XIth Accident Compensation Seminar 2007

Institute of Actuaries of Australia

The Importance of the Right File Loads – Analytical Assessment of File Loads for Long Tail Claims

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Value and Key Drivers of Claims Cost Outcomes

- Optimum claims management outcomes for long-tail claims are achieved via many separate, yet related, business drivers.

- The potential for improved long tail claims cost outcomes through investment in and adoption of best practices can readily be 15% of claims costs (source: NSW CTP insurer; national income protection insurer).

- There are a combination of factors all requiring investment:

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Nature of Investment

Investments required may include:

- Intangible (soft) costs
  - Development of new IP, such as business models and procedures
  - Control systems
  - Effective training programs
  - Concentration on culture
- Tangible (hard) costs
  - More experienced resources
  - More resources
  - Systems enhancements

Value and Key Drivers of Claims Cost Outcomes

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Optimum Claims Outcomes

Performance Management systems ✓

Astute Negotiation strategies & skills ✓

Early Resolution (Duration) ½

Mitigation Management ✓

Strong Evidence Gathering ✓

Appropriate File Loads ✗

Capable Staff ✓

Supportive systems ½

Tight provider management ½

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What's Missing and How Insurers Respond

- The big issue, we often find, is File Loads, however defined
  - Claims handled per month
  - Average active claims outstanding, etc
- Getting file loads right is a key enabler
  - It is critical to ensure that investment in all the other aspects of the claims function can operate efficiently.
  - Correct file loads underpin all aspects of an insurers claims business model
  - The ability of an insurer to be proactive in resolution is dependent on staff having sufficient time to "manage" rather than "process"
  - This can have a huge impact in creating the desired claims management culture

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How File Loads Affect Performance

- And what do most insurers/ claim agents do to address this important issue?

  – Benchmark against competition – but how did the competition get it right and what was their business model and portfolio characteristics?

  – Resource up to "acceptable" budget expense allocation which axiomatically determines file loads – often a trial and error approach

- We have seen very few technical assessments of appropriate file loads – developed by decomposing the business model and identifying the elements of each job to construct an analytical model - a model that can be adjusted if and when circumstances change

How File Loads Affect Performance

- We have seen file load issues lead to:
  - Poor prioritisation and avoiding difficult cases
    - rolling over tasks and delays rather than action
  - No initiatives
  - Non-compliance with regulator requirements
  - Outsourcing – abrogation
  - Backlogs affecting early resolution potential
  - Staff disillusionment and turn-over

How File Loads Affect Performance

- Poor Customer service – but this is more evidenced in short-tail/first party business than long-tail third party.
  - For short-tail, this becomes an early warning sign through customer "feedback", but …..
  - With long-tail, it rarely is.
  - So file loads for long tail business become a long-term barrier to good outcome, rather than a short-term service issue that can be readily rectified
    - a ticking bomb!

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What We Have Done - Modelling

- The approach taken is one that necessarily combines a detailed operational assessment and analytical modelling techniques

Key Steps, *by either workshop or analysis:*

Scheme and/or Portfolio Assessment

Operational Assessment

Time Assessment

- Investigate scheme structure and existing processes by conducting a study into key success factors and any obvious efficiency measures that can be deployed in existing procedures.

- Identify each homogeneous cohort of claims for assessment, based on similarity of characteristics at different points in their life cycle
- Identify operational processes for each cohort and officer types involved
- Identify each step in the process per cohort
- Identify number of iterations of each step

- Identify amount of non-productive time per officer type
- Identify ideal (operational) time per step for each cohort
- Identify current (analytical) and ideal (operational) duration per cohort

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Example of Work Activities by Claim Type

CTP

- Insurer request
- Letter to police
- Letter to Claimant
- Liability assessment
- Further information
- Quantum assessment
- Offer letter
- Further medical
- Further assessment and offer
- Further negotiation
- Response to SOC and filing
- Photocopying
- Deed of Release
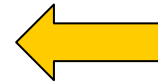- Payment initiation

Workers Comp

- Notification by employer and initiation of communication
- Provisional liability payments
- Investigation of the facts of the claim: contact with injured worker, treating doctor and employer
- Insurer request for a written claim form
- Liability assessment
- Income maintenance assessment
- Quantum assessment
- Development of End to end strategy
- Rehabilitation engagement
- Management of service providers
- Management of disputes
- Further medical
- Further vocational training
- Deed of release

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Key Assumptions for File Load Model

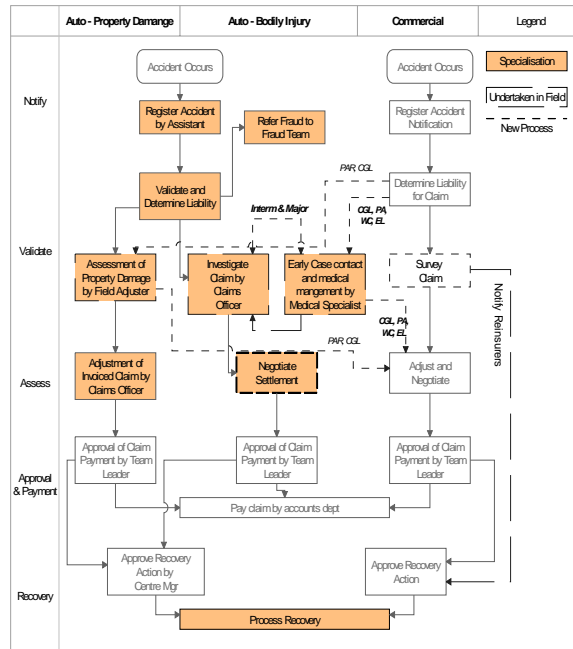**Claims Assumptions** ➡️ **Identify Operating Processes** ⬅️ **Productivity Assumptions**

Number and Type Claims in Each Cohort

Duration Assumptions for each Cohort

Available and necessary time for valued contributions

Skill sets by various cohorts

Modelling Expected Claims Build Up

- Using Assumption model of expected claims build up and run-off
  - Assumptions for new claims are based on "best practice environment" including proactive management, early resolution techniques
  - Assumptions for existing claims depend on the extent of backlog and how quickly management want it dealt with.

Cohort 1

Number Existing Claims	1800
Average duration	18 months
% resolved per month	6%
New Claims Per month	150

New Claims Build Up	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	New Claims	Existing Claims	Total
Jan-07	150												150	1800	1950
Feb-07	142	150											292	1700	1992
Mar-07	134	142	150										425	1606	2031
Apr-07	126	134	142	150									552	1516	2068
May-07	119	126	134	142	150								671	1432	2103
Jun-07	113	119	126	134	142	150							784	1353	2136
Jul-07	106	113	119	126	134	142	150						890	1277	2168
Aug-07	101	106	113	119	126	134	142	150					991	1206	2197
Sep-07	95	101	106	113	119	126	134	142	150				1086	1139	2225
Oct-07	90	95	101	106	113	119	126	134	142	150			1175	1076	2252
Nov-07	85	90	95	101	106	113	119	126	134	142	150		1260	1016	2277
Dec-07	80	85	90	95	101	106	113	119	126	134	142	150	1340	960	2300
Jan-08	76	80	85	90	95	101	106	113	119	126	134	142	1266	907	2172
Feb-08	71	76	80	85	90	95	101	106	113	119	126	134	1195	856	2052
Mar-08	67	71	76	80	85	90	95	101	106	113	119	126	1129	809	1938
Apr-08	64	67	71	76	80	85	90	95	101	106	113	119	1066	764	1830
May-08	60	64	67	71	76	80	85	90	95	101	106	113	1007	721	1728
Jun-08	57	60	64	67	71	76	80	85	90	95	101	106	951	681	1632

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File Load Assessment Benefits

- Outputs from the file load model would include
  - Optimal number of claims outstanding or handled per staff in each claims cohort
  - Expected number of new claims handled per annum per staff in each claims cohort (a throughput measure)
  - Required number of staff based on optimal claims file loads for each cohort
  - Assessment of any under (or over) staffing
  - Understanding of optimal ratios of staff within claims function ie admin : claims officers : injury manager.
  - Input for business case – investment required and estimates of impact on claims resolution
  - Identification of any backlog status
  - Potential identification of "best practice" model suitable for the business

File Load Outcomes

	File loads		Number Staff		Total Number Claims
	Claims	Admin	Claims	Admin	
Cohort 1	150	600	12	3	1800
Cohort 2	90	300	5	1.5	450
Cohort 3	60	200	3	0.90	180
Total	122	450	20	5.4	2430

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Cost Benefit Study

Current scenario

- Annual Incurred Claim Cost - $300m

- Claims operative staff numbers - 100

- File loads -130

- Staff costs - $15m

Projected scenario

- Determination that best practice does not apply but that it would derive claims cost savings of 5% (to be conservative):
  - the main tangible investment is a file load reduction to 110
  - this will increase operatives to 120 at a staff cost of $1.4 million

- Simple cost benefit: Increase in staff costs of 1.4/15 = 9%

- Claims cost savings: $300m x 5% = $15m

- Thus return on investment can be predicted as 15:1.4 or 11:1

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> Select a conservative potential outcome

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File Load Outcomes

- Scenario modelling is very powerful
  - Analysis of expected claims numbers if current staff file load remains
  - Analysis of impact of initiatives to resolve backlog
  - Analysis of impact of moving administrative tasks away from experienced claims officers
  - Understanding of relative claims file loads for different claims cohorts ie standard vs complex cases