

Property Casualty 360

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Electronic Payment Innovations

Retire Paper Checks, Renew Customer Confidence

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We have all had a hunch that 2011 would be one of the worst years on record for catastrophic losses. Now, the numbers are in to prove it. Swiss Re reported in September that natural catastrophes and man-made disasters across the globe are projected to cost the insurance industry around \$70 billion in the first half of 2011. That figure makes 2011 already the second-costliest year in history for catastrophic losses, and we're not done yet with Q3 and Q4 losses yet to be calculated. Hopefully, we are done with major disasters for this year, but when all of the losses are tallied for 2011 we could surpass the 2005 record when catastrophe claims reached \$120 billion.

With the tornadoes, hurricanes, and wildfires having battered many regions of the U.S. this year, we have all witnessed the aftermath of these disasters as communities and residents struggle to get their lives back to normal. Awaiting settlement payments is one of the most common frustrations insureds experience. The good news is that there are new payment solutions available today that can accelerate the process, improve customer satisfaction, and reduce carrier costs. Specifically, innovations for replacing paper settlement checks with pre-paid debit cards are gaining traction among leading carriers and dramatically improving performance across the board.



Carriers Go "Paperless"

Electronic payment innovations have ushered in a new "paperless" trend, as consumers increasingly prefer to carry less cash in their wallets because of the convenience of debit cards. Financial institutions and the retail industry have led the charge and consumers have saved time and money with rewards and loyalty programs tracked through their debit cards. Consumers today can conduct all of their banking online, pay for nearly all of their purchases with debit cards and opt into receiving electronic statements online instead of cluttering up their wallets and filing cabinets. Federal and state agencies such as the U.S. Postal Service, the Social Security Administration, the Internal Revenue Service and many state tax agencies have embraced electronic payment technologies. An increasing number of insurance carriers are also catching on to the trend.

What other factors are driving carriers to embrace pre-paid debit cards over paper checks? Let's take a closer look at property contents claims, which are ideally suited for today's electronic payment innovations.

Property Contents Claims

Contents payments provide the most straightforward use-case for debit-card use. Removing barriers and inefficiencies in contents claim payments can dramatically reduce friction for insureds and carriers while also reducing carrier operating costs. The traditional method of issuing paper checks for contents claims is rife with hidden costs and inefficiencies. All-in, each check issued can cost carriers anywhere from \$10 to \$19 per check. In many cases, multiple checks must be issued throughout the payment and contents replacement process. Debit cards can be pre-loaded and reloaded at a fraction of the cost of paper checks, saving carriers as much as 80 percent of the cost of issuing and reissuing checks.

Contents replacement is a retail activity for insureds. You get your payment and it is time to go shopping to replace what you have lost. Most consumers today are accustomed to using debit cards. Unlike paper checks, pre-paid debit cards provide a record of every purchase and the insured's balance, so the contents replacement process can be easily tracked and monitored by the cardholders from first to final purchase.

Contents claims are an ideal starting point for carriers considering replacing paper checks with pre-paid debit cards. It doesn't end with contents. Cards are used to make payments for structural claims under the mortgage holder cap, for additional living expenses, all types of catastrophe claims, auto property damage, no touch auto claims and workers' comp, to name a few.

Pre-paid debit cards for contents claims payments are a win-win for everyone, including insureds from all walks of life as well as carriers and agents. Let's first take a look from the insured's perspective. Convenience and ease of use are the first and most obvious benefits. This means that the policyholder can shop as soon as his or her pre-paid debit card has been activated. With paper checks, insureds must deposit the funds at a bank and then follow banking protocol which usually requires waiting several days for the check to clear. Add a weekend or holiday into the mix and the waiting period could be extended to four days or nearly a week. That is a long wait for someone who is trying to get her life back together after a loss. In the wake of Hurricane Irene, agents in the field with laptops were able to deliver cards directly to insureds and activate them for instant use, without a trip to the bank.

Pre-paid debit cards are a superior option for “unbanked” or “underbanked” insured. These are consumers who don’t have a bank account or don’t carry enough of a balance to conduct financial transactions through traditional banking institutions. The most common option for these consumers is to access their funds through a check cashing vendor where exorbitant fees are often charged, cutting deeply into settlement payments. Pre-paid debit cards are a universal solution for all types of insured.

▶ Additional Benefits for Insureds

Going paperless is advantageous for both insurers and their policyholders. Efforts to bolster policyholder satisfaction will ensure customer retention. Keep in mind that an unsavory claims experience is the most common reason cited by customers for switching carriers. With paperless, insureds gain the following:

- ▶ Immediate access to funds to spend or get cash
- ▶ No bank service fees or monthly service charges; wide access to surcharge-free ATMs
- ▶ More secure than checks, including zero-liability fraud protection, FDIC insurance, stop payments, card cancels and swift replacements for lost or stolen cards
- ▶ Use at millions of merchants worldwide, online and in-store
- ▶ Discounts and rewards programs at major retailers
- ▶ Option to use a portion or all of the funds for cash
- ▶ Easily reloadable
- ▶ Customer service and support
- ▶ 24/7 access to spending history and balance info by phone or online

Benefits for Carriers and Agents

Many of the benefits of pre-paid debit cards for the insured also apply to carriers and agents. What could be more convenient for an agent than arriving onsite with a stack of cards that can be loaded and activated for immediate use by insureds?

Carriers realize immediate savings in direct costs of checks such as paper, printing and processing fees. Industry averages for paper checks range from \$10 up to \$19 per check. Cards cost much less than that. Cards are more secure than checks, helping reduce accruing costs due to fraud, lost checks, return checks and check replacement. In addition to these tangible benefits, carriers benefit from higher levels of customer satisfaction and increased customer loyalty of insureds who take advantage of all of the conveniences and rewards cards have to offer.

Topline benefits for carriers, include:

- Savings of up to 80 percent of the cost of issuing and reissuing checks.
- Cards are easily reloaded (initial payments, settlement, supplements and recoverable depreciation).
- Unique dual activation on cards replaces co-party checks.
- Reduce potential fraud. Ninety-four percent of companies experience check fraud compared with only 4 percent that experience debit card fraud. (Source: FBI Study, Association for Financial Professionals)
- No lost, stolen check replacements – FDIC insured up to \$250,000; lost or stolen cards suspended and promptly reissued.
- Improved cash handling and reporting – swift payment load and tracking; timely reconciliation of fund transfers.
- Easy integration into claims payment systems.

Streamlining Inventory Through Replacement

The contents claims process is notoriously complicated for carriers. Settlements are often based on inaccurate valuations that can be traced back to contents inventories that many carriers today still rely on insureds to complete on their own. Consider the seemingly infinite array of contents items that must be inventoried and assessed for value based on the brand, quality, and condition of the item. To get a concrete sense of this challenge take a look at just one room in your home or apartment and consider the task of inventorying and determining the value for every single item in that room. Replicate that for every room in your home, including the attic and basement, and you’ll begin to get the scope of the daunting challenge insureds and carriers are up against when it comes to handling contents claims. Replacing paper checks with pre-paid debit cards streamlines the payment part of the contents claims process. Integrating payment innovations within a platform of inventory, valuation and replacement solutions streamlines the entire process and significantly improves the economics of contents claims for leading carriers.

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