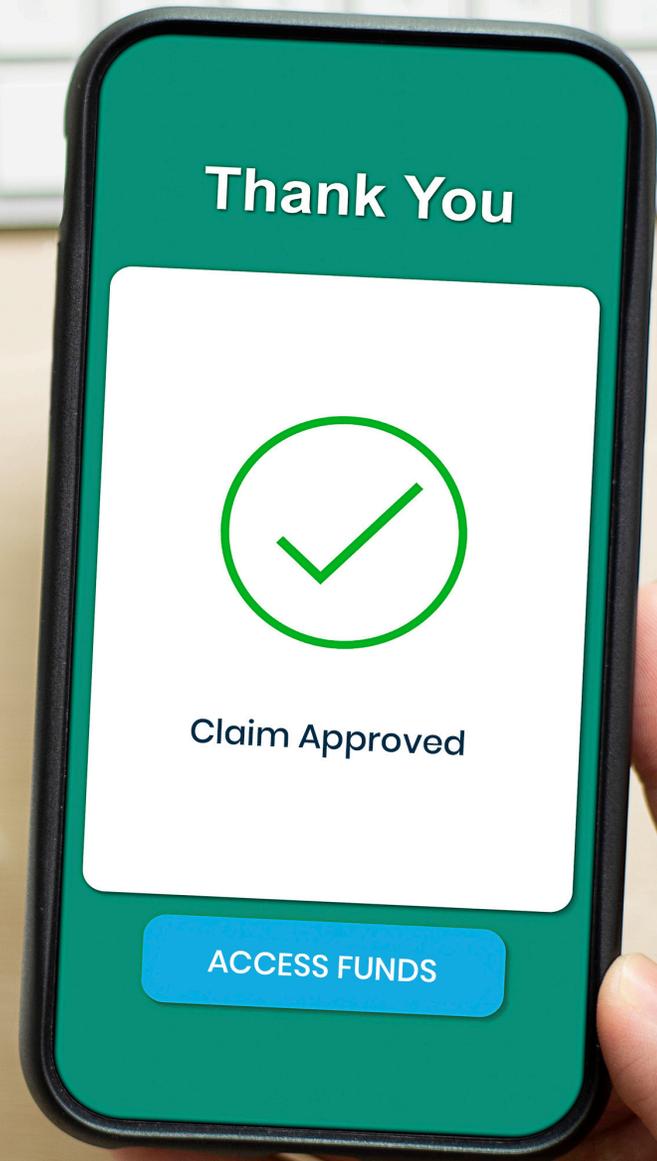


Multi-Party Claim Payments

Challenges, opportunities, and
optimizing the customer experience



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By One Inc

In this report, we discuss the challenges involved with multi-party payments, how they impact the customer experience, and where transformation opportunities exist.

● Introduction

Improving the customer experience has been a driving force for digital transformation in the insurance industry for years. So much revitalization has been happening that it's difficult to keep up...mobile apps, chatbots, two-way texting, AI ...the list is endless. And with so many change initiatives happening simultaneously, it was no wonder that claim payment transformation fell behind. **Research shows the 75% of P&C carriers' claim payments are still mailed via paper check.**¹ Most insurers had it on their digital roadmaps, but not necessarily at the forefront. Then COVID-19 changed everything. The pandemic forced a remote workforce and made anything that required manual intervention - especially check processing - not only inefficient and burdensome, but unsafe.

● The Push to Digital

With the advent of COVID-19, insurers were forced to quickly figure out how to perform work remotely. An intense spotlight was shown on manual methods, particularly things that require in-person handling such as regular mail and paper-based processes, including check cutting and distribution. And with the mainstream population rapidly converting to a digital mindset, carriers soon realized where they needed to quickly gain digital ground. As with any type of behavioral change, there are fast adopters and slow stragglers, but crises have a way of pushing the envelope and putting things into perspective. In a matter of only weeks, the **COVID-19 pandemic greatly increased the adoption of digital payment methods among all generations.**

● Rising Customer Expectations

Customers expect digital. They expect the same flexibility, convenience and control with insurance claim payments as general digital payments provide. But insurers' digitization goals in the past few years have focused on achieving straight through processing and manifesting a touchless claims experience, only to leave the most critical customer experience touchpoint – claim payment – as a manual and costly process that delivers a poor customer experience. Adjusters may settle a simple claim expediently only to have the insured wait an **additional 7 – 10 days to access their funds**. That is not the best experience for customers who are already enduring some type of hardship. According to a Strategy Meets Action (SMA) survey, 83% of insurers now state that improved customer experience is a key motivator as they are looking to adopt a digital payment experience.²

● The Cost of Paper Checks

Physical checks are not only expensive, costing carriers an average of \$720k annually, at least 10x more than the cost of ACH and other digital payment alternatives, but they are also the least secure of all payment methods.³ According to the AFP's 2020 Payment Fraud Report, the payment method most frequently subjected to fraud attacks in 2019 was physical checks, coming in at **74%**, more than double than most other payment method.⁴

● The Challenge of Multi-Party Payments

The physical check payment process not only requires manual intervention and is much slower and more expensive than digital alternatives, it also comes with an inherent challenge if it involves multi-party claim payments. These types of insurance claim payments have long been a pain point for both insurers and claimants because of the authorization, cashing and deposit process. Since many insurance policies list more than one person as the insured (e.g., joint owners, spouses, etc.), insurance claim checks are very often made out in the name of both parties. This becomes challenging when the word 'and' exists between the party names. In that situation, it's then required that each party endorse the check before it is allowed to be cashed or deposited.



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● Making a Trip to the Bank

Complicating the process further, most of the top U.S. banks will require that all payees be present together at the bank to endorse the check, especially for larger check amounts, with each person presenting a government-issued photo identification to authenticate each payee's signature and safeguard against fraud. If this step cannot occur due to logistical issues or other reasons, the check may then need to be re-issued, initiating the check payment process all over again. As one can imagine, this can not only be tremendously inconvenient and frustrating, but it surely does nothing to improve a customer's experience.

● Commercial Insurance Complexities

For commercial insurance property claims, settlement amounts can be very high, making the ability to cash these checks difficult.

In addition, there **can be as many as 7 parties on a payment.**

These parties could include attorneys, public adjusters and contractors, all of whom could be physically dispersed across a state, making the task of trying to get physical signatures and authorizations a seemingly impossible task and logistical nightmare.

● Lienholders, Mortgagees, Medical Providers and Vendors

Simpler two-party payments between joint owners can be problematic enough, but what happens when there are also auto lienholders, mortgage lenders or vendors involved? Insureds and claimants already endure a heavy burden due to physical checks that require the endorsement of multiple parties. Then add to it the complexity of auto lienholder and property mortgagee payments that require title release, bank decisions, document exchange, escrow accounts, fund release, and account reconciliation. The burden of physical checks with large dollar amounts and multiple payees requiring approval and endorsement of all parties can quickly become overwhelming for all involved.

● When Car Accidents Happen

On average, there are 6 million car accidents in the U.S. every year. Car accidents are no doubt traumatic for those involved, but when a vehicle with a loan is deemed a 'total loss', the situation can quickly become more complex. When exactly is a damaged vehicle considered a 'total loss'? The appraiser assigned to the claim will estimate repair costs. When the vehicle's cost for repairs plus its salvage value equates to more

than the actual cash value (ACV) of the vehicle, it is considered a total loss. Insurers utilize several factors to determine a car's actual cash value, and states can have their own requirements.

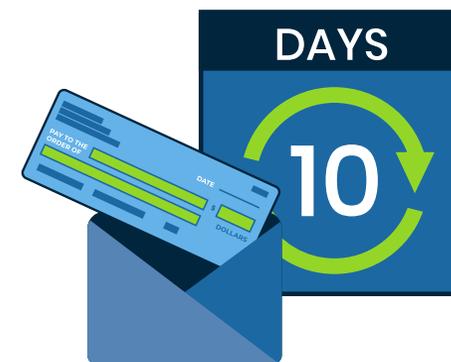
● When the 'Total Loss' Vehicle Has a Loan

Consider that 85% of all new car purchases and 53% of used car purchases in the U.S. are financed.⁵ And the average loan term has been steadily increasing, with 72 months now being the most common term length. That makes the chances extremely high that a totaled car is carrying an existing loan.⁶

When a vehicle has a loan, the financial institution ('lienholder') providing the loan essentially owns the vehicle and holds the title. Once the loan is paid off, the title is then released. In the situation of a 'total loss' claim, the insurance adjuster will present a settlement offer to the insured and also request a loan payoff amount to the lienholder. Once the lienholder receives the loan payment, it will release the title to the insurance carrier. The carrier then 'owns' the vehicle and can sell it to an auto salvage company. It sounds simple enough, but in reality, however, the process quickly becomes more complicated, especially when the payment is made via paper checks.

● Letter of Guarantee, Lienholder Payment & Vehicle Title Release

Getting the payoff details can involve many calls back and forth between the insurance carrier and the financial institution. The payoff amount changes daily, and when an insurance adjuster finally receives a 'letter of guarantee' with a loan payoff amount from the lienholder, the amount given is only good for 10 business days. Since the actual processing, mailing and delivery of **paper checks can take as many as 10 days on average**, it is easy to see the time constraint involved. If the lienholder doesn't receive the payment within that 10-day timeframe, the process begins again and can take an additional 30 days to fully complete. Once payment is received, the financial institution ('lienholder') still must process and deposit the check on their end for the title



... actual processing, mailing and delivery of **paper checks** can take as many as **10 days on average**

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to be released. And the paper check may be made out to both the lienholder and the named insured on the auto policy. All payees must endorse the check before it can be cashed, causing yet another challenge to be overcome.

● Property Damage Can Happen Any Time

Fire, wind, hail, water...all can unexpectedly wreak havoc on a property. When property damage or disaster occurs, homeowners are suddenly thrown into a stressful and tenuous living situation. It's critical that they have the ability to get their lives back to normal as quickly as possible. That's where homeowner's insurance comes into play. Any damage or loss needs to be reported immediately to the insurance company covering the home so that the claim review process can begin. An insurance adjuster will review the relevant information related to the damage and determine the estimate for the necessary repairs. Once agreement on the claim settlement amount is reached, a check will be sent out to the insured.

● When the Home Has a Mortgage

Per the Urban Institute, 62.9% of homeowners have a mortgage.⁷ When a mortgage exists on the home, most mortgage lenders require that they be listed as the

'mortgagee' on the homeowner policy, since they have a financial interest in the property and its condition. To protect their asset, the mortgage lender needs to ensure that the property is repaired correctly. Because of this, the claim settlement check will generally be issued as a multi-party check, made out to both the homeowner and the 'mortgagee', and mailed to the insured.

Before the insured can access funds and begin repairs, the check will need to be received and endorsed by the mortgage lender. This adds significant delays and complications to an already difficult situation. Once received, the homeowner will need to determine what steps to take to get the check endorsed. Who exactly should they contact at the mortgage lender? What information will the mortgage lender need? How much longer will it now take to access the funds necessary to start the search for a contractor and begin repairs?



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● Non-Monitored vs. Monitored Mortgage Claims

At a minimum, the mortgagee will need to know details around the loss and receive the insurance adjuster's repair estimate. Once the information is received and reviewed, the mortgagee will determine if the property damage claim will be 'non-monitored' or 'monitored'. Although each mortgage lender will have their own criteria to make this determination, the dollar amount of the claim and the payment history of the insured ultimately drive the decision. Most claims under \$15k will be considered 'non-monitored' and the mortgagee will endorse the check to release the funds to the homeowner. Fortunately, the majority of property damage claims (60%– 80%) fall into this non-monitored category.

Those claims that run over that dollar threshold, or have other more complex factors, fall into the 'monitored' claim category. For a monitored claim, the mortgagee gets more involved in the repair process, although the specific approach taken can vary depending upon the mortgage lender and state. Instead of releasing the property damage settlement check to the homeowner, the mortgagee usually places the funds into an escrow account to pay for repairs as work is completed, normally in 3 installments – when work begins, half-way through, and when the work is completed. That allows the mortgagee to protect their financial interest and ensure the home is properly repaired. To initiate the process, the mortgagee works with the insured to obtain their check endorsement so funds can be deposited into the escrow account.



● The Insured's Moment of Truth

Homeowners expect that if they have insurance, they will be taken care of when there is damage to their home. They count on the fact that at their greatest time of need, when their home needs repair and their daily life has been upended, that their insurance company will do all they can to get funds to them quickly. But even if the insurance adjuster has been able to settle the claim expediently, having the added complication of a multi-party mortgagee claim payment can cause the insured to wait weeks to months longer to begin the repair process, not to mention the amount of frustration and burden that's added to the homeowner's experience.

● The World of Vendor Payments

Property and casualty insurance claims often result in multi-party payments to third parties that require insured and claimant approval. These third-party vendors - think

auto body shops, car rental companies, roofing businesses - can wait long periods of time to receive claim settlement checks, many times as long as 60-90 days after a service was performed. This delay in receiving funds can increase the financial instability of businesses and decrease their ability to service customers. Once they do receive a check, it can come in the form of a 'bulk' payment, requiring detailed remittance documentation to be attached for reconciliation purposes.

Providing this detailed information and integrating it with the actual check payment can be challenging for insurers. Understanding it can be both confusing and frustrating for vendors. In order to correctly reconcile their accounts, vendors need to be able to readily understand what payment amount correlates to which insurance carrier for which customer or patient, as well as for what specific service and service date. As one can imagine, this reconciliation process can quickly become a tedious and time-consuming burden, taking resources away from activities that strengthen the business and improve outcomes.

● Medical Claim Payment Challenges

When an auto accident results in first party medical or PIP claims, property and casualty insurers will issue payments to medical service providers. These medical claim payments must meet significant regulatory requirements, including the attachment of an Explanation of Benefits (EOB) document that contains specific

medically coded billable line items. This adds another level of payment complexity that can be further compounded by logistical issues. Checks may print from one centralized carrier location and EOBs may print from yet another. The carrier must then proceed with an internal delivery and match process before the checks can even be mailed to insureds and providers, causing additional complications and expense. This doesn't even take into consideration the effort involved with continual maintenance of providers' contact and mailing information.

Simplifying and Accelerating Multi-Party Payments

With a digital revolution happening all around us, there must be a way to transform multi-party payments and significantly improve the customer experience. How can the process be both simplified and accelerated to give all parties involved a better experience and provide rapid access to funds? **It is well known that speed of claim payment is at the top of the list of factors that determine customer retention.** Many of the complications and delays involved with the physical check process for multi-party payments can be lessened and even eliminated with digital processes and a digital payment solution designed for property and casualty insurers.

When authorizations, endorsements and document attachment can happen digitally – the process is simplified, security is increased, and fraud is reduced.

The existence of self-service portals increases awareness, convenience, and control for both customers and vendors, reducing calls to insurer support centers and improving operational efficiencies. Insurers and customers are empowered with real-time communication that provides transparency. All payees, whether policyholders, claimants or third-party vendors, can provide digital payment approvals and select their preferred payment method, greatly accelerating the process and allowing for immediate digital payment. Document submission, bank decisions, payment approvals, and **fund access can all occur within 24 hours.**



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The Value of Digital Ecosystem Partnerships

It takes strategic partnerships and a strong digital ecosystem for insurers to be able to provide a superior digital customer experience, especially when it comes to the more complex insurance use cases, such as multi-party payments. It is almost impossible for an insurer to have the resources and expert capabilities to handle these challenges alone.

Strategic digital partnerships can provide speed, agility and reduced risk. Established and extensive auto lienholder and property mortgagee digital payment networks can drive digital processes, significantly increase digital adoption rates, and reduce claim payment issue to clear time by weeks, if not months – a significant digital transformation that enables low touch claims processing and an optimized customer experience.

About One Inc

Future-focused insurers who had invested in more robust digital payment platforms have been able to provide an uninterrupted and superior experience to their customers, as well as to vendors and other third parties. Insurers who have not yet implemented a digital claim payments solution have been struggling with paper-based workflows and paper checks, working extremely hard just to get claim payments out to recipients at all. The changes in consumer behavior toward digital demand will persist and grow. Now is definitely the time for carriers to switch to a digital payments platform that allows for instant money transfer, real-time reconciliation, and an uninterrupted customer experience.

Built by insurers, One Inc provides a digital payments platform exclusively developed for the insurance industry. We deliver a full-stack inbound-outbound payment solution that includes customer engagement functionality, integrated reporting with real-time data, and flexible integration with insurer core systems – be they legacy or modern. One Inc offers expanded payment methods and channels, easy-to-use

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portals, and established vendor/financial institution partnerships for claims payments. Our fully hosted, scalable, and PCI compliant platform increases data security by completely removing payment data from insurer networks and processes. The One Inc comprehensive solution enables insurers to deliver on their brand promise to provide a secure and superior customer experience in ANY situation. It provides carriers with the ability to give their customers what they want and expect: control, convenience, consistency, and continuity.

Endnotes

- 1 [3 Industry Ideals, Via Claims Payments - Insurance Thought Leadership](#)
- 2 'P&C Tech Plans in the COVID-19 Era: SMA Market Pulse Insights' - <https://strategymeetsaction.com/our-research/p-and-c-tech-plans-in-the-covid-19-era-sma-market-pulse-insights/>
- 3 2015 AFP Payments Cost Benchmarking Survey
- 4 2020 AFP Payments Fraud and Controls Report
- 5 [Driving into debt | U.S. PIRG](#)
- 6 'As Average Auto Loan Amounts Continue to Increase, Consumers Look to Manage Monthly Payments' - <https://www.experian.com/blogs/insights/2019/09/average-auto-loan-amounts-continue-increase-consumers-look-manage-monthly-payments/>
- 7 [Mortgage Debt Has Peaked. Why Has the Share of Homeowners with a Mortgage Fallen to a 13-Year Low? | Urban Institute](#)

To Find Out More

Visit [OneInc.com](https://www.oneinc.com) for more information and set up a personalized demo on how you can go digital today!

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