

Creating a More Service Focussed Industry – the role of an Incentive Model

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Abstract

This paper attempts to highlight some of the Victorian WorkCover Authority's (VWA's) experience in managing agents under an outsourced claims management model and through a new agent incentive model.

Rather than discuss agent incentive systems from the perspective of liability or cost management, which would be traditional fare for this conference, we have decided to illuminate the challenge of agent incentive systems using the example of efforts to improve service to injured workers.

Keywords: workers' compensation; service to injured workers; agent remuneration; incentives

1. INTRODUCTION

This paper attempts to highlight some of the Victorian WorkCover Authority's (VWA's) experience in managing agents under an outsourced claims management model and a new agent remuneration model.

Since introducing the new model in 2001, the Victorian scheme has experienced an unprecedented turnaround in performance driven by new claims management approaches and improved safety without any legislative reduction in workers' benefits. That Victoria has reduced premiums by 30% over the last 4 years is well known. What is less well known are the simultaneous efforts being made to improve the service culture of the scheme and of our agents.

Rather than discuss agent incentive systems from the perspective of liability or cost management, which would be traditional fare for this conference, we have decided to illuminate the challenge of agent incentive systems using the example of our efforts to improve service to injured workers.

Through highlighting some of our experience in behavioural change and service improvement we hope to provide a different perspective on managing agent incentives. We also hope to raise the profile of service priorities at this conference and in this industry.

We do not offer the perspective of a statistical, actuarial or service specialist. This paper reflects a non-technical perspective – that of the managers who try to manage the scheme day to day.

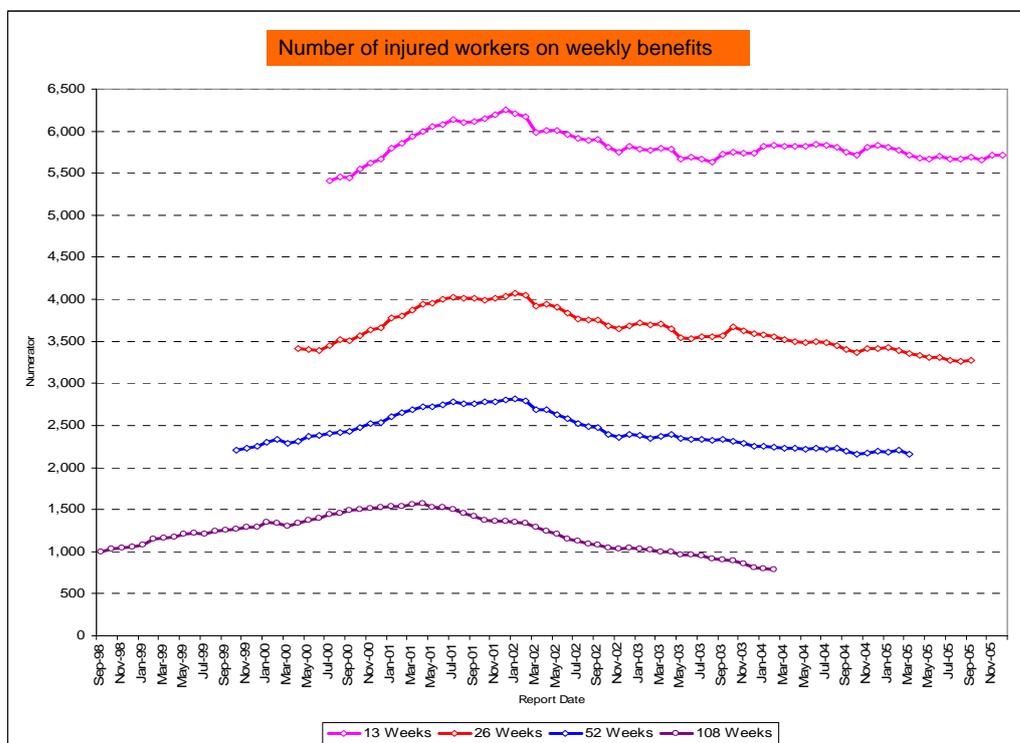
We are not claiming that Victoria has everything right, nor that our answers are the right answers for other schemes. Far from it – we believe we have only just started the journey to build a more effective service culture in our scheme. But we are sharing our experience in the hope that there is something here that others can learn from.

2. BACKGROUND

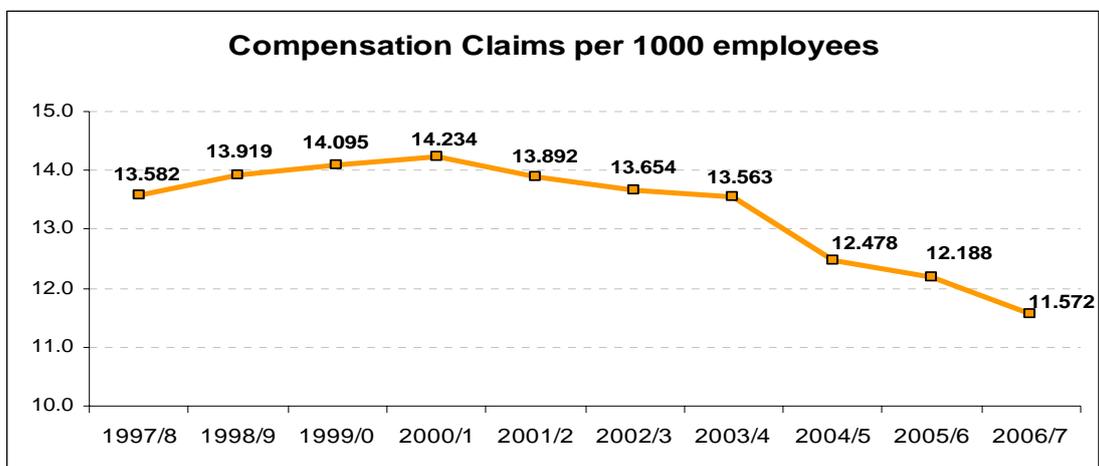
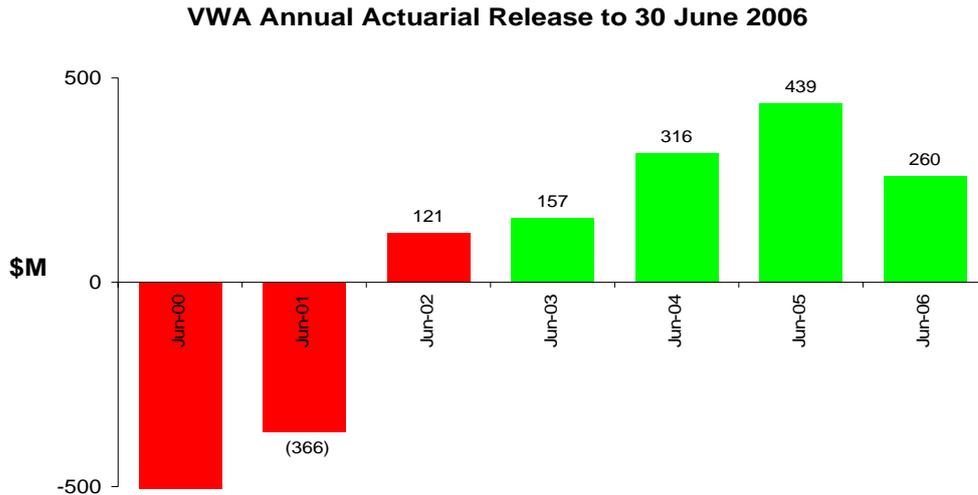
2.1. The turnaround in scheme performance

Five years ago the VWA and its agents embarked on a major reform of how claims were managed. The VWA tendered for and appointed a new, smaller agent panel. Case loads for claims staff were substantially reduced and base fees increased. New and more focused claims approaches were introduced and agent and VWA senior claims management refreshed.

The charts below summarise some of the key improvements in scheme performance since 2001.



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2.2. A history of sub optimal incentive systems

Between 1985 and 2001, the VWA's attempts to change scheme performance through agent incentive systems were often flawed. Substantial improvements in scheme trends usually followed major legislative reform and benefit reductions. At its most primitive, the linking of incentives to claims closure in the early 1990's may have encouraged the wrong behaviour – closing files instead of managing them. Even more sophisticated approaches, like the True Risk Performance Ratio (TRPR) model in the late 1990's, did little to drive improvements in either return to work, service or liability management.

This challenge has been common in all of the Australian agency schemes (Victoria, SA and NSW). Over the last five years, all three states have put new approaches in place, through sharing ideas, negotiation with local agents and with help from expert consultants.

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2.3. The new agent remuneration model (from mid 2001)

The redesigned Victorian agent remuneration model was implemented in mid-2001.

The model has three key components.

- **The annual service fee:** The main component (representing 90% of the service fee) is the “premium fee”. Agent fees are based on a percentage of the “true risk premium” of the employers they manage. The fees were initially set by competitive tender and vary slightly between agents.

These fees are intended to provide a reasonably stable base to cover the average agent’s “reasonable” cost structure.

- **Lump sum (worth 5% of the actuarial release):** Agents are paid a lump sum periodically, based on their portfolio’s contribution to scheme actuarial releases. Results are assessed by the VWA’s scheme actuary and are fully consistent with the published scheme valuation.

The lump sum is intended to focus agents on sustainable long-term outcomes across all benefit types. It means agents need to focus on all cost drivers instead of only current priorities. It can also be an additional reward for agents that exceed the VWA’s targets on annual measures.

- **Annual performance adjustments (worth between +30.5% and –28% of the premium fee):** This is assessed on an agent’s performance over a mix of tactical measures, including continuance rates, treatment growth, compliance with case planning disciplines, impairment benefit processing, premium collection and service.

These measures generally have an upside for acceptable performance and a downside for unacceptable performance. This maximises the incentive effect.

The targets and measures are adjusted annually to align with changing scheme priorities and better co-ordinate agents to focus collectively to manage emerging risks or opportunities. VWA managers actively discuss trends with agents each month. Agent performance is published annually and to maximise competitive impact each agent’s monthly performance is transparent to other agents.

Annual performance measures and incentives have proved to be one of the main factors in the scheme’s turnaround.

A key part of the model was also a deliberate and substantial increase in overall agent funding, which had the effect of decreasing claims officer portfolios.

2.4. The example of worker service

The balance of this paper will discuss just one category of the VWA’s annual performance measures – service to injured workers – and some of our experience in making that incentive work.

3. INCENTIVES FOR IMPROVED SERVICE TO INJURED WORKERS

3.1. The importance of giving good service to all our clients

Employers and injured workers are both equally important as our key clients. The choice of “worker service” as the theme for this paper is not intended to diminish the importance of our obligations to improve service to employers.

Over the last few years our experience has been that the combination of basic improvements in claims management and the provision of detailed employer satisfaction feedback to each agent, combined with the ability of employers to vote with their feet by changing agents has been enough to drive sizeable improvements in service levels. Employer satisfaction with agent services was 64.7% in 2002 and improved to 83.5% in 2006. We aim to keep improving.

3.2. The weakness of natural market forces in a third party system (for injured workers)

The underlying driver of service provision in private enterprise is market forces. Clients are more likely to go back to those who provide a better experience or service and are less likely to return to those who provide a bad experience or poor service. A key determinate of company profit and competitive advantage is thus service culture as companies strive to retain and attract higher margin clients.

However, although that economic force is dominant in first party dealings where the client is the purchaser of service, such market forces can be much weaker where services are provided largely to a third party who does not purchase the service.

I recall a debate in the late 1990’s at a Workers’ Compensation conference. The debate became confused because one speaker kept referring to injured workers as “the client” and a Service Manager thought the speaker meant the employer because “the client is the one who pays the premium and the injured worker is therefore not the key client”.

Historically, insurers and agents have had a natural tendency to structure their service offering towards the employer, who pays the premium. In Victoria this has resulted in much higher perceived levels of service for employers than injured workers.

A challenge in designing a remuneration model for agents has been recognising the lack of balance in previous systems and the need to artificially increase the weak market forces supporting service for injured workers.

3.3. Incentive effect equals dollars multiplied by faith

Economic theory suggests that if we set the right incentives, normal market forces will take care of the rest. In practice it hasn't been that simple.

Despite the flaws of the pre-2000 TRPR agent incentive system, it really would have significantly rewarded any agent that developed an effective long-tail management strategy in treatment or weekly benefits. And yet no one ever did, largely because no one believed that scheme performance could be substantially improved.

An incentive can only change your behaviour if you believe you can access it. For an incentive to affect your behaviour requires faith that you have a reasonable chance of reaching the performance target.

The initial discussions in 2001 regarding service incentives showed us a scheme culture where service to injured workers had never been a strong focus and where there was minimal confidence in what could be improved. “You cannot control scheme costs **and** improve service to injured workers” was a common refrain from very experienced and very senior claims managers and VWA staff. The market had huge doubts about its ability to turn around liability performance, let alone improve its service to injured workers.

In hindsight, this attitude was a nonsense – politeness, respect and clear and responsive communication do not require an increase in claims payments.

3.4. What service measures to use?

The simplest method is to rely on basic process measures like timeliness of payment or eligibility decision-making and to set incentives directly for faster processing.

There are potential risks in relying mainly on process measures:

- Processing measures do not cover the “how” of service – phone manner, respect in a conversation or quality of the interaction.
- They give the client no say in determining what is important to them and can be slow to change with changing client needs.
- They have to include numerous measures to be comprehensive, so they may over-complicate remuneration calculation.
- Over-reliance on processing metrics risks warping behaviour towards low value process instead of strategic scheme outcomes. Behaviour shapes itself around rewards, so if substantial incentives are placed on simple processing issues one is more likely to move effort to easy processing ‘wins’ and away from the harder scheme outcome measures.

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Some schemes have tackled this last challenge by creating a gateway of service processing metrics that an agent must pass before they can access “scheme outcome” incentives. This strikes us as a viable method.

However, in Victoria we chose another path – we built the key service incentive around a worker satisfaction survey mechanism. In effect, we give injured workers a vote on agent service provision. Their rating directly impacts on agents’ profitability.

3.5. The worker and employer satisfaction survey

Like many workers’ compensation schemes around the world, the VWA has always had some sort of service survey of injured workers and employers which we published in our annual report. However, as with many schemes, we did very little operationally with that information. The findings were not deeply integrated into how we managed the scheme or agents and had no link to agent remuneration.

The Transport Accident Commission’s (TAC’s) experience with client surveys as a culture change mechanism influenced our thinking considerably. At TAC injured clients were surveyed regularly and 50% of staff bonuses were linked to the outcome (the other half was based on liability management). In addition, satisfaction targets were set at the branch level and managers were responsible for using the survey results and detailed verbatim comments by clients to plan their annual service strategies.

The Injured Worker Satisfaction Index is also a key performance indicator for VWA staff – we are in it with our agents.

3.6. Many different ways to cut your cloth

There are a number of different ways to create a score for measurement purposes. For example:

- “% satisfied” score (clients rate overall agent service in terms of “very satisfied, satisfied, dissatisfied, very dissatisfied” and the total of the first three categories provides the score).
- “Satisfaction index” (clients rate overall agent service on a 10 point scale).
- “Composite score” (regression analysis is used to define which questions in the survey are the most important in driving satisfaction and a composite score is derived from the top dozen or so questions).

Each of the different score approaches has different strengths and weakness. Different schemes use different methods.

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The VWA currently uses all three measures to understand what is happening in the system, but uses the “% satisfied” measure as our key corporate KPI.

One of the differences between a theoretical incentive system and one that really changes behaviour is that compromise may be required to gain the necessary degree of faith in those you are trying to change.

In 2001 worker service incentive payments were linked to the “% satisfied” with an agent’s service. After months of consultation we moved to a composite measure to increase the level of agent confidence. Dialogue with claims managers and claims officers showed they would more easily believe, understand and react to a measure linked to precise operational service questions.

3.7. The difference between scores

There are also a number of sampling methods which can change the numerical value of any score.

Clients with short exposures to compensation schemes may be more satisfied, either because there is less chance for a bad interaction or because their injuries are less severe. Schemes that measure satisfaction for all claims but with greater emphasis on these “small” claims will thus tend to have a higher nominal satisfaction score.

Schemes that measure only claims of consequence (those off work for longer periods) or place greater emphasis on these claims may tend to have lower satisfaction scores even with the same level of service.

Some schemes have decided not to survey workers with a common law claim until that common law claim is complete. This strategy is intended to avoid disrupting the claims process and to give a longer term view of how effective common law is. Naturally that will tend to cause a higher survey score because the claim is complete when the worker is surveyed.

Direct comparison between schemes, both here and overseas, is thus very difficult because each uses different sampling and different scoring methods. If you really want to know who is serious about service you need to ask them exactly what they do with their results each year. Does it drive their strategy development, are claims managers made accountable or do they just publish it?

From the perspective of scheme and agent management, academic perfection in methodology is not required. The important point is to have a robust, replicable system to engage claims managers and to measure progress against.

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In that context the VWA currently surveys a sample of workers who were on weekly benefits in the last six months and received those benefits for at least four weeks. As indicated earlier, we then use “% satisfied” as the headline measure we want to improve, but pay agents on a composite measure of key drivers of satisfaction.

3.8. Multiplying the behavioural effect through publication

An interesting discovery along the way has been that publishing agent performance results can reinforce behavioural change. In theory employers have substantial voice in the scheme as they can select their agent. However, unless there is information available about the real level of agent performance how can the market make an informed choice?

In that context the worker satisfaction score of an agent may not be a priority consideration for an employer. Nevertheless it is an important reputational measure. Insurers and agents are extremely protective of their market image and are very concerned to maintain a community reputation that is equal to or better than their competitors’. It may not be a decisive influence but it supports the service push.

Claims managers themselves are extremely proud of their corporate reputation and being last or the best on the performance list attracts the attention of their head office. In recent years when we announced the worker satisfaction survey results, we have witnessed spontaneous celebrations on the floors of better performing agents.

3.9. The need for incentive systems to evolve

The biggest mistake you can make in setting up an agent incentive system is in thinking you actually got it right.

Scheme trends and priorities can change suddenly, changing where you need the incentives. From time to time a flaw that drives the wrong behaviour will become apparent. Our knowledge of how to best measure scheme performance keeps evolving and if we stand still for too long the incentive model will become obsolete. Incentive systems therefore need to evolve as well.

Probably the most important feature of Victoria’s agency remuneration model has been embedding an annual review of performance measures. This enables the scheme to adjust measures as priorities change and as we and our agents learn.

We are well aware that agents need a sufficiently stable environment to invest in, so the service fee and liability lump sum methods are set for the four year term of the contract. We are also well aware of the need to avoid making random changes in approach. That’s why we allow four months of every year to undertake the review of annual measures in partnership with our agents.

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The evolution of annual service measures and weightings over the last few years illustrates how this approach can work. We started by basing the service fee on a “% workers satisfied with agent service”, which represented 30% of agent’s annual incentives. In year two, based on agent feedback, the survey was shifted to measure a composite of key service questions to provide greater line of sight for claims staff. In year three, as outcomes began to improve and agents gained more confidence, the weighting to service was gradually increased. In year four the total weighting towards service was increased to 50% of annual incentives with small weightings added for key processing measures. In year five the incentives were split between a mid-year and end-of-year survey to ensure better year-round focus on service provision.

3.10. The need for engagement to support incentives

It’s not enough to simply set incentives and stand back. If you want to shift service culture you also have to touch the hearts and minds of staff at the coal-face. The VWA has therefore also had to learn how to better engage with our agents to support cultural change and a service focus.

In 2005 a small central “service team” was established in the VWA to focus primarily on agent engagement. Initiatives since that time have included the creation of regular service forums involving all agents, constant dialogue around service complaints, improved information brochures for our clients, the requirement to appoint a dedicated service manager in each agent and an annual “service week” with associated events.

Let’s look at two of our engagement initiatives in more detail.

Annual agent strategy plans: Each agent provides the VWA with an operational plan detailing its proposed service strategy and initiatives. The VWA sets the template and occasionally insists that agents respond in their plan to a scheme-wide issue identified in the service survey, but by and large each agent is allowed considerable flexibility in their approach. By crystallising an agent’s intentions and approach in writing, we are able to give ongoing dialogue much greater focus.

Annual Victorian agent claims management awards: Workers’ Compensation has existed as an industry in Australia for over 100 years, is worth \$10 billion in annual premiums and employees at least 5,000 staff. It is noteworthy that until 2006 no program recognising or encouraging excellence existed outside individual companies.

In 2006 the VWA, with our agent partners, introduced the first awards to recognise excellence for claims and injury managers. On the awards night, the enthusiasm of our best claims and injury managers filled the room. For me, the highlight was the service award: three stories of individual officers responding to a particular client need, caring about the injured worker and going the extra mile.

3.11. But in the end improved service can only be driven by agents

On a day to day basis the VWA does not answer the phones, pay the cheques or interact with the client. 99% of real client contact is handled by the agent and its staff.

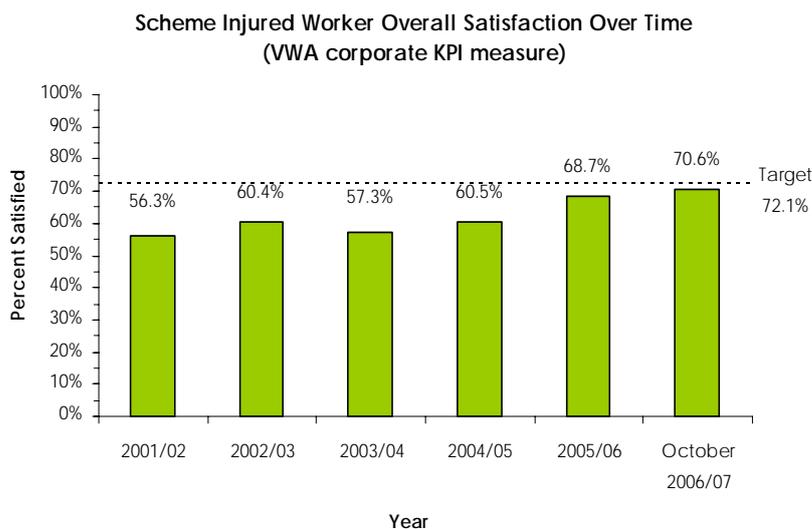
The VWA’s incentives, brochures, training, monitoring, awards and even our systems are support acts. The main event is the culture and quality of client interaction driven by our agents’ own managers and staff. None of our work makes any difference unless the local manager reinforces the message and there are agent employees who pick up the challenge and champion better service every day.

Before 2000 there was very little focus on worker service in this scheme. Since that time there has been a trend towards national service programs and training driven by our agents’ parent companies. The support of senior managers within the parent companies and national programs has thus reinforced our own change program.

Even so, it is the local Service managers and the State Manager in each agent who have to be the champions of a more balanced approach to claims management. These are the people who call coach, visit clients in their homes and lead the development of the service strategies we require. They deserve the credit for the progress the scheme has made to date.

3.12. The proof of the pudding is in the eating

The following chart demonstrates the movement in worker service as measured by “client satisfaction”. A common sampling and methodology has been used for all periods.



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A few things stand out: the very poor service outcomes when the reform started; the slow improvement when agent confidence in the measures was lacking; the gradual shift when VWA appointed its own service manager to increase engagement with agents and eventually the stronger shift in performance as the agents gained confidence.

So has our incentive system and all the supporting efforts paid off?

The new model of agent management and the VWA's approach to agent incentives has been a real success, as demonstrated by the substantial turnaround in overall scheme performance. However, when it comes to the specifics of worker service the verdict must be more guarded.

Today when you visit a Victorian agent, you will hear worker service discussed in meetings, you will see managers crawling all over the latest survey results to see how service levels track against their competitors, you will see service messages on walls, and on any floor you will overhear claims officers who really care about treating their clients with respect and dignity. But as anyone who works in conciliation or who manages complaints will tell you there are still far too many mistakes made, too many poorly managed client interactions and too many cases of poor communication.

We are pleased that for the first time in the Victorian scheme, a real emphasis on service to injured workers is now embedded in the consciousness of most claims managers. But the progress to date is nothing more than a good start.

4. CONCLUSION

In the end, an agent incentive system can never stand alone as the answer to improved claims management, improved agent performance or improved client service. It forms only part of a total agent management and partnership system.

If there are any consultants left still selling the myth that they can design a simple incentive solution that will save the world: don't buy. There is no silver bullet. The answer lies in a complex and flexible combination of investment, incentives, monitoring, messaging, engagement, education, dialogue and partnership.

Over the last few years VWA has learned a number of informal principles that guide our management of agents, but constant rethinking, challenging and refocusing of our approach is also an integral part of that solution.