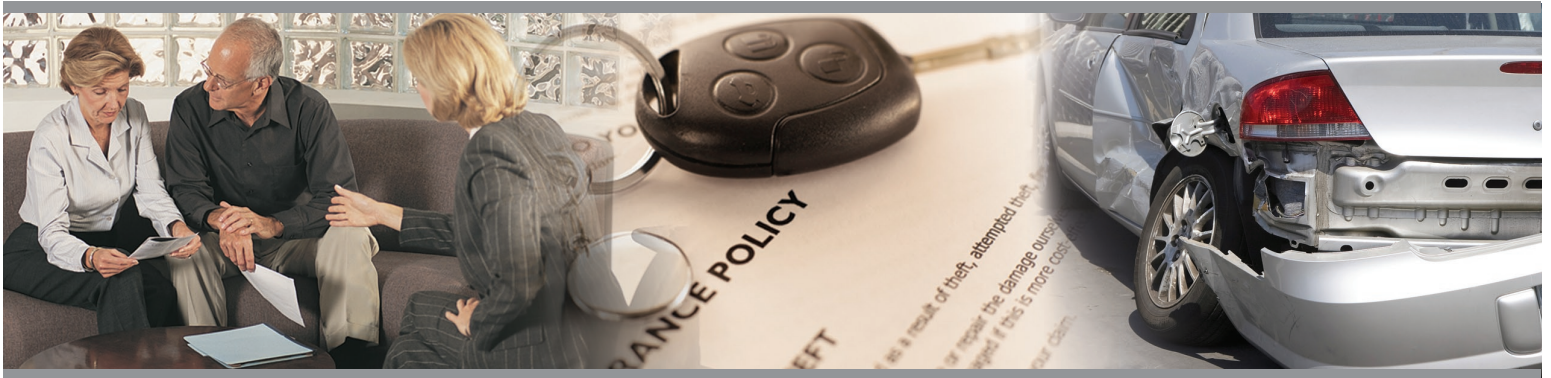


## The Six Pathways to Claim Servicing



*A Management Discussion Based on the  
2009 Auto Claims Satisfaction Study<sup>SM</sup>*

*Financial Services and Insurance Research Group  
October 2009*



## **Table of Contents**

<b>Introduction</b> .....	<b>1</b>
<b>The Six Repair Claim Pathways</b> .....	<b>2</b>
<b>Comparing Pathways by Claim Cycle Time</b> .....	<b>5</b>
<b>Comparing Pathways by Satisfaction</b> .....	<b>6</b>
<b>Comparing Pathways by Top Service Practices</b> .....	<b>8</b>
<b>Impact on Policy Retention and Referrals</b> .....	<b>11</b>
<b>Conclusion</b> .....	<b>12</b>



## Introduction

During the past several years, J.D. Power and Associates has annually surveyed personal auto insurance customers who have filed a claim with their insurer. The *2009 Auto Claims Satisfaction Study<sup>SM</sup>* examines each touch point between the claimant and the insurer and the extent to which each event impacts overall satisfaction. The study further details the most critical service standards that drive higher satisfaction (and subsequently policy retention) and profiles each insurer's relative strengths and weaknesses in meeting claimant expectations in each of these critical service standards.

In analyzing perceptions regarding their recent claim experience, both intrinsic and extrinsic factors may significantly influence claimant expectations. For example, the study finds that a claimant's expectations are frequently influenced by factors beyond the insurer's control—such as the age of the claimant, their experience filing previous claims, and even how their policy is serviced (Direct vs. Agent).

Furthermore, while every auto claim involves the same basic process steps—capturing a claim report, determining liability, assessing the severity and settling the claim—the study finds that claimants describe their experience as following one of **six** markedly different paths. These six claim pathways are broadly defined in terms of who **manages** the claimant interaction at each stage of the claim.

This Management Discussion will compare these claim service pathways, exploring their relative strengths and weaknesses, and highlighting those insurers who demonstrate the highest achievement levels in each. More specifically, this Management Discussion will examine:

- The major variations in how claimants perceive the claim process when following each claim pathway.
- What separates the top performing insurers from those not meeting customer expectations?
- Which pathways achieve high claimant satisfaction ratings and which top service practices to focus on depending on the claimants' experience?

Since every insurer profiled in the study employs a unique mix of these six pathways, readers are encouraged to consider both how to optimize their claim process mix and compare their own performance to insurers who set the standard for excellence in each claim pathway.

*Note: For the purpose of this analysis, we have excluded both total losses and claims involving tows, focusing instead on those claims that were driveable in order to keep the severity of the claim types as similar as possible across the six pathways being examined.*

“ While every auto claim involves the same basic process steps... claimants describe their experience as following markedly different paths...broadly defined in terms of who manages the interaction at each stage of the claim. ”

## The Six Repair Claim Pathways

Depending upon whom a claimant deals with throughout their claim experience, expectations and satisfaction with the claim handling vary significantly. The *2009 Auto Claim Satisfaction Study* finds that claimants experience one of six markedly different repair claim experience types, referred to in this analysis as paths, depending on different combinations of the following touch points (Figure MD-1):

- **First Notice of Loss**—Whether the initial claim report was taken by the agent or directly to the insurer.
- **Insurance Appraiser**—Whether the initial appraisal of the vehicle damages was conducted by a representative of the insurer or of the repair facility.
- **Claim Professionals**—Defined as a representative of the insurer who interacted with the claimant other than when filing the initial claim report or the appraiser.

Interactions Throughout Claim						
	Path 1	Path 2	Path 3	Path 4	Path 5	Path 6
<b>First Notice of Loss</b>	Agent	Agent	Call Center	Call Center	Call Center	Call Center
<b>Claim Professional(s)</b>	Yes or No	Yes or No	No	No	Yes	Yes
<b>Insurance Appraiser</b>	No	Yes	No	Yes	No	Yes
<b>Overall CSI</b>	<b>882</b>	<b>869</b>	<b>858</b>	<b>854</b>	<b>824</b>	<b>804</b>
<b>% of Claimants</b>	15%	17%	20%	31%	6%	9%
<b>Insurers with High Usage of Each Path</b>	State Farm (40%) Auto-Owners (36%)	Auto-Owners (44%) Erie (35%)	Auto Club Group (46%) USAA (43%)	GEICO (62%) Amica (53%)	Liberty Mutual (25%) MetLife (22%)	

**Figure MD-1**

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

**Paths 1 and 2**—There is a noticeable lift in overall satisfaction for the 32% of driveable claims reported to an agent. When agents handle FNOL, claimants tend to view the agent as having a primary responsibility in handling the claim—from interacting most often with the claimant to informing them of what is covered and providing status/progress updates. Three companies stand out as having high proportions of agents handling FNOL: Auto Owners (81%), Erie Insurance (67%) and State Farm (65%). Each of these insurers achieves overall CSI scores approaching 900 out of a possible 1000 index points.

**Path 3**—For the 20% of claimants who report their claim directly to the insurer and then proceed to the repair facility, the body shop representatives are typically viewed as the primary contact and are responsible for updates, with mixed results. The Hartford (40%) and USAA (43%) have higher levels of claimants experiencing this path and have overall CSI scores over 900 (on a 1,000-point scale). In comparison, the Auto Club Group (46%) performs at the industry average of 858, while Nationwide (26%) is rated well below at 838.

**Path 4**—Path 4 additionally involves an insurer’s appraiser and accounts for several variations in the claim process: appraisals performed at the claimants’ home or work, appraisals typically performed at non-DRP facilities, or those performed at drive-in or claim service centers. Insurers with high levels of this claim path that perform above average are Amica Mutual (53%) with an overall CSI score of 898 and GEICO (62%) at 874, while Travelers (49%) and Progressive (52%) both are rated near the Industry average of 854.

**Paths 5 and 6**—Similar to agent involvement, when a claim professional is involved, this representative also shapes the experience for the claimant in primarily handling the claim; however, satisfaction is significantly lower for these claims. No insurers stand out as having a high proportion of claimants following these paths, but nearly all notice a drop in ratings. While claim professionals may be involved in reviewing most claims behind the scenes, claimants are more likely to have an interaction with someone in this adjuster-type role as the severity of the claim increases.

“ While claim professionals may be involved in reviewing most claims, claimants are more likely to have an interaction with someone in this adjuster-type role as the severity of the claim increases.”

In comparing survey metrics that reflect claim severity (Figure MD-2), paths involving claims professionals (Paths 5 and 6) were more likely to involve a collision with another vehicle (69% vs. 57%), include injuries (8% vs. 3%), take nearly 2 days longer to fix (7.9 vs. 6.0 days) and have settlement amounts nearly 20% higher (\$2,399 vs. \$2,069) than claims going through Paths 1-4.

Severity of Claims						
	Path 1	Path 2	Path 3	Path 4	Path 5	Path 6
<b>Settlement Amount<sup>1</sup></b>	\$2,030	\$2,032	\$2,062	\$2,112	\$2,476	\$2,353
<b>Involved Another Vehicle</b>	55%	58%	60%	56%	68%	70%
<b>Involved Injury</b>	3%	5%	2%	3%	7%	8%
<b>Repair Time (days)</b>	5.3	5.6	6.1	6.7	7.5	8.1

**Figure MD-2**

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

<sup>1</sup>Note: Settlement includes everything the insurer covered in the claim, excluding bodily injury



## **The Benefits of Agent Involvement**

While involving agents in FNOL provides a lift in satisfaction, the lift is not simply due to less severe claims being handled by agents. In comparing Paths 1 thru 4 on the same survey metrics for claim severity, these driveable vehicles had very similar settlement amounts and injury levels. Furthermore, repair times vary by less than 1.5 days. Rather the lift in satisfaction is more likely attributable to agents who take FNOL having a higher tendency to **follow up** with the claimant, offering a trusted advocate to assist and answer questions throughout the claim. As previously mentioned, they tend to be viewed as the primary handler of the claim.

There are differing approaches to agent involvement in FNOL between insurance companies. While nearly two-thirds of survey respondents identified having a local agent, only one-half of these claimants (32% overall) state their agent handled the loss report. A similar proportion either contacted their insurer directly or were redirected to the insurer by their agent. A few companies have positioned the call center as the first choice—Liberty Mutual, MetLife and Progressive have over 40% of Agent-served customers first reporting claims directly to the company, nearly twice the industry average.

Yet, agents handling FNOL still achieve satisfaction scores over 30 index points higher than FNOL directly handled by the company. In fact, the insurer with the lowest rated agent-handled FNOL still obtains a higher rating than the industry average for direct FNOL. Farmers Insurance is one of the few exceptions—Agent-served customers who report directly to HelpPoint rate their experience on par with agent handled FNOL. In fact, even claimants who contact their agent and are told to call the insurer directly, typically a dissatisfier, provide similar scores. Satisfaction typically erodes with hand-offs, whether the agent chooses to transfer the claimant or instructs them to call the insurer directly, but Allstate and American Family agents have successfully used transfers with little negative impact on FNOL satisfaction.

“ The insurer with the lowest rated agent-handled FNOL still obtains a higher rating than the industry average for direct FNOL. ”

## Comparing Pathways by Claim Cycle Time

The overall cycle time—as measured from the time of the incident to when the claimant receives their vehicle back—is significantly longer if a claims professional is involved. In contrast, if a claimant deals directly with the repair facility after FNOL (typically network shop relationships) cycle time averages 2-4 days shorter. Figure MD-3 shows the average cycle time comparisons of the various claims handling paths.

### Cycle Time by Claim Path

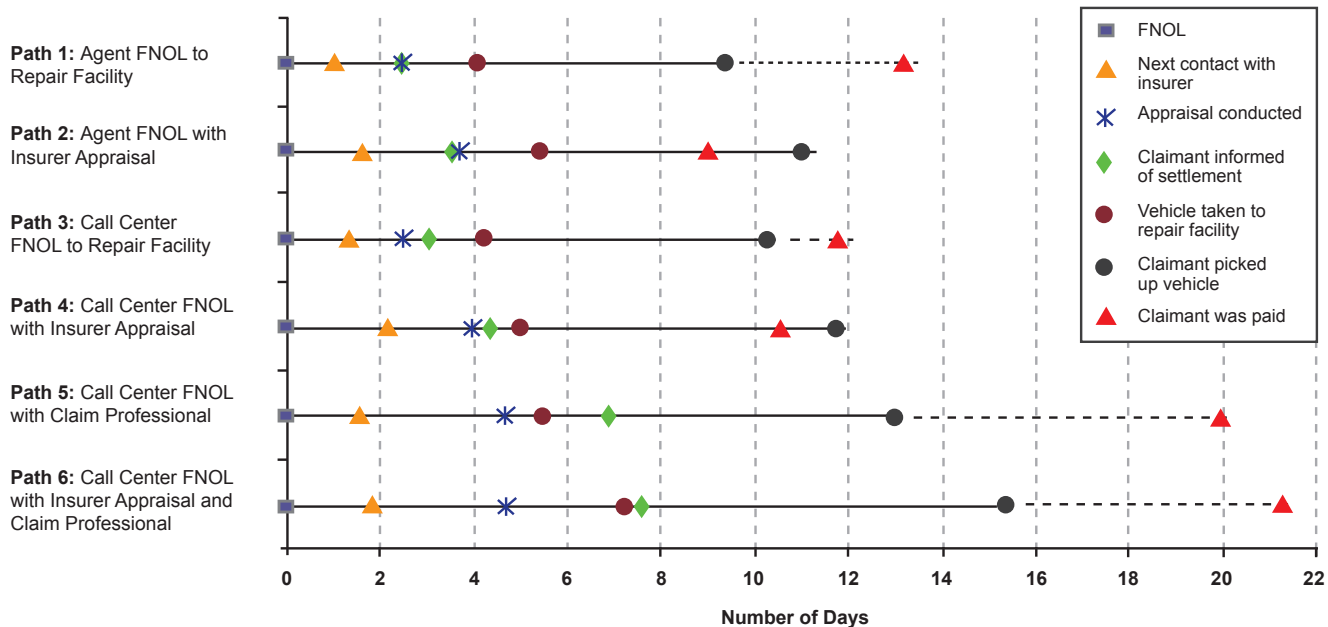


Figure MD-3

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

While overall time in the repair facility is a key metric tracked by both repair facilities and insurers, it is not always the most important measure of time for claimants' rating their insurer's overall claim handling. Repair time is actually more likely to influence the claimant's ratings of the **repair facility** than their ratings of their **insurer**. One exception, however, is when claims involve a claim professional, which generally involve notably longer repair times—suggesting the longer a claimant is without their vehicle, the more likely they are to also hold the insurer accountable.

For claimants paid directly by the insurer, the importance of timing focuses on when payment is received. Regardless of any other measure of time, receiving payment has the biggest influence when rating the insurer, especially when the payments are for reimbursed expenses or deductibles. This is likely due to the long time frames associated with receiving these payments—while payments only for the repairs average 10 days for all driveable vehicles, reimbursed deductibles are not typically received for over 20 days. Even when the cycle time is short, the positive gains from quickly moving the claim along are nearly erased by a longer time before the claim is paid.

“Regardless of any other measure of time, receiving payment has the biggest influence when rating the insurer, especially when the payments are for reimbursed expenses or deductibles.”

The shorter payment times noted in Paths 2 and 4 reflect higher proportions of claimants receiving payments for the repair work, whereas the other paths account for more reimbursed expenses. Additionally, more claimants are paid on-site during the appraisal for Paths 2 and 4.

In the majority of claims the claimant is not directly paid. In these cases, overall satisfaction with the insurer is most influenced by two key points in the claim:

1. How quickly the appraisal is conducted, and
2. How quickly the claimant is informed of what will be covered in the claim (represented by the blue asterisk and green diamond in Figure MD-3 on previous page).

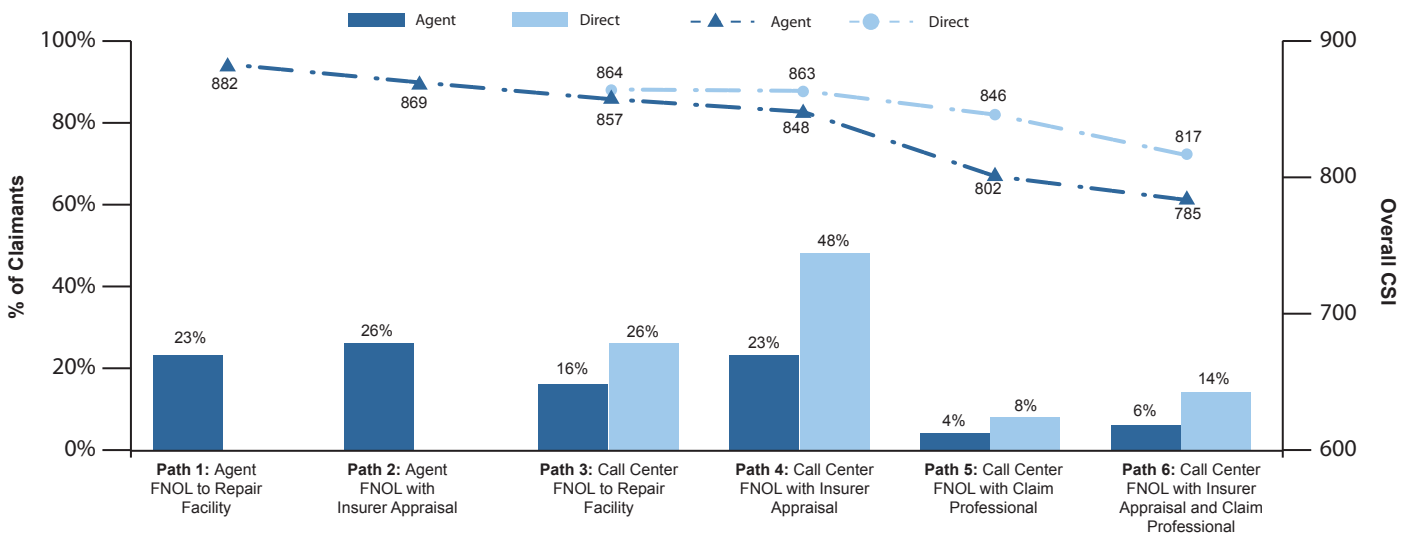
After the initial appraisal is conducted, the longer the claimant has to wait to know what is going to be covered, the lower overall satisfaction is rated. Shortening this **“period of uncertainty”** should be a top priority for insurers, especially when a claim professional is involved. Claimants report waiting 2-3 days on average after the appraisal before receiving notice of what is going to be covered in the settlement.

“After the initial appraisal is conducted, the longer the claimant has to wait to know what is going to be covered, the lower overall satisfaction is rated.”

## Comparing Pathways by Satisfaction

For customers with agents, the role of the agent during FNOL can play a pivotal role in the rest of the claim experience. For example, claimants who have agents but report the claim directly to the insurer tend to be much more critical of the involvement of additional claims representatives, especially those involving a claim professional. Figure MD-4 shows the range of Overall Customer Satisfaction Index (CSI) scores by distribution channel and the interactions outlined in Figure MD-1.

### Satisfaction by Interaction and Distribution Channel



**Figure MD-4**

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>



As shown in Figure MD-4, claimants in both groups (Direct and Agent) provide very similar ratings for claims that after FNOL proceed to the repair facility with no further interaction with an insurer representative (Path 3). However, once insurer representatives get involved in the process, Agent-served customers provide lower ratings—even lower when a claim professional is involved. Overall, CSI scores for Agent-served customers range nearly 100 index points (on a 1,000-point scale) across the different claims paths (882 vs. 785).

The broad range of scores among Agent-served customers is focused on a few facets of the experience, with ratings for the Claim Professional showing the most variation at more than 100 index points, followed by ratings for the Settlement and FNOL. Claimants with claim professional involved report lower levels of speaking with their agent throughout the process; so with the claim completely handed off by the agent and no further contact later in the claim, it is not unexpected that nearly one-third of these claimants state their agent's involvement was "less than expected."

Direct-served customers provide more stable ratings across the different claim paths, in particular for FNOL and Repair Process which vary by only 40 index points or less. However, when a claim professional is involved, Direct-served customers also provide low ratings for the Claims Professional and the Settlement.

The claim professional is primarily viewed as handling the settlement discussions so they have a direct impact on shaping claimants' perceptions of the Settlement being both fair and timely—the two attributes comprising the Settlement index. Consequently, when a claims professional is involved, claimants more often negotiate regarding what was covered, receive supplemental payments (if they were paid), and perceive the settlement didn't cover what they expected. As previously mentioned, claim professionals are not viewed as informing the claimant in a timely fashion about what the insurer will cover.

“ When a claims professional is involved, claimants more often negotiate regarding what was covered, ...and perceive the settlement didn't cover what they expected. ”

## Comparing Pathways by Top Service Practices

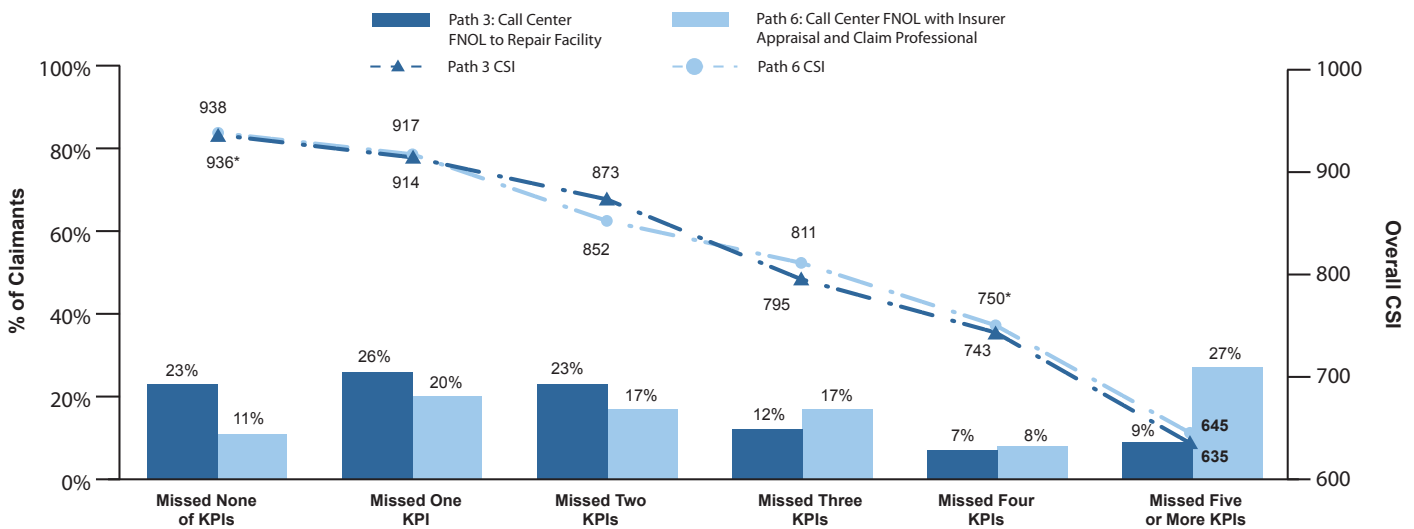
Having already illustrated the satisfaction lift earned by agency involvement in the first notice report, the balance of this analysis will now focus on two contrasting direct-FNOL claim pathways—Path 3 with less insurer involvement and shorter cycle times, and Path 6, with more insurer involvement and higher severity, leading to longer cycle times. This analysis will identify which Key Performance Indicators (KPIs) insurers should focus on in order to deliver a highly satisfying experience through these pathways.

Key Performance Indicators establish the relationship between the subjective impressions of the end-customer (courtesy, knowledge, ease of contacting, etc.) that determine J.D. Power and Associates Index scores and objective metrics (time, frequency, cost, etc.) that are behavior based and actionable for insurers to integrate into their performance improvement initiatives. The *2009 Auto Claims Study* identifies numerous KPIs that collectively, are designed to help insurers prioritize efforts to improve satisfaction with the claim experience.

While there are many similarities in KPIs across all paths, there are several unique to each, reflecting the claimants' experiences throughout the claim. For example, Path 3 has many top KPIs focused on FNOL, which is the primarily interaction with the insurer for this claim path. While the particular KPIs may be different between paths, the impact of meeting them is nearly identical as displayed in Figure MD-5. Overall CSI is rated above 900 for both paths when claimants experience only one missed KPI or less.

“ While there are many similarities in KPIs across all paths, there are several unique to each, reflecting the claimants' experiences throughout the claim. ”

### Impact of Top KPIs by Claim Path



**Figure MD-5**

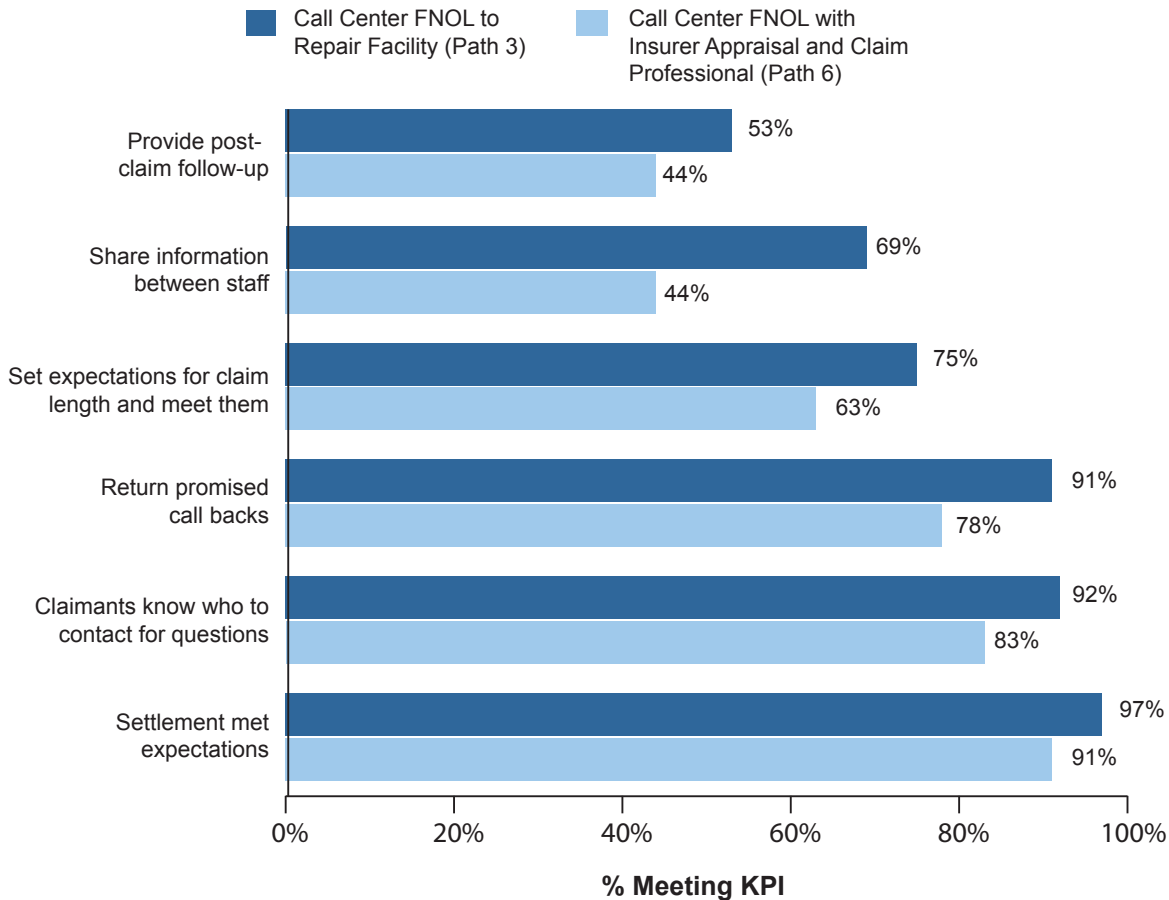
Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

\*Caution: Small sample size

Likewise, satisfaction scores experience relatively the same declines as multiple KPIs are missed, but the frequency of delivering on the KPIs is what separates the two claim paths. Claimants experiencing Path 3 are receiving a much higher level of **consistent** claim service as nearly one-half are missing only one KPI or less. In comparison, those going through Path 6 not only have a much lower rate of meeting one or fewer KPIs (31%), but more than one-third report missing four or more. The lower ratings from this much larger proportion of claimants missing four or more KPIs contribute to the 50-index point difference when comparing overall CSI scores between Paths 3 and 6.

Many of the top KPIs that are similar between the two servicing paths focus on communication and customer-service issues, which can be more difficult to consistently deliver as more representatives are involved in the claim. Figure MD-6 displays a select few of the KPIs that are similar between both paths, shown in order of lowest compliance in meeting the KPIs—where insurers have the largest opportunity to improve.

**Comparison of Select KPIs by Claim Path**



**Figure MD-6**

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

Many of the KPIs have much lower rates of being met in Path 6. On average there is about a 10 percentage point drop—that is, an additional 1 in 10 claimants missing each service practice. The largest gap is sharing information between staff so the claimant does not have to repeat themselves. Nearly 3 in 5 claimants experiencing Path 6 need to repeat information; this KPI has one of the largest impacts on overall CSI among all of the KPIs. Claimants going through Path 6 have much longer cycle times—15 days vs. 10 days for Path 3—and as a result place much greater importance on setting expectations for claim length and meeting that timeframe. This KPI has the largest impact among Path 6 claimants and over one-third are not having their expectations on claim length managed. Communication is key among this path, especially keeping the claimant informed—a few KPIs that are unique to this path (those not appearing in Path 3 top KPIs) are offering claimants options on how to receive updates and providing proactive updates throughout the claim.

Only a few insurers have enough claim professional involvement to draw meaningful comparisons, but among those that do, **Progressive** stands out in their claim handling through offering claimants options for being updated and following through by providing those updates proactively. Furthermore, it leads the industry in providing post-claim follow up.

Among claimants experiencing Path 3, the most important KPI is whether the settlement covered everything the claimant expected. While compliance with this KPI is high at 97%, satisfaction drops more than 250 index points when this expectation is missed. Path 3 generally has higher compliance rates as fewer representatives are involved and the length of claims are shorter, enabling more consistent levels of service and managing expectations.

However, entrusting the primary claim handling to the repair facility shows mixed results among insurers with high usage of Path 3. For example, both USAA and The Hartford receive overall CSI scores above 900, a combination of strong FNOL performance and high consistency in meeting KPIs—approximately two-thirds miss only one or less. In comparison, Auto Club Group and Nationwide have lower compliance on KPIs and likewise receive lower overall CSI scores.

Following up with the claimant after they have received their vehicle to make sure everything is okay is the one KPI that had the lowest level of being met between both claim paths. Providing this follow-up contact has not only shown a lift in satisfaction, but claimants who receive it provide more positive recommendations regarding the insurer. More importantly, this follow-up can also function as a **service recovery** effort as those receiving a follow-up also report less frequency and volume of negative comments.

“ Following up with the claimant after they have received their vehicle to make sure everything is okay is one KPI that had low levels of being met between both claim paths. ”

## Impact on Policy Retention and Referrals

While failure to meet multiple KPIs has a detrimental effect on overall CSI, Figure MD-7 shows the impact on retention and advocacy is just as pronounced. The changes in retention measures when KPIs are missed are very consistent between the two claim paths (Path 3 and 6), so they are combined in Figure MD-7. When four or more KPIs are missed, a full 10% of claimants report having already switched insurers, a rate two and a half times higher than among claimants who experienced fewer missed KPIs. In addition, among those who have not switched insurers, another 40% of claimants say they “will shop” for another insurer—the first step toward defection.

Furthermore, those with four or more missed KPIs are much less likely to say they will “definitely renew” with their insurer and far more likely to have made a negative comment about the insurer—and when they did, they told twice as many friends and family.

Key Performance Impact on Retention and Referrals								
Claim Path	KPI Performance	% of Claimants	Overall CSI	% Have Switched Insurers	% Will Shop in Next 12 Months	% Definitely Will renew	% Made Negative Comments	Avg. # of Negative Comments
Path 3 and 6 Combined	Missed 1 or less	44%	925	4%	14%	76%	5%	2.5
	Missed 2-3 KPIs	34%	841	4%	29%	53%	12%	2.9
	Missed 4+ KPIs	22%	676	10%	39%	23%	33%	5.5

**Figure MD-7**

Source: J.D. Power and Associates 2009 Auto Claims Satisfaction Study<sup>SM</sup>

## **Conclusion**

Given that lower claim satisfaction leads to higher lapse rates and worsening customer referral rates, insurers are highly motivated to optimize their claim process mix and compare their own performance to insurers who set the standard for each claim pathway service experience. The claim pathway analysis presented in this Management Discussion represents an overview of the full analysis—including all KPIs unique to each claimant touch point, brand-level comparisons, and year-over-year trending—available by subscription in the *2009 Auto Claims Satisfaction Study*.

## **Authors:**

Mark Garrett  
Research Director  
[Mark.Garrett@jdpa.com](mailto:Mark.Garrett@jdpa.com)

Jeremy Bowler  
Senior Director, Insurance Practice  
[Jeremy.Bowler@jdpa.com](mailto:Jeremy.Bowler@jdpa.com)

Jay Meyers, Ph.D.  
Director, Marketing Sciences  
[Jay.Meyers@jdpa.com](mailto:Jay.Meyers@jdpa.com)

*Advertising claims cannot be based on information in this publication. This publication may not be reproduced, used, sold, quoted, excerpted, or distributed, in whole or in part, without the express written permission of J.D. Power and Associates. © 2009 by J.D. Power and Associates, The McGraw-Hill Companies, Inc. All Rights Reserved.*