

Do you have Recovery Improvement Opportunity (RIO)?

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In order to take full advantage of subrogation—and reduce the risk of missing subrogation opportunities—insurance companies need to improve the way they respond to subrogation claims. A potential 5-10% increase in recovered subrogation can positively influence an insurance company's profits.

However, the potential for subrogation can disappear rapidly; and mistakes are most often caused by human error. The result: Missed subrogation opportunities, which can have a direct impact on an insurance company's bottom-line.

Subrogation Challenges the Insurance Industry is Facing

Why is the insurance industry not more focused on subrogation? The reason: Subrogation *seems* complex. Subrogation involves numerous internal and external interactions between the insurance carriers, vendors, and the public. With so many touch-points, there is inefficiency across the system: Handoffs between organizations and vendors are missed or delayed, and potential is bound to be unrealized.

Furthermore, although subrogation is part of the overall insurance claim, it carries distinct issues most claims systems do not have the capability to address, such as:

- § **IT Investment** – Historically, subrogation has not commanded much IT investment, because insurance companies may lack the IT capacity to devote to subrogation.
- § **Business Discipline** – Most insurance companies do not look at subrogation as a business discipline. With subrogation, business cases are not clearly defined nor documented.
- § **Analysis** – Businesses need to look at the subrogation problem broadly, not as a single unit/department problem. Because subrogation involves many touch-points—both internal and external—it is common for individual departments to view subrogation within one department's limited scope. This results in a narrow view-point, not addressing all sides of the subrogation issue.
- § **Solutions** – Since subrogation involves multiple touch-points, it is difficult to see any one solution capable of solving its problems.

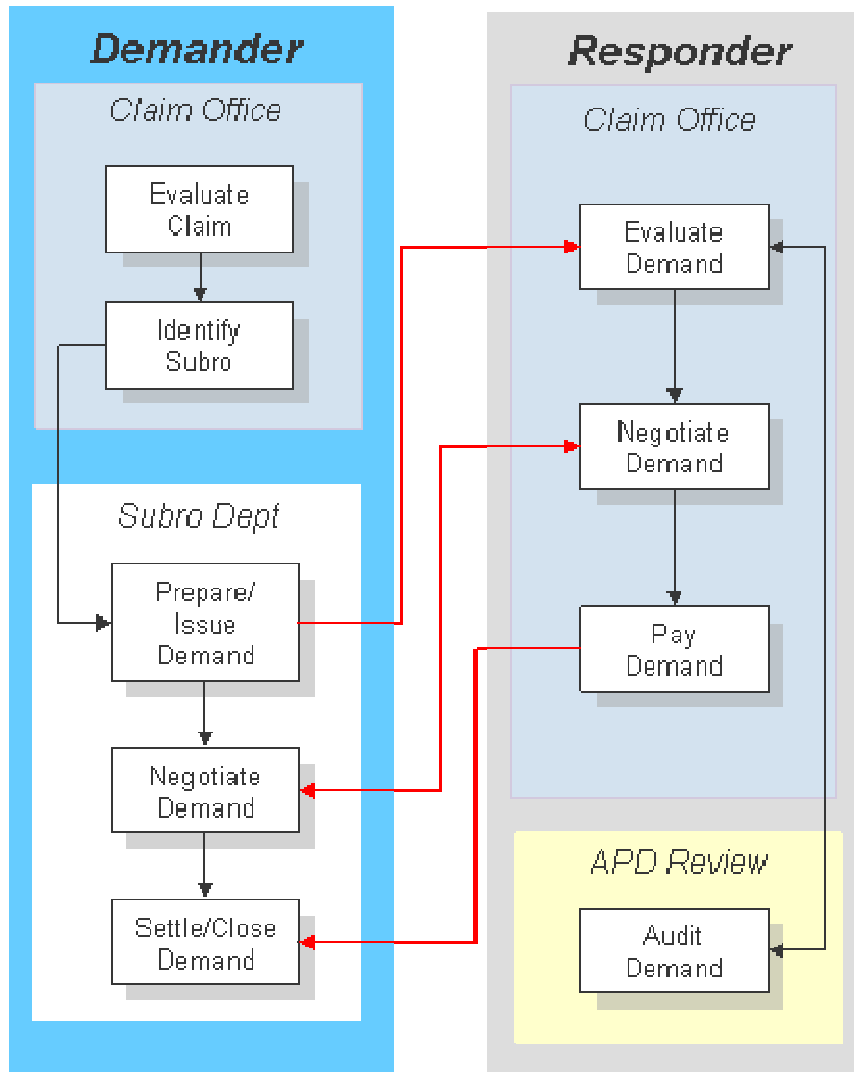


Figure 1: As shown in the diagram, subrogation involves multiple internal and external touch-points.

- § **Evaluation of Opportunities**– Because insurance companies do not have the technology to capture management information, it is difficult for them to diagnose and quantify these opportunities.

Carriers Have Taken the First Steps

Although there have been small steps, insurance carriers are beginning to take a serious look at subrogation, and how to recover their missed subrogation opportunities. Insurance companies are starting to realize that there are very large opportunities to improve recovery and productivity.

When improvements can be made in the billions of dollars, it does become apparent that the opportunities are significant. Steps they have taken include:

- Starting subrogation recovery early in the process
- Recovering missed subrogation opportunities
- Making the subrogation process more efficient

Starting the Subrogation Recovery Process

To start the subrogation recovery process, insurance companies need to:

- Interview the key players
- Drive their recovery analyses deeper
- Implement a process review
- Review their technology
- Create and understand the flow charts

Performing these tasks can give insurance companies a complete, thorough analysis of the subrogation opportunity.

Recovering Missed Subrogation Opportunities

Insurance companies can recover missed subrogation by implementing accurate and automated subrogation solutions. The size of this opportunity is very large:

§ There are more than five million demands every year.

- Recoveries total more than \$4 million.
- Automobile Physical Damage (APD) alone has \$35 billion/year in damage payout for collision repair.

An improvement of even 1% in subrogation recoveries represents a significant competitive advantage for any insurance company.

Making Subrogation more Efficient

By investing in improvements to subrogation, the subrogation unit can drive other claim process efficiencies, such as centralizing and outsourcing operations, and improving the subrogation workflow. There are three main steps to take:

- § **Centralize your Subrogation Operations** – Subrogation involves both internal and external touch-points which are scattered across multiple departments, companies and vendors. Carriers have realized that to streamline and reduce mistakes, it is necessary to centralize the subrogation process.
- § **Outsource Subrogation Technology and Operations to Outside Vendors** – Because of limited IT investment, many insurance companies may lack the manpower and experience to handle subrogation claims, or develop technology in house. They are discovering that to save money and time it is necessary to hand-off specific areas to outside vendors. Outsourcing technology can help make the subrogation process run more smoothly and efficiently.
- **Improve your Subrogation Workflow** – Centralizing subrogation operations and outsourcing specific areas to outside vendors, can improve the overall subrogation workflow. By improving the workflow, you can obtain documentation and feedback on the subrogation process; and identify potential improvement opportunities.

Taking a Holistic Look at the Entire Subrogation Process

By taking a holistic approach to subrogation, companies can assign clearer responsibilities between the claims adjuster and subrogates. What makes this approach holistic is that you can avoid missed problems identified with multiple touch-points; and carriers can better investigate and document subrogation rights.

We call the holistic approach to subrogation, Recovery Improvement Opportunities (RIO). RIO involves instituting a diagnostic methodology to identify and quantify those subrogation opportunities. The RIO methodology relies on an interdisciplinary approach to claims, finance, and subrogation. Because subrogators are dependent on adjusters to make timely and complete subrogation referrals, collaboration and communication between these team members are critical success factors. [Use also as CALL OUT]

How do you Perform RIO?

To use RIO effectively, it is imperative that companies start early in the claims process, not simply when they recognize subrogation is necessary. RIO assessment is a three-step process involving a process review, file review, and time study:

Process Review

Identify changes to the process, and the tools required to capture and sustain the identified benefits, such as:

- Interviews of key personnel, focus groups
- Process mapping
- Technology review
- Best practices development

File Review

- Review subrogation results
- Conduct an outcome-focused analysis of closed-claim files
- Quantify the amount of RIO, i.e., missed or delayed recoveries
- Identify key areas and root causes for missed or delayed recoveries

Time Study

- Conduct an analysis to understand the activities that consume subrogation personnel time
- Identify opportunities to enhance efficiency via technology and process changes

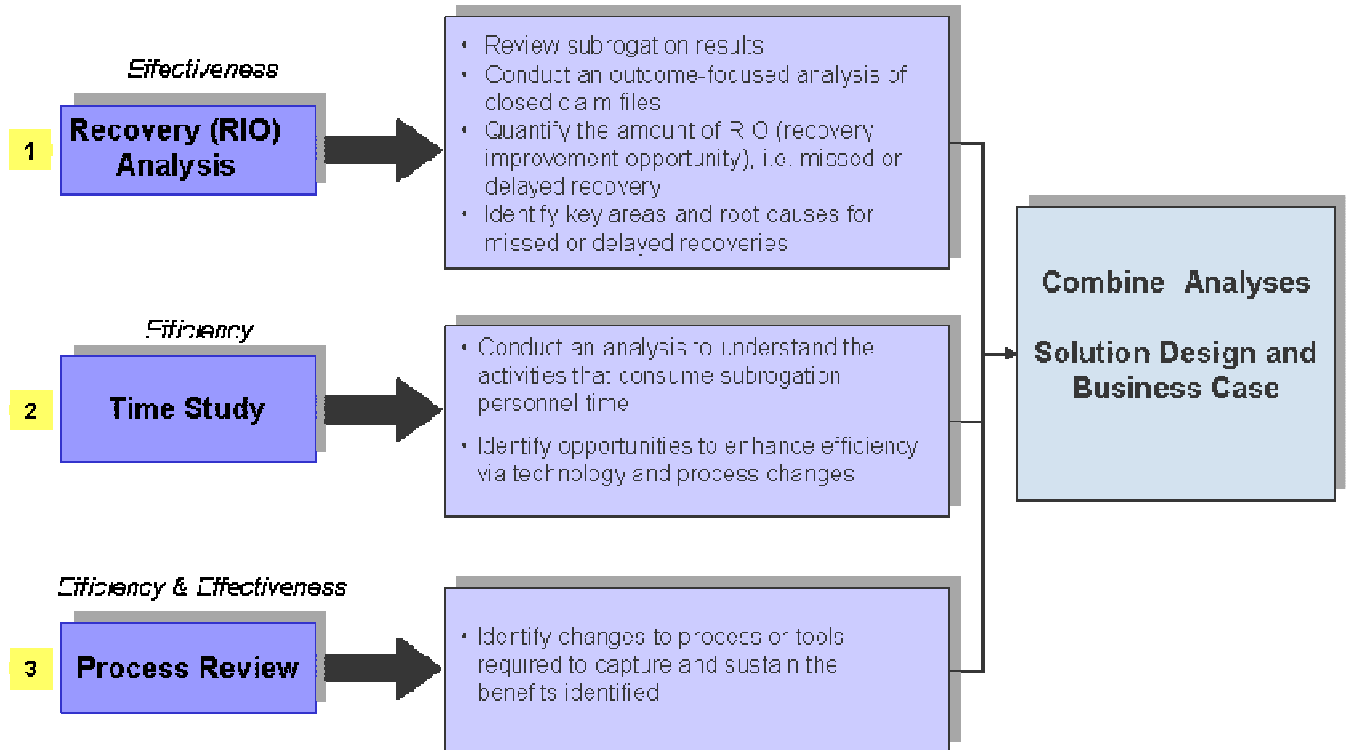


Figure 2: The flow chart shows the steps and review period involved in the RIO subrogation process.

Improvement in Subrogation Drives other Claim-Process Efficiencies

The first step in using RIO is to improve your subrogation results. The steps in RIO assessments combine to form a solution design and business that will support new processes, organizational changes, and technology to improve results.

Subrogation requires objective evaluation of its performance, financial analysis of improvement opportunities, and support for investment in improvement initiatives.

Scoring is Critical to Increase Level of Subrogation

The ability to score accurately is important and key to increasing the level of subrogation, and improving efficiency throughout multiple handoffs. Using RIO's diagnostic methodology, you can quantify those opportunities, which rely on an interdisciplinary approach. Involving the claims, finance, and subrogation teams ensures your scoring will be accurate.

Opportunities for Subrogation

With subrogation, you can assign clearer responsibility between the claims adjuster handling the case and subrogates collecting money. By building clear lines of responsibilities, agents complete cases correctly and on time.

Using RIO to manage your subrogation, you can take advantage of many other significant improvement opportunities such as:

- 5-10% lift in recovery increases insurance company's bottom line
- 15-20% improvement in productivity in subrogation unit drives other core claim efficiencies

- Lift in productivity in subrogation unit drives other core claim efficiencies
- Increase in cash flow
- Each week of accelerated recovery converts to better cash flow
- Reduced expenses (attorney's collections, arbitration)

Reducing Risk of Missed Subrogation Results Opportunities

To reduce your risk and improve subrogation results even more, RIO enables insurance companies to:

- Employ more (and better) scoring tools
- Improve your processes, training, and workflow
- Manage your vendors
- Encourage inter-company exchanges of data

Conclusion

With multiple touch-points and limited IT resources, subrogation seems too complex to do without a disciplined approach. Yet, missing out on subrogation opportunities can have a direct impact on an insurance company's bottom-line.

By implementing an accurate and automated subrogation assessment methodology, it will become easier for insurance companies to capture missed subrogation opportunities.

The RIO methodology, which uses a holistic approach, assigns clearer responsibilities between the claims adjuster and subrogators. Using RIO's holistic approaches, insurance companies can avoid missed subrogation opportunities and drive efficiencies in the subrogation process.

There is a large opportunity to improve profit by increasing the amount of subrogation, reducing time, and improving the efficiency and productivity of players. The RIO approach allows you to quantify these opportunities.