability to pay experts is of course made far more complex by the subscription nature of much of London's business, where cover is not only placed with multiple insurers, but often in multiple markets (Lloyd's, International Underwriting Association and overseas, for example), not to mention layered programmes and orders.

The market isn't unaware of the problem. And yet, in the subscription market, every insurer finds themselves positioned both as a 'leader' and also a 'following underwriter' on other risks. Even with some leaders having their own systems in place, as a following underwriter it becomes hard to influence outcomes or safeguard the standards you might expect to be applied if you were leading the risk.

BROKERS EXIT FEE COLLECTION

Other developments in the last 15 years have seen some of the bigger brokers take the decision to exit from the collection of underwriters' experts' fees. It is easy to understand why, since some brokers would argue that their responsibility is to represent the insured rather than the interests of an expert working on behalf of the insurers.

In response to this change, a number of fee collection agencies have surfaced over that period, most of which contract with the third party expert for the collection of their fees. Away from the larger firms, other brokers remain firmly wedded to the principle of collecting fees – a few of which even charge the expert for the privilege of collecting their own fees!

The overall result serves no-one well, with a payment process hindered by few economies of scale and characterised by too many handoffs, delays and inefficiencies.

THE TRUTH BEHIND THE NUMBERS

A SYSTEM-BASED FEES AND SETTLEMENT SOLUTION

Verometrix is Xchanging's proposition to help rectify the problem of third party fee payment in the London market, and offers a unique, integrated; end-to-end expert management processing solution for Lloyd's and company bureau customers.

The service addresses the needs of insurers and the challenges they are facing, delivering:

- online expert instruction
- e-billing
- automated invoice validation
- budget management
- fee agreement and settlement
- comprehensive MI delivery.

Providing full control over expert spend, the service lets the insurer see that they are being billed accurately for services procured from experts (both legal and non-legal). Verometrix features a single sign-on utility, which provides user-friendly access to all system tools and databases from a standard desktop portal. Security is maintained at the highest level, using a combination of physical hardware, firewalls and intrusion detection systems, redundancy and software encryption.

It also complements Xchanging's existing Fees Direct agreement and settlement service.

THE VEROMETRIX PROCESS

Verometrix handles the entire process from the initial assignment of the expert to a claim, right through to the final settlement.

Case and claim assignments

Claim assignment or engagement notices are fulfilled directly from the Verometrix case management desktop, complete with access to any relevant attachments such as policy wordings and expert reports.

Budgeting and case planning

During the assignment process, the insurer can request a claim/matter level budget from the service provider, including a staffing plan where appropriate. Case plans, such as initial assessments, may also be required during this part of the process.

E-docs

Verometrix provides a robust, fully searchable electronic document management repository. Documents may be uploaded to the e-docs desktop from any available source and reproduced when required.

E-billing

Verometrix uses the Legal Electronic Data Exchange Standards and Verometrix e-billing formats to ensure ease of integration with the expert's current billing or practice management systems. E-bills are submitted online, directly into the Verometrix e-billing desktop application.

THE BENEFITS OF VEROMETRIX

Control

- Achieve and demonstrate control of expert spend
- Budgeting tools enable insurers to track expert spend on an assignment-by-assignment level
- Powerful on-line MI and financial reporting
- Adjuster performance monitored in line with Lloyd's Minimum Standards

Cost

- Reduces expert spend by automatically identifying errors in fee invoices
- Enables fact-based decisions on future panel inclusions
- Reduces admin costs associated with handling paper agreement process

Time

- Reduces time spent adjusting fee invoices
- End-to-end process enables quicker settlement of invoice
- Manages the invoice approval and payment process

Automated Bill Review (ABR) and compliance monitoring

ABR streamlines the compliance monitoring process by performing various automated validation checks on the e-bills, including:

- timekeeper/fee earner rates or fees
- duplicate invoice or line entries
- photocopy rates.

To complement ABR, Xchanging offers an additional service, legal bill review (LBR) on a business process outsourcing basis for bill review of vendor activities, as measured against the client's guidelines or service-level agreement.

Once the invoice has passed successfully through legal bill review and resolution process, it is made available to the insurer's adjuster for a qualitative review and final agreement. The approved invoice is then available online for the Verometrix team to obtain market agreement.

Obtaining market agreement

Once the lead has approved the fee invoice, agreement to settle fees will be automated by Verometrix or obtained by Xchanging's Verometrix team.

Settlement of invoices

Once fully approved, Xchanging will settle the invoice through the Lloyd's and/or company claims loss advice and settlement system (CLASS), generating a signing message for the participants.

Matter/claims payment feeds

Verometrix delivers a secure automatic data-file feed from the Electronic Claims File/CLASS that will reduce any manual case/matter creation effort in the Verometrix process.

Likewise, a back-end payment feed protocol ensures that the approved/authorised invoices in the Verometrix system are routed to subsequent agreement parties and are settled within an agreed service level.

Verometrix management information reporting

Verometrix enables the collection and depositing of data from insurers and legal/non-legal experts. MI reports are produced in various formats and easily exported into spreadsheets, databases and other report writing software applications. This fully customisable reporting suite provides insurers with the tools required to control their expert spend.

IT'S TIME TO ADOPT THE TECHNOLOGY SOLUTION

Adoption of a system-based fees and settlement solution will never remove the human element completely; nor does it seek to do so. Insurers will always want to review expert bills for appropriateness and nothing will replace the sanity check that a claims practitioner brings to the table. However, having additional supporting data will help them in their analysis.

Such a system removes some of the frictional costs and if implemented correctly, improves relationships with third party experts. That in turn should help improve the end product for the end buyer – the insured. There could also be a significant upside in terms of insurers leveraging rates favourably with their suppliers in exchange for fast movement of fees.

Addressing the payment of third party experts might seem to be the last and least fashionable piece of the claims transformation jigsaw, but it is no less important in helping London compete in the long term with other insurance markets.

To find out more about Verometrix, please contact your Xchanging customer relationship manager, account director, or the contact below.

Andrew Lillico
Product Manager Fees
+44 (0)20 3604 3321
Andrew.Lillico@xchanging.com

The Walbrook Building
25 Walbrook
London • EC4N 8AQ • UK

Telephone **+44 (0)20 3604 3334**
Email info@xchanging.com
Website www.xchanging.com

 @XchInsurance
 [linkedin.com/company/xchanging](https://www.linkedin.com/company/xchanging)
 [facebook.com/xchangingplc](https://www.facebook.com/xchangingplc)

