

Effective Independent Claim Audits - It's All About Keeping Score, *see page 4*



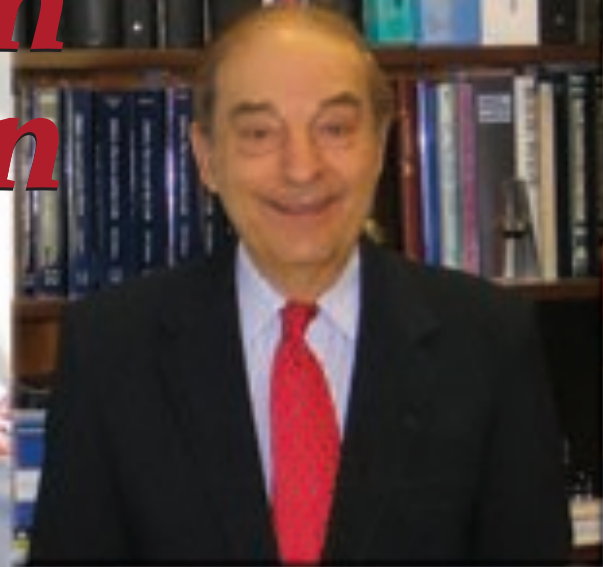
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Hat's Off to Our Man in Washington

*George
Pantos*



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Effective Independent Claim Audits

It's All About Keeping Score!

By Robert Bennett

Every year claim adjusters are trusted with managing hundreds of thousands of dollars for the clients they serve. Moreover, their decisions can influence the recovery and outcomes of many injured claimants based on the knowledge and resources that they introduce and utilize throughout the adjusting process. Given the dollars at stake and the people whose lives are on the line, many organizations are turning to independent claim audits as a means of measuring the effectiveness of claims adjusting performance.

When it comes to conducting effective claim audits, there are two central ideas to keep in mind. First, audits should be conducted annually. Second, auditors should be hired at the beginning of a program and not during a crisis. Timing is everything.

Often, audits are used in a reactive manner because of a looming problem with reserves. An independent audit is used to verify the accuracy of reserves, usually because there is a belief that they are too high. Using audits only in a crisis is a negative experience for the adjusting staff as it amplifies any underlying distrust between risk management and the claim adjusters. It is difficult to get desired results in this kind environment because open communication and shared goals are required to attain better results.

The stigma of an audit can be removed by having an audit conducted on an annual basis. Much like an annual financial audit, conducting a claim audit becomes a necessary part of doing business.

A good way to look at the value of an audit is to think in terms of a football game. There is no excitement in playing the game unless the score is kept. There is also no way to feel good about winning the game unless everybody plays by the rules. Just as a football game requires an unbiased umpire and scorekeeper, risk management needs an unbiased auditor to keep score and interpret the rules.

An effective claim audit measures the effectiveness of a program not only from a compliance standpoint, but it can also determine whether ancillary vendor services are cost effective and if return to work programs are reducing costs.

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Continuing with this analogy, how would a football coach go about having a winning season? It is doubtful that a strategy of throwing a "Hail Mary" pass during every game would be effective. The coach might win a game that way but is not likely to have a winning season. Using an auditor during an actuarial crisis is the same thing as using a "Hail Mary" pass to win the game.

Football games are won by coaches who know how to motivate talented players to play by the rules and control the line of scrimmage. Moving the ball three or four yards every play is a more effective strategy than having a vast reserve of trick plays. Games are won by teams that can score the most points and then run out the clock.

In claim administration, time also has to be controlled. Think of past workers' compensation claims that started off as minor injuries and are now reserved at hundreds of thousands of dollars. It is possible to describe the path to the current claim status as a trail of missed opportunities.

In claim review meetings, a manager might have a tendency to believe that the injured workers behind many large claims are underhanded and that the adjusters are inept. And, they may be. But, like the football coach described earlier, the risk manager must look at the process as a competitive game that can be

won or lost. In football, blaming players and the opposing team for the loss is a sure way for a coach to lose his job.

The way to win in claim administration is to motivate talented adjusters, play by the rules, and control the time line. In football, time is the ultimate measurement. It is used to call plays, divide the game into quarters, and end the contest. In claim administration, time is used to measure standards of performance. Some of the more noted areas include:

1. Contact
2. Reserves
3. Diary
4. Payments
5. Reporting
6. Subrogation
7. Closing

There are various compliance rules for each of these criteria. For example, compliance definition used by most adjusting firms for contact might read as follows:

Contact-Two point contact between the employer and the employee is required on each medical only claim and three point contact with the employer, the employee and the physician is required on each loss time claim within 24 hours of the claim being reported to the adjusting company.

The first question to be addressed is whether contact and the timeliness of contact are worthwhile. A study completed by The Hartford Insurance Company addressed this issue as it attempted to quantify claim reporting lag time or the time elapsed from the date of injury to the date of report. The Hartford study showed that claims with lag times of 1-6 days were 18% less expensive than claims with lag times of 7-14 days, 30% less expensive than claims with lag times of 15-28 days and 45% less expensive than those claims reported more than 28 days.¹

To fully understand the impact that timely reporting can have on a claim program, a risk manager can run a lag time

report that is tied to total incurred losses. It is then possible to determine if there is a link between delays in reporting claims and total incurred losses. Many risk managers find this to be an immediate opportunity for improvement and a fast way to generate program savings.

The results from running a lag time report are often enough to refocus a risk manager's attention on timely reporting of claims. The adjusting company's definition only covers the lag time from the day the adjuster received notification of the claim to the time the adjuster made the required contact. Although that is important, risk managers should be more interested in the total lag time from date of injury to date of contact. This requires cooperation from both an organization's employees as well as its adjusting company. By changing the definition of contact, the number of players who are responsible for achieving the 24-hour reporting standard increased noticeably and the importance of these parties working as a team became apparent.

Continuing with the sporting analogy, measuring performance and posting the score is essential to competitive play. Likewise, there are certain measures of performance that must be tracked and maintained to achieve rewarding claim results. Some key points of measurement include:

- Date of injury
- Report of injury to supervisor
- Report of injury to adjusting company
- Date of contact by adjuster

Once risk managers have built reports that measure the lag time between each of these points they will know how much time is being spent in contacting injured workers. But just as important as timeliness is effectiveness of each contact.

There are two parts to effectiveness. The first is record keeping and the second is defining quality of contact. There are several people involved in recording the measuring points both at the employer's organization and at the adjusting company. Date of contact by

the adjuster is usually the weakest link because it may not be a practice of the adjusting company to record the date of contact in a data field that can be pulled into a lag report. If that date is not retrievable, except by reading the adjuster's notes, an essential record keeping function is lost.

If the record keeping function is solved, the next area to master is effectiveness. What does it mean to make contact? If the strategy for contact is left up to the adjuster's expertise that might be anything from a recorded statement to sending a calling card in the mail with a fill in the blank form for the injured worker. Both of these methods might be recorded as contact but there is a significant difference in the results. Through an annual audit process, the risk manager's expectations can be better aligned with the capabilities of the adjusting staff.

Diary is how the risk manager and the adjuster make better use of time. A definition of diary is:

Diary- Initial diary required within 14 days of assignment. All indemnity claims must be followed on a 30-day diary after the initial 14-day diary. Supervisor's diary should be set based on (1) the experience and expertise of the examiner, (2) the amount of the total incurred value, (3) excess reporting requirements, and (4) peculiarities of the particular claim.

The three elements of measuring diary are completion, span and effectiveness. Of these, completion is generally the easiest to measure because the claim system records diary due dates and diary completion dates. Reports can be generated to measure the degree of compliance.

Slightly more difficult, but attainable, is the span. The question being asked is whether the diary due date is set properly based on the complexity of the file. A diary completion report is misleading if adjusters can set diaries that meet their schedules rather than the needs of the file. There are several strategies for

determining the complexity of a file without having to read every file. One is receipt of loss time benefits. If the injured worker is receiving loss time benefits then the maximum diary span that the adjuster can set would be 30 days. To calculate whether claims have the proper span, risk managers need the expertise of an auditor to define what is measurable from the data being captured. Then a determination can be made to see if a report can be programmed to look for proper spans or whether a separate database is needed to measure compliance. Other standards of performance for span include litigation, subrogation, open/settled claims, and reporting.

The last item to be discussed is effectiveness. Effectiveness can be partially measured by measuring closing ratios from year to year and by measuring closing ratios and pending caseloads by adjuster. If intake for an adjuster remains constant, diary management is within specifications, and yet caseloads are rising, then it is logical to assume that the quality of the contacts the adjuster is making may be deficient. If everything is relatively constant, there can only be a couple of reasons for pending caseloads to be increasing. A physical review of the files is required to check this theory.

Each category can be similarly analyzed to develop strategies that are meaningful, attainable and measurable. At a football game, the fans' reaction to a losing season is to pay more money for better players and fire the coaching staff. Before risk managers throw money at performance guarantees and fire administrators on a regular basis, think like a coach rather than a fan. The playbook would dictate to hire an auditor to define the reality of the existing program, design strategies to get better results, and keep score through system generated reports and annual independent audits.

Defining what is winning, building winning strategies, and keeping score with unbiased measurements builds team-

work. Teamwork controls the timeline and the bottom line. An effective, independent claims audit is designed to do just that.

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During his career, Mr. Bennett has served as a multi-line field adjuster, a claims supervisor, and a major accounts adjuster. He has also served on catastrophe teams and has been responsible for formulating claims training programs, performing re-inspections, and auditing claims files.

Mr. Bennett earned a Bachelor of Arts degree from the University of North Carolina at Chapel Hill. He completed the Vale Tech Institute's course on building damage estimating and IIA courses on insurance. Professional Designations: Licensed Tennessee Agent, Senior Claim Law Associate (SCLA)

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1 *Glen-Roberts Pitruzzello, The High Cost of Delays, Findings on a Lag-Time Study (The Hartford Financial Service Group, Connecticut: 2000) 1-5.*