

# A Lean Lens on Legal Bill Review: Rethinking Value in Insurance Defense

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**Abstract:** Legal bill review is a cornerstone of cost-containment in insurance defense, with property and casualty carriers spending approximately \$40 billion annually on outside counsel. While justified by fiduciary duties, this paper argues that exhaustive, line-item auditing is misaligned with actual value creation. By applying the five core principles of Lean management, this analysis reframes current billing oversight as a source of systemic waste and identifies the insured—not the carrier—as the true customer. Three alternatives are proposed: statistical sampling, collaborative feedback loops, and outcome-focused metrics. This framework offers claims executives a method to reduce administrative waste while strengthening partner relationships.

**Keywords:** Lean management, legal bill review, insurance defense, litigation management, claims operations.

## 1. INTRODUCTION

Property and casualty carriers in the U.S. spend an estimated \$40 billion annually on outside counsel. As litigation expenses have grown, carriers have adopted systematic invoice auditing to contain costs. The logic is simple: if auditing costs 1–2% of spend but identifies 5–15% in savings, the program is deemed successful.

This paper challenges that logic using the Lean management framework. Exhaustive, line-item review is often structurally misaligned with the value it claims to create. Much of what is currently labeled as cost containment is actually waste: activity that consumes resources without advancing the interests of the party the system serves.

To clarify the conceptual shift required, the following table compares the traditional auditing model with the proposed Lean-aligned approach:

Feature	Traditional Audit Model	Lean-Aligned Model
Primary Goal	Line-item fee reductions.	Total value and resolution quality.
Primary Customer	The insurance carrier or shareholder.	The insured (policyholder).
Review Scope	100% exhaustive line-item inspection.	Statistical sampling and outlier detection.
Vendor Relationship	Adversarial and surveillance-based.	Collaborative partnership/feedback.
Key Metric	Percentage of "savings" from billed fees.	Outcome, cycle time, and total cost.
Administrative Impact	High friction; significant adjuster/firm time.	Lower friction; focus on case strategy.

## 2. THE FIVE LEAN PRINCIPLES APPLIED TO LEGAL BILL REVIEW

### 2.1 Define Value from the Customer's Perspective

Lean thinking posits that value is defined only by the ultimate customer; any activity they would not willingly pay for is waste. In insurance defense, the system is often built around the wrong customer. While carriers often focus on reducing expenditures, the actual customer—the insured—wants competent legal defense and timely resolution. They do not benefit from administrative disputes over 0.1-hour email entries. Value should be defined as defense quality and resolution efficiency at a reasonable total cost.

### 2.2 Identify the Value Stream and Eliminate Waste

A value stream includes every activity required to deliver value, such as case assessment and negotiation. Legal bill review is often a non-value-adding control that introduces waste. Specific forms of waste include:

- **Overprocessing:** Applying identical scrutiny to every invoice regardless of firm track record.

- **Waiting:** Forcing counsel to over-document tasks due to unpredictable reimbursement.
- **Unnecessary Motion:** Adjusters spending 15–20% of their time on line-item reviews rather than strategy.
- **Defects:** Algorithmic rules making legal judgments without the necessary expertise.

### 2.3 Create Flow

Flow ensures work moves continuously without interruption. The current model is "anti-flow," batching invoices and routing them into appeals. A flow-oriented approach establishes clear expectations and resolves questions through direct dialogue.

### 2.4 Establish Pull

Pull systems respond to actual demand rather than applying uniform processing. Applied to oversight, this means calibrating intensity to risk signals. Firms with clean histories receive a lighter touch, while outliers receive closer attention.

### 2.5 Pursue Perfection Through Continuous Improvement

True continuous improvement (*kaizen*) focuses on outcomes the insured cares about, such as resolution quality and cycle time. This requires carriers and firms to analyze data collaboratively rather than through punitive audit cycles.

## 3. ILLUSTRATIVE SCENARIOS

- **The \$47 Reduction:** A \$94 charge for a complex email is cut by half. After a two-week appeal process, \$23 is restored. The administrative cost on both sides exceeds the \$24 net reduction, and the claim has not advanced.
- **The Disengaged Partner:** A senior partner delegates time entry to avoid audit risks, leading to undocumented strategic calls. The matter takes 14 months to resolve, whereas a "trusted-partner" arrangement closes similar matters in nine.
- **The Sample-Based Alternative:** A carrier reviews a 15% random sample and targeted outliers. They identify billing patterns and resolve them through meetings with firm leadership, saving significant adjuster time.

## 4. A LEAN-ALIGNED ALTERNATIVE

Three practical reforms are proposed:

1. **Statistical Sampling:** Achieving equivalent detection at a fraction of the cost through random sampling and outlier detection.
2. **Collaborative Feedback Loops:** Using quarterly sessions to align expectations and treat counsel as partners.
3. **Outcome-Focused Metrics:** Tracking time to resolution, defense success rates, and total cost rather than just "savings".

## 5. ADDRESSING THE CENTRAL OBJECTION

The objection that firms will overbill without comprehensive audits is addressed through three points: sampling retains detection capability; current "savings" reports are often overstated when factoring in total program costs; and the adversarial premise indicates a failure in panel selection. Surveillance is an expensive substitute for trust.

## 6. CONCLUSION

The current model optimizes for a proxy—fee reductions—rather than the outcome the insured needs: efficient and timely defense. The alternative is precision through sampling, collaboration, and outcome metrics. This shifts the focus to whether the insured's claim was handled well, rather than whether the invoice was reduced.

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