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ENSURE QUALITY TPA SERVICE WITH THE RIGHT RFP QUESTIONS

The request for proposal (RFP) process can be a daunting experience for those organizations seeking a new third-party claims administrator or for those simply wishing to shop the market for an alternative to internal claims administration. For some, the primary objective is cost savings, with an emphasis on receiving as many price quotes as possible. However, many other organizations look beyond price, seeking solutions to claims problems. Either way, the primary objective for an RFP is to elicit detailed responses from qualified vendors to make the right choice for your organization.

If you are planning on contracting a third-party administrator (TPA) for services that will be used for multiple years, it makes sense to do your homework before—and not after—you sign a service agreement. At that point, it will be too late to negotiate a customized level of claim service. This is why it is so important to develop a comprehensive, probing RFP and, if you are considering oral presentations after your RFP reviews, ask targeted questions until you receive precise information and service assurances from the presenting TPA.

This article explains how to test the market, develop an RFP, and come up with the technical questions to help you choose the best claims TPA for your firm.

Testing the Market

It's certainly easy to take the path of least resistance when choosing a TPA. These quick decision paths may include choices made on price, broker word of mouth, case studies, or informal conversations from industry peers. How likely is it that these measurements will lead to the best decision? Individually, each is an important factor to consider but should not be the only one when making such an important decision.

Many informed and judicious organizations begin the RFP process with a request for information (RFI). An RFI is a preliminary litmus test that assesses the ability of a TPA to administer quality claims services. By definition, an RFI would inform the TPA of the issuing organization's goal and how it tentatively plans to achieve it. An organization may already have a number of prequalified TPAs in mind to start the RFP process; therefore, the distribution process is already targeted.

In response to the RFI, the TPA will compete for the opportunity to provide the requesting organization with the most targeted information available. This information may be in a range of varied formats, including narrative and data. Often, TPAs send generic sales proposals that provide only a basic outline of their service program. This

“high-level” information may be beneficial to a certain extent, but it may not help in assessing TPA’s claim service strategies and routine claims handling tactics, for example.

The RFI process is also an important way for an organization to determine a prospective TPA’s capabilities and expertise. RFIs can help identify and disqualify financially underperforming TPAs, TPAs with limited reach of service (local only and not regional), TPAs without a concentration in the organization’s industry, TPAs not approved by the excess insurer, and TPAs with limited claims administration capability (workers compensation but not liability) and adjuster resources. These are all areas of consideration an organization should analyze to determine where it should submit the detailed RFP.

Developing the RFP

Once the RFI process points to the most appropriate TPAs to compare and choose between, a request for proposal process (RFP) is used to choose a vendor to retain. First and foremost, the questions contained in the RFP should reflect the precise desired outcome of the organization’s risk management goals. This is a detailed approach that requires total buy-in from those within the organization who have an understanding of what it takes to successfully administer a claims program. This buy-in process puts the organization in control of the desired service levels by helping develop the most appropriate and collaborative questions for the most appropriate response.

Gather an internal team for a roundtable discussion of what data will be important in choosing the right TPA for an organization’s needs. In particular, those individuals with knowledge of workers compensation claims or liability claims need to be included on the team. These internal subject matter experts recognize

the impact claims handling makes on insurance and operational costs, the work environment, and overall customer satisfaction. Consider human resources personnel, finance and accounting colleagues, benefits analysts, and other departmental heads (e.g., parks and recreation, law enforcement, fire, factory/manufacturing, distribution, operations, and other segmented divisions).

Cost Questions. When determining the cost for a liability and/or workers compensation service, these subject matter experts should develop cost questions addressing the following:

- Rehabilitation service
- Medical bill review
- Utilization review
- Case management
- Claim report availability/accessibility
- Subrogation recovery
- Special investigation
- Catastrophic claims
- Litigation
- Damage assessments/appraisal
- Salvage/disposal
- Data conversion
- Ongoing maintenance
- Risk management information system

It’s never safe to assume that a new TPA will continue to administer claims using the existing process or generate the same cost savings as the current TPA or internal staff. Many TPAs have internal departments or they own service subsidiaries (i.e., bill review, managed care) whose fees may not be included in the fee schedule presented. To receive for the most detailed response, it is important to convey the organization’s “must” service areas. This powerful word immediately signals to vendors the important “must know” process questions and costs that need to be customized for the potential client—not generalized from a generically written sales proposal or marketing brochure.

Here are a few sample questions to consider when developing targeted cost questions about hidden fees:

- Have you budgeted for these hidden costs?
- Are these additional costs necessary?
- Might these costs have otherwise been prevented if the TPA followed the proper claims process?

These sample introspective questions will help design targeted RFP language that will hold the successful TPA accountable from the onset.

Flexibility. What is the TPA's service model? Virtually integrated TPAs will insist on utilization of preselected services and have standardized protocols for their utilization. Other service models will allow the use of various vendors of the client's own choosing.

When determining the outcome of how a claim may impact the organization's work environment, the RFP team should prepare a few questions in the following areas:

- What is the TPA's compliance with our modified duty/return-to-work plan?
- Will a dedicated, on-site unit be a better choice for claims administration?
- Will staff have immediate and convenient online access to claims information?
- How will new service implementation impact internal staff's time?
- What are the TPA's Occupational Safety and Health Act (OSHA) reporting capabilities?

These and other questions will be discussed later in this article.

Developing Technical Questions

When determining how claims administration affects the overall level of customer satisfaction, ask questions pertaining to both the adjuster and the TPA. These questions include the TPA's history, staff, claim han-

dling standards, systems, data migration/implementation, adjuster/client training, industry expertise, internal/external accountability, internal quality control, managed care, bill review, and contractual details.

TPA History. The TPA's historical background will provide insight into its longevity, expertise, and size. Trends revealed in the history can also indicate where it is headed. Some risk professionals look for acquired growth or organic growth, while others may judge on financial stability and other factors. A Better Business Bureau rating and a Hoover's Dun & Bradstreet review can also be helpful to corroborate the information provided by proposing TPAs.

One key consideration is a TPA's client retention rate. Claims administration is a service business, and technical claim performance, pricing, and communication are extremely important. Third-party claim administrators that fail in these categories often lose clients. To determine a TPA's success, consider requesting at least a 3-year client retention rate. In addition to an average retention rate, request a rate of retention by number of years a client has been with the TPA. This will reveal the TPA's mix of short- and long-term clients.

Ownership is another key factor to consider. When requesting background information, it is important to ask for data regarding the top management of the TPA. This will provide an understanding of how the company is run based on management's past experience in similar roles or with other companies. Look for good, long-term senior members who have an active participation in the day-to-day routine of claims administration. This will be a great benefit for receiving immediate customer service for any claim discrepancies and other grievances.

Staff. A TPA's claims administration performance begins with its adjusters. Adjusters are the voice and face behind the com-

pany. Since a successful claims program depends on the adjuster's knowledge and ability to follow procedure, it is important to learn about who will be adjusting the claims.

When preparing the RFP questions, consider asking for a designation of the individual adjuster or adjusters that will be assigned to the account. Request resumes or background biographies on each adjuster that breaks out their TPA and other work history, education, and advanced claims education. Also request that current claim caseloads be stipulated for allowing an analysis to determine if the identified adjusters might be overextended when they take on a new account. An option to consider is to request that one or more adjusters be dedicated exclusively to the account rather than sharing adjusters with other accounts. If a dedicated adjuster is requested, be sure to inquire about the TPA's backup claim adjusting plan in the event the dedicated adjuster is unavailable to handle claims. This may include requesting an organizational chart and an emergency number of the supervisor assigned to the account.

Once a determination as to whether a designated or dedicated adjuster will be required for the account, think about the organization's need for daily availability. Some organizations prefer a traditional office approach where the adjuster is accessible by phone and e-mail at the TPA's location. Another choice is having an adjuster on-site or in a nearby office to administer the account. Once the option that best fits the organization's requirements is ascertained, consider the best timing for periodic meetings for status reports and claims reviews. Quarterly meetings and one annual meeting is standard for most TPAs. An on-site adjuster will always provide more frequent meetings and claim reviews. Just be sure to determine the TPA's standard approach with appropriate questions in the RFP.

Lastly, a high staff turnover rate can indicate major problems at a TPA, including low morale, poor performance incentives, managerial issues, etc. Be sure to request 3-year turnover ratios for both the adjusters only and for overall staff.

Claim Handling Standards. For an adjuster to provide exceptional claim services, the TPA must have effective and thorough claim handling guidelines in place. A TPA's claim handling guidelines should cover initial contact methodology, reserving practices, documentation, diary, litigation management, investigation, subrogation, excess and special reporting, follow-up and controls, settlement authority, supervision, and coverage. Figure 1 provides a sampling of possible questions to ask on the TPA's claim handling guidelines.

Another claims handling consideration regards catastrophic (CAT) claims. Due to their high cost potential and often multiple claimants, CAT claims should be handled by senior personnel. It is imperative to follow early intervention procedures including a review by a registered nurse with the first report of injury. The nurse should recommend catastrophic and serious injury cases for case management, where appropriate. After approval from the client, the case manager should immediately follow these cases.

Before choosing a TPA, consider how current run-in or "tail claims" will be handled. These are the claims already being handled by the current TPA. Questions concerning cost and capability to convert from a competitor's risk management information system (RMIS) should be asked. One of the most important questions to ask is the conversion time frame. Without the full data set, run-in/tail claims will be difficult, if not impossible to administer.

One last claim standard to consider would be claim record ownership. All material generated in the handling of any

claim incurred by a TPA should remain the client's property and be accessible to the client at any time. Be sure there is an agreement to include this in the contract.

Systems. Today's claim business relies heavily on technology to stay current on all claim file activity. RMISs are extremely relevant for determining the TPA's overall performance and success with handling

FIGURE 1 CLAIM HANDLING QUERIES

Initial Contact/Reporting Methodology—Initial contact protocol is important to meet overall claim success. Will there be three-point workers compensation contact within 24 hours? Are there any additional contacts, such as witnesses, and when and why would they be contacted? Can you establish reporting procedures that are compatible with the needs and structure of our organization? What are the after-hour options for reporting new claims?

Reserving Practices—Determine timeliness and adequacy of reserves. What are the time limits for setting initial reserves? Are reserves handled with realistic probable exposure or other? How often are reserves adjusted?

Documentation—Knowing the proper notes are being captured is extremely important. How soon are new notes added to the claims system? What type of detail is captured in the documentation, i.e., payments?

Diary—Access to the adjuster(s) diary can be critical to determining claim status. Do all open files carry an open diary date? Are diaries worked timely, and is a plan-of-action in place? Is the diary worked often? If it is, how often is it worked?

Litigation Management—Understanding a TPA's role with pursuing claim litigation will help control legal counsel costs. Are litigation pretrial reports created? Is referral made within 24 hours? How are bills handled? What is your policy on settlement versus defense?

Investigation—All new claim files should have some level of investigation. To what level do the adjusters perform investigations? Do you search for fraudulent claims, and

what is the criteria and process? Can you review adjuster investigative guidelines to determine they meet your business requirements and contractual obligations?

Subrogation—A third-party source of recovery is important when there is fault. When do you pursue subrogation? What is the follow-up process for recovering funds? What is the process used, and how knowledgeable are the adjusters in these matters?

Excess and Special Reporting—Providing reports to excess insurers is extremely important. What tracking mechanism does the TPA use to identify and report claims? Do you prepare, maintain, and file all state, local, and federal mandated forms? What is the third-party claims administrator's ability to assist in the preparation and filing with the appropriate state agencies?

Follow-Up and Controls—Claim closure relies heavily on proper follow-up procedures. How often is follow-up conducted? Are action plans kept current and meaningful?

Settlement Authority—This involves knowing when to settle claims and for how much. What is the dedicated adjuster's settlement authority? What is the process for exceeding that amount?

Supervision—Proper claim procedures require supervised assessment. How does a supervisor assign claims? Are they active with claim audits?

Coverage—Providing the correct coverage to an incident is very important. What are your procedures for documenting coverage? How is coverage addressed?

claims from inception to closure. These systems are designed to provide access to all claim detail by claim adjusters, supervisors, management, and clients.

Many TPAs choose to partner with leading RMIS developers, while others choose to use their own proprietary systems. Regardless of which solution is preferred, a number of targeted questions must be asked to determine if the proposed system is right for the organization, such as:

- Does the system offer real-time claim accessibility?
- How many users can have access and at what cost?
- What are the options for report generation and frequency of reports?
- What customization report options are available?
- Can reports be generated at all organizational levels?
- How is data confidentially secured?
- What is the process for reporting new claims?
- What are the system's electronic data interchange (EDI) features?
- How does the system control reserves?
- How does the system calculate and verify payments against reserves?
- Does the system eliminate duplicate payments with online payment history?
- How does the system manage rehabilitation programs?
- How is comprehensive legal information accessed?
- Are subrogation activities tracked?
- Is there an automated adjuster diary?
- Are there unlimited adjuster notes on each claim?
- Does the system produce government forms including 1099s, OSHA 300, CMS, and annual reports?
- Does the system store data by accounting periods, enabling loss development analysis?

- Are summaries of claims data by user-defined parameters available?

A comprehensive RMIS should be capable of prioritizing cost control efforts by identifying important workers compensation and liability claims cost drivers within an organization in a real-time environment. Other benefits would include a system that provides timely feedback to management with standard and ad hoc reports. These reports will facilitate proactive and properly targeted loss control practices throughout the organization. Lastly, these systems are designed to improve productivity and "go green" by reducing or eliminating paper handling and manual production of reports or statistics.

Data Migration/Implementation. Once it is determined that a change of TPAs is likely, the process of developing an implementation/migration strategy should begin. Implementation can be a time-consuming process that requires the assistance of all parties, including the new third party claim administrator, the former TPA, and the client. The new TPA should facilitate the process by providing a detailed timetable to use in developing the implementation/migration strategy. It's also helpful to know a TPA's data migration expertise in advance. This includes its track record of success with converting claims data from the RMIS system that is currently being used.

Another important implementation item is the development of the loss funding/banking arrangements. There are two choices readily available today: self-management or TPA management. Under the first option, the client funds and manages the account. Under the second, the client funds the account and allows the TPA to manage it.

Adjuster/Client Training. Knowledgeable adjusters will achieve the best results for their clients, and it is therefore appropriate to evaluate the TPA's philosophy on training staff, including the frequency

and quality of the programs offered, and subjects covered. Try to determine if the TPA is merely trying to meet minimum requirements of any applicable state regulations or is truly committed to improving the knowledge and professionalism of its staff.

In addition to adjuster training, there will be a need for client training. Do the training topics offered address the needs of the organization's staff? Is claim system training available? Determine whether training will be handled in person, by CD-ROM, streaming online, or via webinars.

Industry Expertise. There will much information available on most TPAs from brochures, presentations, websites, and more. These marketing pieces are, of course, designed to reflect as positively as possible on the TPA firm. However, the best judges on the quality of a TPA's service are those organizations already doing business with the firm. Valuable insight may be gained by requesting at least three references from similar clients. These may include clients from the same or similar industry, similar employee sized clients, or clients with a similar size claim load. In addition to contacting these TPA clients, also request case studies that describe how problems have been resolved.

A less direct request and follow-up for industry expertise may come from a competitive analysis. Many TPAs distinguish themselves from the competition by outlining their strengths based on client feedback. Consider creating a question regarding the third-party claim administrator's perception and standing within its own industry.

Internal/External Accountability. Many states require TPAs to be licensed to operate. Requesting information about their state licensure is a prudent first step toward evaluating their accountability. Also ask the TPA for its policy on fine reim-

bursement for failure to comply with the state. Another way to verify a TPA's standing in a state or city of operation is by requesting any pending litigation or judgments against it. To evaluate a TPA's financial performance, an audited financial statement may be requested and a Dun & Bradstreet report obtained. Additionally, it is wise to require a certificate of insurance showing the lines of coverage and limits available in case it is necessary to make a claim against the TPA. These lines should generally include commercial general liability, business auto, workers compensation, errors and omissions, and crime coverage.

Internal Quality Control. An entire section of the RFP should be focused on the TPA's quality control and internal efficiencies. These necessary controls may include the TPA's audit frequency, the method and depth of investigation employed, performance measurements, and sharing of results with the client. Request a list of the members of the team involved in this process and how the final results impact the client's claim program. Include questions to determine the protocol for the client administering its own audit of the TPA, and assure the contract will specifically grant the right and ability to independently review and measure the TPA's success.

The best quality control plan begins with the claim file and the adjuster's ability to maintain it with thoroughness and timeliness. An internal TPA efficiency program with a financial incentive is very beneficial for receiving quality service. The assigned adjuster(s) should be graded on claims handling performance, and the specifics of how this internal program operates should be reviewed.

An emergency backup plan should be requested and analyzed. In the event of a disruption in claim services (i.e., a natural disaster or blackout), it will be important to

know how that office or its adjusters will be able to perform their duties.

Managed Care. A big chunk of workers compensation claims administration comes from managed care. When reviewing the options, determine if the third-party claim administrator owns or leases managed care services. Another consideration is the ability to compare the preferred provider organization (PPO) network choices. An important question is flexibility of using more than one PPO, and how adding and removing providers within the applicable local region is accomplished.

Case management is another managed care offering. Many TPAs offer nurse or physician case management. These choices will include case management by telephone and in the field. It would be beneficial to learn the TPA's philosophy on the use of case management. The overall response to managed care questions should reflect the TPA's compliance with the approach used in the organization's return-to-work program.

Bill Review. The next process to consider is bill review. The bill review procedure should involve closely examining the bill and reviewing the medical notes submitted to ensure charges are correct for the services performed. Develop RFP questions designed to reveal:

- How bills are coded in the system
- State fee schedule and usual and customary charges
- PPO application process
- Out-of-network negotiations
- Nurse reviews
- Pharmacy bill reduction

Contractual Details. One of the last considerations to make before committing to any third-party claim administrator is the contract terms. It is helpful to request a sample copy of the TPA's contract to review the detailed level of service to be received. A "scope of services" or fee

schedule will outline the type of claim services that are part of the total fee structure. Another key cost driver is the term of the contract. Is there room for a multiyear contract with 1-year renewal options? These are a couple of questions to consider.

Quite often, TPA contracts require their clients to use the TPA's chosen service providers (e.g., legal counsel, special investigation services). To assure a voice in selecting these service providers, ask for the TPA's policy on this issue and consider including a stipulation that the client may select the service providers to use.

Conclusion

Choosing a third-party claim administrator isn't the same as reviewing a side-by-side matrix of similar products or services from *Consumer Reports*. A carefully developed RFP process provides a roadmap for determining how claims should be handled for the organization and choosing the best firm to achieve the identified goals. RFP questions need to be targeted so that responses are clarified with no guessing involved. Never assume that one TPA's service will be the same as another's, as this will rarely be the case. Once that contract is signed, the hard facts about the hired TPA will only be learned through experience, good or bad.

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