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## Enhance Customer experience with digital claims payment in Insurance

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**Abstract** In today's digital-first economy, insurers must revolutionize their payout processes to meet evolving customer expectations for speed, convenience, and flexibility. Traditional paper-based methods are becoming increasingly inadequate. Digital payouts offer significant benefits, including reducing payout costs and cutting call center volume by eliminating the need for paper checks and streamlining administrative tasks. These digital solutions provide customers with faster and more flexible payment options through channels like digital wallets, PayPal, and direct bank transfers, offering greater convenience and choice. They also enhance security by minimizing the risk of lost or stolen checks, ensuring that payments are processed quickly and reliably. As fintech continues to evolve, insurers must continuously invest in digital solutions to remain competitive and meet changing customer expectations. Ongoing innovation in digital payouts is crucial for maintaining customer satisfaction and operational efficiency.

Transitioning to digital payout solutions enhances operational processes and significantly improves the customer experience by providing faster, more secure, and flexible payment options. This paper delves into these aspects, highlighting the importance and impact of digital insurance payment ecosystem.

**Keywords** Digital payouts, Insurance, Customer expectations, Payment solutions, Fintech innovation, Operational efficiency

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### Introduction

In today's digital-first economy, insurers must revolutionize their payout processes to meet evolving customer expectations for speed, convenience, and flexibility. Traditional paper-based methods are becoming increasingly inadequate. Digital payouts offer significant benefits, including reducing payout costs and cutting call center volume by eliminating the need for paper checks and streamlining administrative tasks. These digital solutions provide customers with faster and more flexible payment options through channels like digital wallets, PayPal, and direct bank transfers, offering greater convenience and choice. They also enhance security by minimizing the risk of lost or stolen checks, ensuring that payments are processed quickly and reliably. As fintech continues to evolve, insurers must continuously invest in digital solutions to remain competitive and meet changing customer expectations. Ongoing innovation in digital payouts is crucial for maintaining customer satisfaction and operational efficiency. Transitioning to digital payout solutions enhances operational processes and significantly improves the customer experience by providing faster, more secure, and flexible payment options.[1]

#### A. Rising Customer Expectations

The insurance industry is rapidly innovating due to rising customer expectations driven by tech companies and Insur Techs. Customers now demand seamless payment experiences and fast, flexible claim payouts—areas where traditional insurers often lag. The sector faces an 84% cart abandonment rate, indicating challenges in converting interactions into transactions. Effective management of bill and premium payments is crucial for customer retention



and business growth. To stay relevant, insurers must adapt to these changes and embrace digital transformation to meet modern customer demands.

### **B. Diverse Payment Methods**

To drive global insurance innovation, insurers must offer a variety of payment methods. According to a 2022 Accord report, less than 25% of insurance companies have fully digitized their value chain, including payments. In the US, paper checks, which are slow and costly, still dominate. Embracing digital payments, such as ACH, and embedded finance options like "buy now, pay later" (BNPL) can enhance customer convenience. Preferences vary, with younger consumers favoring digital wallets and older generations preferring cards. Adapting payment strategies to customer preferences can foster business growth.

### **C. Streamlining the Claims Process**

The insurance claims process is often complex and slow, causing frustration for customers and increased operational costs for insurers. An Accenture study reveals that 58% of claimants are dissatisfied with the lengthy payout times. Immediate access to funds is crucial, especially for property and casualty (P&C) claims during emergencies like natural disasters. Instant payout methods such as RTP, SEPA Instant, Visa Direct, and Mastercard Send are vital for improving customer experience, preventing abandonment, and boosting retention.

## **Present State of Digital Payments**

Property owners filing claims after a loss often face lengthy delays due to the need for insurance evaluation, check mailing, and bank processing. Checks frequently require mortgage endorsement and can take 3 to 10 additional business days to clear, causing significant delays for repairs. These issues include time delays in mailing and processing, the inconvenience of in-person bank visits, and errors in check processing, such as incorrect payees and lost mail, which necessitate reissuing payments. These challenges strain contractors and prolong the time homeowners wait for necessary repairs.[2]

### **A. Fragmented Customer Service**

Digital interfaces should offer a seamless, intuitive user experience; however, third-party vendors can cause fragmentation. This fragmentation may confuse consumers or lead to mistrust in the payment system. Customers expect the same ease and speed in receiving claim payments as they do when paying premiums. A consistent brand experience is crucial throughout the customer life cycle. When selecting a digital payment partner, it is essential to choose one that maintains consistent branding and delivers a smooth customer experience at every interaction point.

## **Build Vs Buy Argument**

Insurance companies, like all businesses, have limited resources. Developing an in-house digital payment system can be resource-intensive and time-consuming, potentially slowing progress while competitors advance. Even with significant investment, there is no guarantee of seamless functionality. Instead of building from scratch, insurers should consider partnering with experienced providers who understand insurance workflows. This approach offers flexibility, cost-effectiveness, and access to cutting-edge technology without the need for constant upgrades. An effective digital payment partner provides a preconfigured platform tailored to your needs, allowing your brand to excel and ensuring scalability and efficiency.

### **A. Security and Compliance Concerns**

The insurance industry is heavily regulated, requiring payment processing to comply with stringent standards. Security is paramount due to the prevalence of data breaches and cyberattacks. If policyholders lack confidence in the protection of their personal information, they may seek other providers. When choosing a third-party payment partner, ensure they offer key security features like PCI DSS Level 1 compliance, tokenization, and secure routing. This ensures the protection of sensitive data and adherence to regulatory requirements, maintaining customer trust and business integrity.

### **B. Complicated Reconciliation Process**

While offering multiple payment methods benefits policyholders, it complicates reconciliation for insurers. Managing diverse transactions requires efficient reconciliation to quickly identify and resolve discrepancies. To address this, insurers should select a digital payments partner providing real-time data, line-item detail, and aggregated reconciliation capabilities. These features streamline the analysis of payment activity and account reconciliation, ensuring accuracy and efficiency in financial management.



### C. Complex Integration Path

As digital demands increase, the need for multiple integrated systems also grows. Payment systems, encompassing inbound and outbound transactions, must integrate seamlessly with other systems for efficient operation. To achieve this, insurers should work with payment partners who have established partnerships with other companies. These partners can provide validated solutions quickly, reducing risks and ensuring smooth integration. Proper integration enhances the overall efficiency of digital systems, meeting rising digital demands effectively. This collaborative approach ensures that payment systems function cohesively within the broader digital infrastructure.

### D. Inability to support Payment Methods

The insurance industry must adapt to the evolving landscape of payment methods, which now includes credit and debit cards, ACH payments, and digital wallets like Apple Pay, Google Pay, and Venmo. Customers have diverse preferences, with some favoring mobile app payments and others preferring text or portal payments. Younger customers might prefer text payments, while older customers may favor policyholder portals. Offering a variety of payment options enhances customer satisfaction. Therefore, when choosing a digital payment partner, select one that supports multiple payment methods to cater to the diverse preferences of policyholders.[3]

### Digital Technologies Enhancing the Payment Process

**Custom Self-Service Insurance Portals:** These portals or apps empower customers to manage policies and file claims independently, offering 24/7 access to track claims and make policy changes. This level of self-service enhances convenience and empowers customers to take control of their insurance needs.

**Chatbots:** Integrated into portals or websites, chatbots enable customers to report incidents, check policy details, and track claim statuses without the need for direct interaction with an insurance representative. This automation improves efficiency and provides immediate responses to customer inquiries.

**Digital Insurance Settlement Payments:** Digital settlement payments significantly improve the claims experience, which is critical for customer retention. According to industry data, 87% of customers consider their claims experience when deciding whether to remain with an insurer. Implementing digital settlement checks ensures quicker and more reliable payouts, fostering customer loyalty.

### Future of Payments

Digital payments significantly reduce the delays associated with paper checks, which require mailing, endorsement, and clearing times spanning several days. In contrast, digital solutions can process payments within 24 to 48 hours, offering multiple options for claimants. This flexibility accommodates various customer preferences, such as digitally native wallets favored by younger consumers and traditional card payments preferred by older generations. The insurance industry must adapt to these innovations to meet modern customer expectations and remain competitive. By prioritizing instant and flexible payouts and incorporating AI into their claims processes, insurers can create a more agile, efficient, and customer-centric ecosystem. This approach not only reduces operational costs but also builds trust and loyalty among policyholders, ultimately driving business growth in a rapidly evolving market.

Innovations in payment technology are transforming underwriting and risk assessment in the insurance industry. Advanced data analytics and machine learning algorithms help insurers analyze large datasets to identify risks accurately, leading to better underwriting decisions and reduced costs. Investing in a Payment Orchestration platform provides a centralized hub for managing payments, reconciliation, reporting, and fraud prevention, streamlining operations, enhancing customer satisfaction, reducing costs, and supporting business growth in a dynamic market.

Carriers should thoroughly reassess their payment processes to identify inefficiencies and costs. This includes examining the use of electronic banking or digital payment capabilities and consulting financial institutions about FedNow Service and Real-Time Payments certifications. Realizing the benefits of digital payments requires both technology and effective change management. Updating customer and vendor onboarding practices is essential to facilitate the transition from paper checks to digital payments for carriers, policyholders, vendors, and claimants.

Implementing digital payments for property insurance claims addresses issues associated with paper checks by enabling faster, secure, and more efficient transactions. Payments can be received within 24 to 48 hours, significantly reducing wait times. The advantages include speed and efficiency through instant transfers and



streamlined tracking, improved customer satisfaction due to faster payments, enhanced safety and security with reduced fraud via bank-level encryption, convenience through remote management eliminating the need for bank visits, and reduced error potential with automation that minimizes human errors and allows quick resolution of discrepancies.[4]

#### **A. Where Technology Can Help Insurers**

**Payee Identification:** When a new payment is initiated, the system should identify the type of payee, which could be an insured/claimant, vendor, mortgagee, lienholder, third-party carrier, etc. It gathers the necessary data based on the payee type and considers any special requests, such as expedited or certified payments.

**Payment Request Management:** The system formulates and sends the appropriate payment requests to the payment provider via API calls based on the payee type. The details of the payment transaction and request are then updated in the core systems.

**Payment Response/Updates:** The digital payment provider sends an immediate response regarding the status of the payment request, which is updated in the payment transaction. Any changes to the payment status are promptly reported by the payment provider and recorded in the core system, simplifying the reconciliation process.[5]

#### **Conclusion**

Given recent socio-economic upheavals and evolving customer expectations, digital payments represent an ideal initial step for insurers to adopt a digital-first service model. However, simply digitizing payments is insufficient without a broader organizational transformation strategy. To ensure sustainable growth, insurers need an experienced strategy and implementation partner. Adopting a comprehensive digital transformation strategy will enable insurers to meet modern customer demands, drive business growth, and achieve operational excellence in a rapidly changing market.

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