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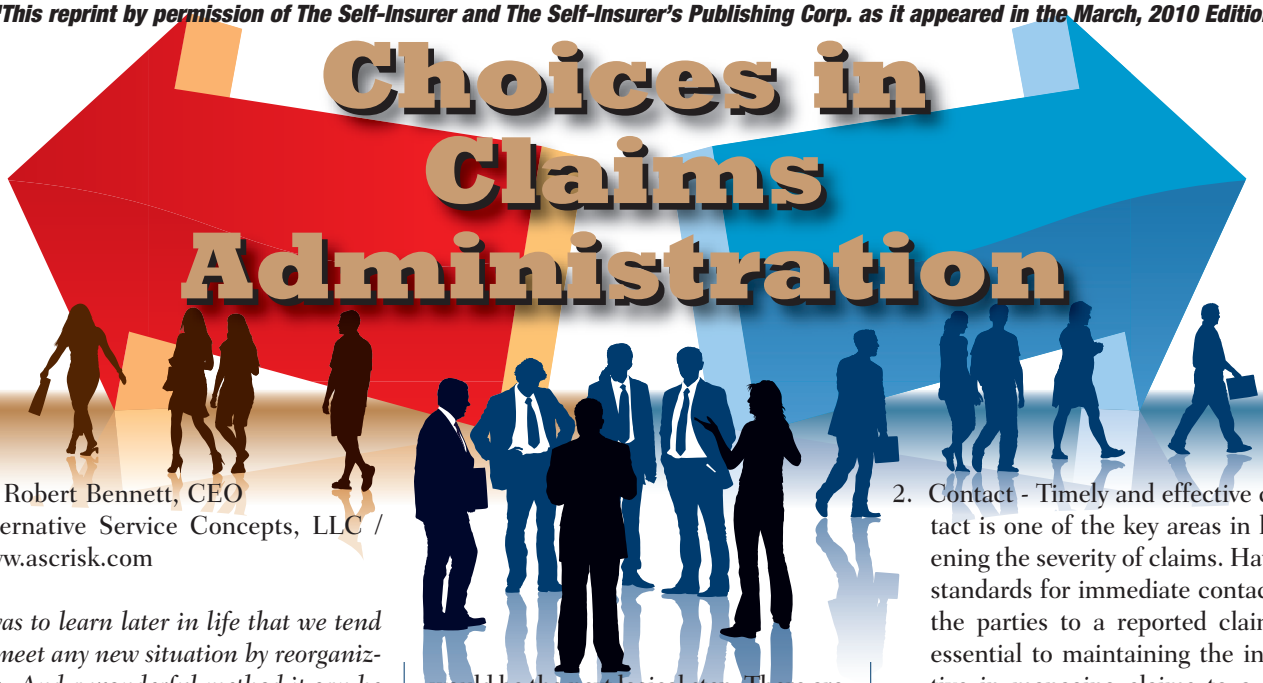
Choices in Claims Administration



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I was to learn later in life that we tend to meet any new situation by reorganizing. And a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralization.

– Gaius Petronius AD 66

Many whom have gone through operational changes within their organization would consider the above statement to have been written by a contemporary consultant; yet, the saying that the more things change the more they stay the same is as true today as it was almost two thousand years ago.

Organizational changes are made for many reasons, but the illusion of progress is often the result of the decision maker getting the right answers to the wrong questions. The purpose of this article is to provide the analytical tools needed for deciding a method to claim adjusting. The decision for many is not based on the results of the claim operation but on the overall cost of insurance at any given renewal period.

This method of purchasing insurance services has the benefit of simplicity. As long as the cost of insurance is within a tolerable range, the benefits of analyzing whether claims could be handled more economically may not be worth management's focus. However, if following this approach has led to a review of whether money could be saved by being more involved, then questioning whether the process being used to adjust claims is getting the best result would be the next logical step. There are three options if the decision has been made to not use a carrier's adjusting service. The availability of these options is dependent on the financial ability to assume risk and meet regulatory guidelines. These options are:

1. Outsource
2. In-House Administration
3. A hybrid of the above two options.

Before deciding on one of these options, an independent audit will be required to establish the current baseline. Through review of loss reports, complaints, bad verdicts, or increased costs, you may have a great deal of information regarding the need for change. It will be important to use an audit to determine the validity of these observations and to determine the root cause. The majority of the breakdowns which lead to negative observations arise out of the lack of timeliness or thoroughness in the following areas:

1. Data - What reports are available to determine the overall effectiveness of the claim operation? An auditor will have experience in identifying what management reports to develop to monitor the efficiency and effectiveness of the operation. For instance, reports on closing ratio by examiner, or contact by examiner and diary management reports are effective tools in identifying the source of missed opportunities.
2. Contact - Timely and effective contact is one of the key areas in lessening the severity of claims. Having standards for immediate contact of the parties to a reported claim is essential to maintaining the initiative in managing claims to a cost effective conclusion. Customization of these standards to meet your organization's structure is also recommended. A diagram of what happens within your organization when a claim occurs reveals areas of improvement in awareness, reporting and follow up.
3. Diary - The most essential ingredient in being proactive, rather than reactive. Set standards by claim type for the maximum amount of time between diaries. Monitor missed diaries because the only way to settle claims is to have claims reviewed and acted upon on a regular schedule.
4. Vendor Management – You will need to decide how vendors who will be paid out of allocated expenses are to be managed and compensated. Agreements with vendors need to be updated with current insurance certificates. Have the independent auditor review the vendors who are paid the most and evaluate their effectiveness.
5. Current activity and formulation of action plans - Continually asking what needs to be done to close a claim is the basis for meaningful action plans. Using a standard set of questions for the examiner and then monitoring the level of activity through the claim system will help in not letting claims become stale.

6. Reserves - Standards for reviewing reserve adequacy and rationale for changing reserves can be achieved through mandatory use of reserve worksheets.

7. Reporting - Failure to notify carriers of serious claims is caused mainly by mindset. These include determining the liability of a claim before it is investigated and failure to report to umbrella layers because reserve evaluations were not updated. Setting a committee review process for certain types of claims assists in keeping an open mind about file strategy.

8. Regulatory Compliance - If you are going to use a TPA or do this in-house, you need to know the regulatory guidelines that a claims operation must meet. These regulations at the state level include examiner licenses, residency, organizational license, banking, EDI, escheat, etc. At the federal level is CMS reporting. Even if you are using a TPA, you are the responsible entity for EDI, escheat, and CMS reporting; therefore, vendors selected for reporting are fulfilling your obligations of accurate and timely reporting. In addition, review vendor indemnification agreements and negotiate removal of clauses limiting a vendor's liability.

The audit will assist in creating standards for each area listed above. The audit will determine what position is responsible for meeting the standards and creation of methods to measure compliance.

Now that you have a starting point and road map, you are in a position to review the administration options. Based on the standards developed from the audit, issue a Request for Information (RFI) which will serve to determine how a service provider will meet the standards. This will be an indication of the cost for providing the services which is the next logical step in deciding whether all claim services need to be outsourced, self- administered, or a combination of the two.

There are advantages and disadvantages to these options however. The following information is an outline of the major items to consider:

Outsourcing:

Advantages

1. RFP selection process
2. Service providers have expertise and keep abreast of changes
3. Compliance with regulatory mandates is part of the package. This is an increasing dilemma as EDI, CMS, OFAC, Escheat and NCCI require sophisticated systems.
4. Decisions are made by a third party with E&O insurance
5. Ability to construct data interfaces with internal systems
6. Disaster Recovery

Disadvantages

1. Service providers have a transactional service delivery model which may be out of synch with concluding claims cost effectively.
2. Staff turnover
3. Lack of integration with internal departments
4. Conflict of interest with vendor partners or vertical integration of services which decrease flexibility.
5. Access to data.

Self-Administration:

Advantages

1. Control over results
2. Potential cost savings
3. Integration with other departments
4. Access to data

Disadvantages

1. Expertise of staff
2. System selection/ upgrades/ service of system
3. Regulatory compliance
4. Disaster Recovery
5. Accountability

With a hybrid approach, a service provider is either hired to establish a dedicated unit or you may decide to outsource a segment of the work to a service provider in exchange for utilizing their system to administer claims and run reports. The advantage of these two scenarios is as follows: it gives you the ability to have the control desired over the results along with the integration to other departments without having to set-up or hire an IT department. Costs may also be controlled more efficiently as local office expenses can be provided. This leaves the service provider to hire and supervise the staff and provide the system.

Disadvantages to the hybrid approach are office and system security. If you have contract workers on-site where check printing is desired, you will need to address on-site network security.

Claims administration is all about customer service. The customer for a claims operation are either listed by name on a loss run or are recipients of the loss run. They are claimants, insured, and regulators. Manage the chosen claims administration process through periodic independent claim audits and easy to understand management reports designed around the customers. These reports would include:

1. Surveys of injured worker after their claim is resolved
2. Timeliness reports (claim reporting, setup, reserves)
3. Accuracy of data entry
4. Closing ratios
5. Subrogation
6. Diary

Claims administration is also about teamwork. Better results can only be achieved by explaining the goals, ongoing measurement of the results in a fair and consistent manner, and providing feedback for improvement. Starting with the goal in mind, the best decision about how to adjust claims is to pick the method which best builds a culture of teamwork.

Robert Bennett has served as Chief Executive Officer for ASC since 2002. During his career, Mr. Bennett has served as a multi-line field adjuster, a claims supervisor, and a major accounts adjuster. Mr. Bennett worked for 15 years at Willis Administrative Services when he earned his Licensed Tennessee Agent designation, Senior Claim Law Associate (SCLA) designation, and CPCU Chartered Property Casualty Underwriter designation. He is a graduate of the University of North Carolina at Chapel Hill.