A case of the subrogation blues! A business analyst's sourcing recommendation

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ABSTRACT

This paper provides a business analytics teaching case in the insurance domain. The teaching method employed uses an in-depth case analysis with two iterations of data manipulation, detailed calculations, benchmark comparisons and final case recommendations. The case is split into two parts, with Part A requiring students to perform basic Excel data manipulation including pivot tables. The Part B iteration provides additional information (and updated industry benchmark data) that necessitates a re-evaluation of the final sourcing recommendation. The case provides students with exposure to basics of data manipulation using structured data set, critical thinking skills in the insurance industry domain, performance comparisons to best in practice industry benchmarks and exposes students to a real-life business analytics case scenario. The case also provides insights as to how business analytics projects are structured and managed.

Keywords: Business analytics case, Subrogation, Excel Pivot Table, Iterations, Insurance

1. INTRODUCTION

The popularity of business analytics (BA) programs and courses in business schools are growing dramatically (Turel 2016). Despite this growth, industry demands for BA skill sets and employees far exceed the supply from academia (Solomon, 2014, Turel 2016). Development of general business analytics courses at the undergraduate and graduate levels that comprehend topics and technologies across all business majors are important avenues towards reducing this skills gap and meeting employer BA needs moving forward (Haan 2015, Turel 2016). Although this case concentrates on one particular business domain in the insurance industry of subrogation sourcing decisions, the case techniques and methodologies can be generalized across business disciplines.

The simplest definition of subrogation is defined as "to put into the place of another" (Dictionary 2018). More specifically, in an insurance domain context, the act of subrogating is defined as "the assumption by a third party (such as a second creditor or an insurance company) of another's legal right to collect a debt or damage" (Merriam-Webster 2018). Most students are surprised to learn that they have already experienced the act of subrogation with automotive insurance claims, although they had not realized it. For example, when a person is involved in a car accident and rather than waiting for fault to be determined and the law suit(s) to be settled, most drivers will assign their right to sue to their auto insurance company in order to get their car repaired as quickly as possible. In return, their Insurance company pays in advance for the automobile(s) to be repaired immediately rather than waiting for the final judgement(s). Once the final fault judgements are determined and / or the settlement(s) have been negotiated, the claims are paid and settled-up between the insured and the insurance companies accordingly. The subrogation industry has grown beyond automotive insurance claims, to property subrogation, worker's compensation subrogation, healthcare subrogation, bad debts collection and more (NASP 2018).

Larger insurance carriers sometimes experience difficulties and / or lengthy delays in collecting on subrogated claims from smaller insurance carriers, however, due to the smaller firm's limited financial resources and lack of in-house legal expertise with the processing of subrogated claims. As a result, some insurance carriers choose to outsource the processing and collection of subrogated insurance claims to niche firms who specialize in this area.

Here lies the fundamental question in the case, should the business analyst recommend to his insurance company's management team to outsource or keep in-house the processing of subrogated automotive insurance claims? Part A of the case requests students to prepare a qualitative SWOT analysis of the outsourcing decision, as well as to prepare a quantitative analysis of the outsourcing decision. Part A also request students to benchmark performance versus industry averages and to make and defend a formal sourcing decision. Building on these results, Part B introduces additional information pertinent to the sourcing decision and requests students to conduct an additional iteration of quantitative analysis, benchmarking performance and to re-evaluate their sourcing recommendation to the management team.

2. LEARNING OBJECTIVES, CASE SETTING & PEDAGOGICAL USES

The case is developed based on a real-life business analytics project. At the company's request, their name is withheld from the case and instead a fictional company name of AIC (An Insurance Company) is used. AIC is a United States based mid-sized automotive insurance

provider who provides insurance coverage in three lines personal automobile, commercial automobile, non-standard automobile. The case is intended for an undergraduate Business Analytics course. The course is required for all Business Analytics majors regardless of the specific area in analytics that they choose to concentrate. As a result, the course is designed to be cross-disciplinary in that the text, the cases, and course activities encompass multiple disciplines in the business college (e-commerce, accounting, insurance, information systems, etc.) An important theme and student outcome of the course are the triple E's (exposure, explore and experience). That is, the course is designed and students are informed that numerous BA tools, methods and technologies are introduced through-out the semester. Far more than the allotted weekly class meeting time (two 75-minute sessions per week for 15 weeks) will permit for comprehensive coverage. Thus, students are consistently reminded that class meetings are intended to provide initial 'Exposure', but it is the student's responsibility to further 'Explore' and to gain as much 'Experience' using the variety of BA tools and technologies from throughout the semester. Additional learning objectives of the case include critical thinking in the following;

- Exposure to structured data manipulation concepts and techniques using Microsoft Excel.
- Hands on experience working on a real life BA case
- Understand how industry benchmarking and best practices influence a company's critical decision making
- Greater understanding of the insurance domain and specifically in automotive insurance subrogation practices
- Basic understanding of the iterative nature of business analytics projects

3. CASE ANALYSIS PART A - FIRST ITERATION

This section provides case questions, responses and highlights teaching methods used in Part A of the case. This is also referred to as the students' first iteration of conducting the case analysis (qualitatively, quantitatively, and making a formal recommendation.) The three questions from Part A of the case are as follows:

A1. Prepare a Qualitative Assessment of AIC's decision to outsource the processing of their subrogated insurance claims

A2. Prepare a 'current' quantitative assessment of AIC's performance metrics to processing subrogated claims and to compare this performance to industry averages / best practices.

A3. Make a recommendation to AIC's management as to how they process subrogated claims (internally or should they be outsource)?

Students are provided a data set of claim records from AIC. Using Excel, students are expected to calculate the following performance metrics of AIC's processing of subrogated automotive insurance claims across three product lines (personal automobile, commercial automobile, non-standard automobile.)

- New subrogation files opened as % of new reported claims
- Total $s of net subrogation recoveries as a % of Total Indemnity Paid Loses
- Average Time to Closure after Subrogation Potential is Identified

Appendix A includes the Total Universe and High Performers industry benchmark data as provided by the NASP. The results of the benchmarking versus AIC (in general) can be interpreted in the following manner. If AIC's portfolio of subrogation claims as % of new report claims exceeds the industry average, then this may indicate AIC has greater risk in their

customer base than the industry (overall.) This result could influence AIC's decision outsourcing decision as well as other risk mitigation procedures. Similarly, if AIC earns greater recoveries from processing their subrogated claims internally (compared to industry averages) then this could influence their decision to keep the processing internally. Alternatively, if AIC time to close subrogated claims is two or three times longer than industry averages, then this result should definitely require AIC to closely examine their subrogation business process (step by step) to understand why they require so much more time than the rest of the industry. Similarly, this result could influence AIC's decision to outsource the subrogated business processing.

3.1 Qualitative Assessment

Similar to many outsourcing considerations made by companies, some of the expected responses to question one of the qualitative considerations of AIC's decision to outsource the processing and collections of subrogated claims include the following;

Strengths of the Outsourcing Decision

- Enables internal employees to focus more on core business processes and service lines.
- Could be an effective risk mitigation technique with riskier subrogated claims
- Allows AIC to address benchmark results where AIC is significant different than their peers

Weaknesses of the Outsourcing Decision

- AIC loses the expertise of internally processing and collections of a niche but growing segment of their business.
- AIC will lower their control over their subrogated claims processing.
- The business process could take longer to complete with the outsourced company and/or result in lower recoveries.

Opportunities of the Outsourcing Decision

- AIC could earn greater recoveries
- AIC could earn or reduce the time to closure of subrogated claims.
- AIC could spend more time and build new business lines with employees spending more time other areas of the business.

Threats of the Outsourcing Decision

- The outsourced firm could raise costs / charge higher fees over the long term
- AIC could lose long-term business clients through outsourcing this to a different firm
- AIC could risk be liable for mistakes made / illicit practices of the outsourcing firm.

3.2 Quantitative Assessment

The quantitative results from question two of the case are summarized in Appendix A. Students use the data set that accompanies this case in order to calculate AIC's results. Students have the option of using Excel's data management functions to calculate the results, or they can select the much faster route by using Excel's PivotTable functions. In-class time is spent with demonstrating PivotTables, defining and explaining the meaning of data fields and records in the data set. The data records are cleaned prior to distributing to the students and the data values are changed from one semester to another in order to reduce the likelihood of students sharing the

results of the case analysis with students in future courses. The industry benchmarking results are provided through National Association of Subrogation Professionals (NASP 2008).

3.3 Recommendation

The fundamental question facing the business analyst is should AIC outsource the processing of subrogated claims to an outside (third party) firm who specializes in the processing, collection and closure of subrogated automotive claims? Stated in a slightly different, should AIC make changes in their portfolio of automotive claims by product line or by sourcing? The most common observations made by students based on the benchmarking of AIC's quantitative results to NASP's industry data are the following.

- In Table A (from Appendix A) with New Subrogation Files opened as % of New Claims, AIC is outperforming the industry in the Personal Automotive service line with only 10.3% of its' new claims going into subrogation versus the industry average of 15.7%. AIC is very consistent with the industry averages in their Commercial Automotive service line (12%) and underperforming compared to industry averages in their Non-Standard Automobile line (19.7% versus the industry average of 15.7%).
- In Table B (from Appendix A), we learn that AIC outperforms Industry Averages with earning greater net recoveries in two product lines (personal and commercial) but significantly underperforms versus the rest of the industry in the third service line Non-standard Automobiles (8.8 cents on the dollar of paid losses versus the industry average of 12.4 cents.)
- In Table C (from Appendix A), we learn that AIC takes longer to close subrogated files when compared to industry averages across all service lines. Specifically, it takes AIC four additional days to close subrogated claims with personal autos, 12 additional days with commercial autos, and 11 additional days with non-standard autos.

At the end of case's first iteration, the written responses and classroom discussion of the case, most student recommendations will begin to separate their recommendations by product line. That is, given the facts and assumptions in the case at this point, their analysis will show that AIC performs quite well in two product lines (personal and commercial auto) in the processing of subrogated claims when compared to industry averages. Their processing of non-standard subrogated auto claims however is entirely a different matter. AIC underperforms (versus industry averages) in all three metrics. That is, AIC's non-standard service line results in a larger % of their claims portfolio going into subrogation when compared to the rest of the industry (19.7% versus 15.7%), AIC earns lower recoveries from these subrogated claims than the rest of the industry (8.8% versus 12.4%) and it takes AIC longer to close the claim compared to the rest of the industry (323 days versus 312 days). Most students conclude that AIC should consider internally processing their personal and commercial auto subrogated claims, but AIC should definitely consider outsourcing the processing of the non-standard automobile subrogated claims. This solution would squarely address the primary weakness and threat of the qualitative considerations of outsourcing. That is, AIC can internally retain the knowledge / expertise of subrogated claims processing within their firm by continuing to process a portion of their claims, while outsourcing the service lines where they are not successful versus industry averages.

Overall, students are always amazed and impressed by the incredible insights that are provided by benchmarking AICs results to industry averages. The most common feedback from students is that they began the case having zero understanding of subrogation and then with a little analysis and industry benchmarking, they have a depth of knowledge in insurance (in general) and subrogation claims processing (in particular) that they had never anticipated.

4. CASE ANALYSIS PART B – SECOND ITERATION

This section provides the case questions, responses and highlights teaching methods used in Part B. This is referred to as the second iteration of the case analysis where students' build-upon their findings from Part A but are now provided additional information and are asked to re-evaluate their initial recommendation based on this new information. Similar to Part A, the scenario depicted below is based on a real-life situation in this industry, but company names have been excluded at their request.

This iteration assumes a debt collection firm (Lizard Debt Collectors, Inc.) has offered 12.5 cents on the dollar to purchase $1 million gross value of AIC's subrogated claims. As a standard practice with these companies, this was a blind bid by the debt collection company. In other words, the debt collection company was not provided an opportunity to view nor investigate the subrogated claims from AIC prior to making the bid. Table D provides recent industry benchmark recovery data from NASP along with AIC's recovery levels for each product line. Table E provides expense data (for AIC and NASP industry data) for processing subrogated claims. The Part B case questions are as follows;

B1. Students are expected to provide a quantitative assessment if AIC accepted the offer using the data set, their results from Part A and the new information provided in Tables D and E.

B2. Student are expected to make a recommendation to AIC whether to accept or reject the offer from the debt collection agency.

The quantitative analysis requires students to first estimate the distribution of the $1 million of subrogated claims across the three product lines. Students can use the data set provided in part A to calculate this distribution and the results are in Table F. Second, it is necessary to estimate the gross recoveries that AIC would expect to earn from those subrogated claims. This can be calculated using AIC's historical recovery levels from Table D multiplied by the gross value of the claims and the results are provided in the far right column of Table F. Overall then, AIC would estimate that they would earn (on average) $150,709 in recoveries from the $1 million of subrogated claims. This would cost AIC 15% of recoveries ($22,606) resulting in a net recovery of $128,102. Since Lizard offered 12.5 cents on the dollar (or $1,000,000 * 12.5% = $125,000) to purchase the subrogated claims, then AIC should reject Lizard's offer because AIC would earn $3,102 more (on average) to process those subrogated claims internally on their own. Since the quantitative analysis is nearly break-even, AIC could counter-offer Lizard and ask for a higher bid price. At a minimum, this counter offer would need to be 12.8102 cents on the dollar to accept. The benchmarking results also necessitate AIC to investigate and fully understand why their expense of processing subrogated claims is greater than the industry average.

5. CONCLUSIONS

This paper provides a business analytics teaching case in the insurance industry examining subrogation. The act of subrogation in the automotive insurance industry is defined, illustrated and the issues surrounding the insourcing or outsourcing of subrogated auto claims processing are critically examined. This case is based on a real-life BA scenario, but the company names and values are removed at the company's request. The teaching methods employed make use of in-depth business case analysis with two iterations of data manipulation, detailed calculations, benchmark comparisons and final recommendations. The case also enables students to work with structured data sets, Excel PivotTables and emphasizes critical thinking in a business analytics context through-out. The case questions, responses and recommendations are provided.

The first iteration case analysis reveals that AIC is meeting or exceeding industry benchmarks across two product lines (personal and commercial autos) but underperforming in the non-standard auto product line. Based on the combined analysis of qualitative, quantitative and benchmarking results, a recommendation to AIC to continue internally processing personal and commercial subrogated claims, but outsourcing the non-standard subrogated claims is advisable. The second iteration case analysis provides additional information regarding benchmarking expense data and a blind bid offer from a debt collection firm to process $1 million worth of AIC's subrogated claims. It was determined that AIC should reject the bid offer and to further investigate why their processing expenses are greater than industry averages.

Appendix A – First Iteration Case Analysis

Table A. New Subrogation Files Opened as % of New Reported Claims

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	10.3%	15.7%
Commercial Automobile-Collision	12.0%	12.3%
Non-Standard Automobile-Collision	19.7%	15.7%

Table B. Total $s of Net Subrogation Recoveries as % of Indemnity Paid Losses

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	13.1%	12.5%
Commercial Automobile-Collision	15.3%	10.8%
Non-Standard Automobile-Collision	8.8%	12.4%

Table C. Average Time to Closure after Subrogation Potential is Identified

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	151	147 days
Commercial Automobile-Collision	169	157 days
Non-Standard Automobile-Collision	323	312 days

Appendix B – Second Iteration Case Analysis

Table D. Total $s of Gross Subrogation Recoveries as % of Indemnity Paid Losses

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	15.5%	16.6%
Commercial Automobile-Collision	18.1%	12.8%
Non-Standard Automobile-Collision	10.3%	n/a

Table E. Subrogation Expense as a % of Recoveries

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	15.0%	11.1%
Commercial Automobile-Collision	15.0%	8.9%
Non-Standard Automobile-Collision	15.0%	n/a

Table F. Estimated AIC Recoveries of $1 Million of Claims bid

Product / Service Lines	AIC Claims Portfolio Dist	AIC Claims Portfolio Gross $	Est. AIC Gross Recoveries %	Est AIC Recoveries (Gross)
Personal Automobile - Collision	38.2%	$ 382,022	15.5%	$ 59,091
Commercial Automobile-Collision	36.0%	$ 359,551	18.1%	$ 64,917
Non-Standard Automobile-Collision	25.8%	$ 258,427	10.3%	$ 26,701
Total		$ 1,000,000		$ 150,709
Less: AIC Processing Expenes				$ 22,606
Est AIC Net Recoveries				$ 128,102
Bid Offer from Lizad Debt Collectors				$ 125,000
Net Loss / Disadvantage of Outsourcing				$ (3,102)

Appendix C – The Case as written for Students

Subrogation Blues!
The Case of a New Insurance Analyst's "Right-Sourcing" Recommendation (Case v4)
(Updated January 2018)

CASE BACKGROUND

Tanner Lee is a recent college graduate and a new hire at An Insurance Company (AIC), one of the fastest growing and largest automotive and home owner insurance providers in the tri-state area. Tanner double majored in Insurance and Finance and he is extremely excited about his new career opportunity with AIC, as well as with the prospects of finally moving out of his parent's house.

Shortly after arriving to work early one Friday morning, Tanner's boss (Lawrence Cole), asked Tanner to step in his office. Mr. Cole had an important project for Tanner to complete and he needed a "go or no-go" recommendation by Monday morning. The basic question from Mr. Cole is this, should AIC make a policy change in their portfolio of subrogation claims? That is, should AIC outsource their subrogation claims to an outside (third party) firm who specializes in the processing and collections of subrogation claims? Mr. Cole also committed to providing resources and data that Tanner might need to make this important recommendation, such as industry reports, benchmarks, claims data, etc.

Needless to say, Tanner was perplexed. Tanner had many plans over the upcoming weekend and he did not want to cancel them. He recalled learning about the basic advantages and disadvantages of third-party outsourcing functions in his business courses, but he struggled with recalling what "subrogation" even meant. Subrogation is briefly explained below.

SUBROGATION BACKGROUND

The simplest definition of subrogation is defined as "to put into the place of another" (Dictionary 2018). More specifically, in an insurance domain context, the act of subrogating is defined as "the assumption by a third party (such as a second creditor or an insurance company) of another's legal right to collect a debt or damage" (Merriam-Webster 2018). Most students are surprised to learn that they have already experienced the act of subrogation with automotive insurance claims, although they had not realized it. For example, when a person is involved in a car accident and rather than waiting for fault to be determined and the law suit(s) to be settled, most drivers will assign their right to sue to their auto insurance company in order to get their car repaired as quickly as possible. In return, their Insurance company pays in advance for the automobile(s) to be repaired immediately rather than waiting for the final judgement(s). Once the final fault judgements are determined and / or the settlement(s) have been negotiated, the claims are paid and settled-up between the insured and the insurance companies accordingly. The subrogation industry has grown beyond automotive insurance claims, to property subrogation, worker's compensation subrogation, healthcare subrogation, bad debts collection and more (NASP 2018).

The following terms and definitions should be helpful in the development of this case.
Subrogation

- The act of two parties "swapping" places in regards to certain legal rights.

- Very common for insurance companies to swap places with their insured policy holders to recoup claim expenses.

Primary Insurance Company

- This term is used to describe that an insurance company has subrogated with one of their policy holders to recoup claim expenses for a claim they have processed.

Subrogation Specialty Firm

- A law firm that has specialized in helping primary insurance companies proceed with subrogation.
- These firms often employ current and next-generation to allow their clients to be either integrated in the subrogation process or constantly up to date on the status of related litigation and collection services.

Subrogation, as considered by civil law, refers to situations when one party is substituted with another party in relation to a claim or right. In the insurance industry, subrogation relates to the steps an individual insurance company takes to be reimbursed for a claim they processed in which they were not liable or responsible for payment. When an insurance company receives payments from an unaffiliated insurance company in relation to subrogated claims, this is referred to as subrogation recoveries. Consider the following example:

> You maintain an automotive insurance policy with AIC Insurance. Your policy meets your state's requirements and also has 'collision' coverage. You are involved in an car accident with another driver that renders your vehicle inoperable until major repairs can be completed. As a result of the other driver being ruled at-fault, you submit a claim with the other driver's insurance company to repair your car. Several days have past and the other insurance company has not yet begun processing your claim. To get your life back in order, you submit a claim with your insurance company under your 'collision' coverage and your vehicle is immediately repaired. Your insurance company was not responsible for paying to repair your vehicle since you were not ruled at-fault for the car accident. However, per the terms of agreement with you and your insurance company, your insurance company can now subrogate with you and attempt to collect of the amounts owed to you from the other driver's insurance company to offset the expenses your insurance company incurred to repair your vehicle.

Subrogation often reflects disputes between insurance companies and the claims put before them. If an individual policy holder submits a claim to an unaffiliated insurance company and they do not take action, this individual may be covered by their own insurance policy and seek a claim from their own insurance company. Once that occurs, the individual's insurance company "swaps" spots with the individual and attempts to obtain the rights entitled to the individual from the unaffiliated insurance company.

Overall, the practice of subrogation with insurance claims continues to grow. Niche firms have emerged that specialize in collecting subrogated claims. In fact, in many instances, these niche firms are debt collection agencies and law firms who use similar tactics with subrogated claims collections as they use with collecting bad debts (e.g. constant phone calls, mailings, skip trace calls) and other forms of general legal harassment.

INDUSTRY BENCHMARKING

In regards to your BA case, the insurance company you are working for (AIC) has a large number of claims in subrogation. Specifically, these are claims where they are trying to recoup amounts paid to their policyholders that they were not responsible for paying. These claims are not limited to only automotive insurance policies but an array of polices also including commercial property, homes, medical, workers compensation and so on. These claims range from very small to very large amounts and can require considerable effort and specialized skills when negotiating with unaffiliated insurance companies. Actuary scientists, risk analysts, arbitrators and litigation experts are often involved in subrogation claims and many claims face the possibility of never being collected.

In order to assist with this decision, members of your team have researched industry benchmark performance data as provided by the National Association of Subrogation Professionals (NASP 2008, pp 5 ~ 10.) The NASP collects this data every few years from surveys sent to companies in this industry. Extracts from the Executive Summary of this report are provided below. Table A provides the number of new subrogation files opened as percentage of the total number of reported claims. This information is tracked across three categories of vehicles (personal automobiles, commercial automobiles and non-standard automobiles.) It is also reported separately between all respondents (Total Universe) versus the best-in-practice top performing firms (High Performers). In general, the lower these %s the better indicating that fewer claims need to be subrogated. Table B provides the value of subrogation recoveries stated as a percent of total paid losses. In general, the higher these %s the better indicating that companies were successful in recovering claims that were subrogated to insurers. Table C provides the number of days required to close subrogated claims. In general, the higher these numbers the worse, indicating that it took longer to recover and close out subrogated claims.

Table A. New Subrogation Files Opened as % of New Reported

Product / Service Lines	Total Universe (NASP)	High Performers
Personal Automobile - Collision	15.7%	14.5%
Commercial Automobile-Collision	12.3%	9.6%
Non-Standard Automobile-Collision	15.7%	20.0%

Table B. Total $s of Net Subrogation Recoveries as % of Indemnity Paid Losses

Product / Service Lines	Total Universe (NASP)	High Performers
Personal Automobile - Collision	12.5%	22.2%
Commercial Automobile-Collision	10.8%	18.1%
Non-Standard Automobile-Collision	12.4%	-%

Table C. Average Time to Closure after Subrogation Potential is Identified

Product / Service Lines	Total Universe (NASP)	High Performers
Personal Automobile - Collision	147 days	173 days
Commercial Automobile-Collision	157 days	124 days
Non-Standard Automobile-Collision	312 days	539 days

The insurance company you are working for has asked for your help in assessing if they should continue to process subrogation claims within their organization or if they should engage service providers who are specialized in the collection of subrogation claims.

THE CHALLENGE

Tanner is in a tough predicament and he obviously needs to make a recommendation. AIC is a large insurance company that offers many different lines of insurance to its policy holders. The core functions of this company revolve around their customer service, underwriting, and claim processing activities. While your client has been involved in subrogation claims for a long time, the recent economic realities have dramatically increased the number of subrogation claims your client has to handle. Your client's subrogation activities are a unit within the claim processing group. While your client feels their subrogation efforts are adequate, it is not at the core of their business so they have contracted you and your firm to help them understand the following:

Part (A) Case Analysis – First Iteration

1. Please prepare a SWOT Analysis (strengths, weaknesses, opportunities, threats), assuming AIC chooses to fully outsource the subrogation area of their business. This SWOT analysis can focus on the qualitative considerations of this outsourcing decision.
2. Using the data set in an Excel file that accompanies this case, please calculate and "fill-in" the missing values based on AIC's performance. These calculations are essential for conducing this case analysis and recommendation.
3. How does your client's subrogation claims efforts compare to the insurance industry?
    - Is your client doing better or worse than the industry's Total Universe?
    - Is your client doing better or worse than the industry's High Performers?
4. Are there certain types of claims (e.g. personal vs. commercial vs. non-standard autos) that they are better at than other types?
5. Should AIC outsource their subrogation claims to a specialty firm? Should they outsource the entire subrogation process or just portions of it?
6. What consequences (positive or negative) could outsourcing have to your client's interaction with customers? Should the outsourcing specialty firm been viewed as an integrated partner or a service provider?
7. What Key Performance Indicators (KPI) would you include on an executive level digital dashboard to manage the operations of outsourcing subrogation claims? Are there additional metrics that would be useful in making this decision?

Part (B) Case Analysis – Second Iteration

Tanner has been informed that AIC's expense to process subrogated claims is 15% of the value of their recoveries (on average). A new updated benchmarking report from the NASP is published in 2012 with the following information (see the table below.) This provides more recent recovery information of the industry, as well as benchmark expense data that firms incur to process subrogated claims. As reported in the table below, the cost to process subrogated claims averaged 11.1% of gross recoveries during 2011 for personal automobiles and 8.9% for commercial autos.

Table D. Total $s of Gross Subrogation Recoveries as % of Indemnity Paid Losses

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	15.5%	16.6%
Commercial Automobile-Collision	18.1%	12.8%
Non-Standard Automobile-Collision	10.3%	n/a

Table E. Subrogation Expense as a % of Recoveries

Product / Service Lines	AIC	Total Universe (NASP)
Personal Automobile - Collision	15.0%	11.1%
Commercial Automobile-Collision	15.0%	8.9%
Non-Standard Automobile-Collision	15.0%	n/a

8. Assume the Lizard Debt Collection Company offered AIC a blind bid of 12.5 cents on the dollar to purchase $1,000,000 worth of AIC's subrogated claims. In other words, Lizard will pay AIC $125,000 to purchase the rights to collect on the $1,000,000 of subrogated claims. If Lizard recovers more than $125,000, Lizard can keep the profits and does not need to share it with AIC. If Lizard recovers less than $125,000 on the claims, then Lizard has to endure all of the loss. Should Tanner recommend AIC to accept or reject the bid from Lizard? Why or why not? Please prepare an analysis of AIC's cost comparative analysis.

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