

Recapturing Missed Opportunities for Subrogation of Auto Claims

Developed for a P&C Insurance Company by Megaputer Intelligence

Background

Payment of claims is the largest expense for P&C insurance companies. However, in some claims, a third party is partially or fully at fault for the policyholder's loss. A legal process, called subrogation, grants an insurer the right to pursue action against such third parties and recover payments in many cases. Recovering payouts helps insurers keep premiums lower and possibly refund their policyholders' deductibles.

This case study follows a mid-sized P&C insurance company based in the US ("the COMPANY") that wanted to find an automated way to detect missed subrogation. Using Megaputer's SubroCheck™ solution, the COMPANY was able to substantially increase their subrogation revenue at minimal cost.

The Subrogation Process

The standard practice for detecting claims with subrogation opportunity involves training adjusters to look for indications that the insured is not at fault. But adjusters need to perform numerous other tasks for each claim, including interviewing all the parties involved in the incident, analyzing police reports, evaluating damages, and negotiating claim settlement. Additionally, adjusters frequently handle multiple claims simultaneously, making the task even more challenging. Hence, subrogation opportunities are frequently overlooked.

The claims that an adjuster does see as having subrogation potential are assigned to a subrogation specialist. The specialist reviews the assignments and then makes a decision on which claims should be subrogated. These specialists may consist of in-house staff or a third-party service provider. However, even specialists and service providers miss subrogation opportunities either because of human error or because the assignment was made before all the information was collected.

This problem of missed opportunities is felt nationwide. The National Association of Subrogation Professionals (NASP) estimated that up to \$15B subrogation dollars are overlooked annually¹.

Challenges & Solutions

The COMPANY's goal was to find a cost-effective way for discovering the subrogation opportunities that had been missed by their review processes. They had explored different approaches of their own and found each would require a lot of time, resources, or money to conduct a second review due to the massive volume of closed claims. The COMPANY wanted an automated solution to identify closed and inactive claims that had subrogation potential, but had not already been flagged for subrogation.

Megaputer's SubroCheck was able to audit all of the COMPANY's closed claims using minimal resources. The automated system examined all aspects of the claim analysis process for subrogation. This allowed SubroCheck to identify key details that are typically challenging for insurers to keep track of when managing thousands of claims every month.



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Gathering the facts

The first step in evaluating a claim's subrogation potential is understanding the facts of the accident (party at fault, hit and run, etc.). However, the challenge is that these facts are dispersed across a variety of documentation that may include police reports, witness statements, adjustor notes, and medical records. Also, the terminology used in these notes is not uniform; for instance, the insured party may be referred to as "ins", "insrd", "our insured", or by a variety of other names. The disparity of terminology and high need for accuracy motivates the requirement for more sophisticated NLP tools to assist in the search and discovery of overlooked subrogation opportunities.

Using context-sensitive dictionaries of insurance jargon, SubroCheck unifies all variations representing a single concept, or "entity." For example, one claim note said that the **insured driver** has a **blue car**. In a later note, an eyewitness states that a red car rear ended the blue car. In this case, the entity "blue car" would be referenced back to the insured driver's car and the statement reveals that it was the insured who was struck by the other party. SubroCheck's deep linguistic analysis capabilities enabled Megaputer analysts to accurately extract up to 700+ key attributes from each claim. This includes information such as the type of collision, vehicle point of impact, driver actions, and injuries of all parties. Some key facts are extracted with an accuracy of up to **99.8%**. These facts are then run through a machine learning model to judge the subrogation potential.

Understanding the law

The laws of the state where the accident occurred can be just as important as the facts of the claim. Failure to understand and apply the law is a common cause of missed subrogation. SubroCheck is programmed with an understanding of all relevant state laws, including comparative fault laws and statutes of limitations. This allows for the recapture of claims that have not been subrogated due to misunderstandings of law.

The state-mandated statutory period for subrogation claims is as short as 1-2 years from the date of the accident, depending on the state. If a subrogation opportunity is not acted on before the statute of limitations expires, it is lost forever. For the COMPANY, SubroCheck automatically filtered out claims where the statute of limitations had passed or was too close at hand, based on the COMPANY's standards. It also flagged and prioritized claims that were nearing expiration. This shortened the time to identification and bolstered the odds of successful recovery.

Cost of recovery

The review of claims for subrogation potential is labor-intensive, and therefore very costly. If too much time is spent on review, the cost will be significant and could exceed the amount recovered. When SubroCheck was run on the COMPANY's closed claims, it rejected >99% of claims as candidates for subrogation. This allowed for the claims to be evaluated with more than **100 times** less cost spent on labor.

Results

SubroCheck automated the review of all the COMPANY's closed claims by extracting key information from its claim notes, and used this information to identify additional subrogation opportunities. SubroCheck generated a report containing a prioritized list of subrogation recommendations which was delivered to the COMPANY's subrogation specialists. **52%** of the recommended claims were found to be true subrogation cases. Missed subrogation opportunities were recaptured at a rate of **40 per ten thousand closed claims**.



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Megaputer's SubroCheck solution provided tangible benefits to the COMPANY's subrogation recoveries. The increase in revenue translated to **\$270,360 in additional subrogation dollars per 10,000 claims**.

Benefits

The benefits of implementing SubroCheck included:

- **Increased top line:** Recapture of missed subrogation opportunities through retrospective analysis of previously closed claims increases revenue.
- **Improved customer retention:** Increased recovery of deductibles through subrogation improves customer retention. With the cost of customer acquisition between \$500-\$800 per customer, retention of old customers can cost much less than the acquisition of new ones³.
- **Optimized review:** Accurate recommendations allow for fast action on rediscovered opportunities while reducing the cost of manual review by 100 times or more.
- **Added business intelligence:** The ability to identify where and why subrogation has failed provides management with the tools to make improvements to the subrogation process, and to monitor performance over time.

References

¹ Diviney, C. (2012). Automobile Benchmarking Study. NASP. Retrieved March 31, 2022, from <https://www.subrogation.org/benchmarking/archived-studies>

² Howard, D. (2020, May 18). Statute of limitations for a subrogation. Legal Beagle. Retrieved March 31, 2022, from <https://legalbeagle.com/7165014-statute-limitations-subrogation.html> Publicly available data from many sources

³ Nakatsuji, K. (2017, July 19). Insurance 2.0 and the Evolution of Distribution. CB Insights Research. Retrieved March 31, 2022, from <https://www.cbinsights.com/research/transforming-insurance-distribution/>

