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**AGENCY
TECHNOLOGY**
ON THE CUTTING EDGE
SEE PAGES 23-29

Workers' Comp System In Bad Shape

What Is The Prognosis For Recovery?

See Pages 10-22



AGENTS/BROKERS

A Florida agent has used scanning technology to reduce paperwork and turn his agency group into a more lean and profitable operation.
See page 23

INSURERS/ REINSURERS

A broad-brush approach to workers' comp marketing could doom a carrier's strategic plan, warns Frederick Yohn in his latest "MarketStance" analysis.
See page 10

RISK MANAGERS

Those who self-insure their workers' comp risks in multiple jurisdictions are prodding state regulators to simplify and homogenize their requirements.
See page 21

WC Auditing: A Reality Check For Risk Managers

By **Anne L. Loverde**
and **Harry S. Colburn**

It's time for a workers' compensation reality check that could save companies hundreds of thousands of dollars. Missed cost-saving opportunities, poor claims handling, and lack of an independent risk management liaison have gone on too long. But it needn't continue.

This reality check is particularly important to corporations that can neither escape today's tenuous economy nor the strains that the economy places on workers' comp. As costs continue to rise, many companies believe it is advantageous to move from guaranteed cost programs to deductible programs and self-insurance.

Unfortunately, once a form of self-insurance is in place, continuing cost increases often lead to raising deductible levels as a method of keeping costs under control. These measures increase an employer's exposure by compounding case reserves with letters of credit that grow over time and become a liability line item on a financial statement. Assets that would otherwise be spent on expansion or improvements are no longer available.

Available assets are further impaired by other "hidden" expense leakage caused by adjusters' missed claims handling opportunities. The lack of thorough initial investigations and follow-through in claims action plans, an increase in off-loading responsibility to vendors, unnecessary litigation expenses, and inaccurate claim payments are often overlooked and significantly impact a company's profitability.

But why has there been such a change? Simple. Look at the economic impact on the insurance industry.

Over the years, and due in no small part to economic change, insurance carriers and third-party administrators have repeatedly decentralized and then regrouped into regional claims offices. This cyclical change has led to experienced claims adjusters leaving for other industries. By physically moving files from one office to another, the continuity of claims management strategy has not been maintained.

Once lost, talented staff and good, solid claim management are not easily replaced by carriers or TPAs. It is ironic

that this loss, a pitfall of the economy, ends up costing more, not less, in claim dollars. Too often, inexperienced adjusters lacking formal, ongoing training are the ones left to pick up the caseloads.

Even the adjuster's supervisors are now handling their own caseloads and performing tasks not normally within the scope of their expertise. These factors contribute to companies paying claim dollars through self-insured retention or deductible levels that could have otherwise been avoided.

Everyone loses in this type of environment, including the injured and/or ill employees. These employees may not receive the appropriate medical treatment on a timely basis, thereby lengthening their disability duration and increasing claims costs.

So how do companies combat this problem? Simple. Have an independent set of eyes monitor the workers' comp program.

Companies must objectively review and evaluate their workers' comp programs, beginning with an analysis of claims management contracts and services. The results can be used to ensure the quality of future performance.

This kind of unbiased look-over can be accomplished by adding an independent risk management liaison to provide a strategic analysis of workers' comp programs, including continued interaction with a carrier or TPA.

This liaison—an independent auditing and monitoring services company—can evaluate a carrier or TPA's claims management performance. Auditing closed or troublesome open claims, monitoring newly reported claims, and assistance in establishing claims handling specifications or a well-defined performance guarantee contract can positively impact the performance of workers' comp programs.

Audits of open claims provide an independent assessment of their current status, key issues and reserve adequacy, as well as recommendations for moving stagnant claims toward more cost-effective resolutions.

Reviews of newly reported claims allow for a second set of watchful eyes throughout the claim's life, as well as providing recommendations for addressing key issues.

An independent auditing and monitoring service's expertise is invaluable in evaluating all aspects of the workers' comp program, since many people do not understand the activities, functions and appropriate techniques that make up good, solid proactive claims handling. A report card on the strengths and weaknesses of the existing program becomes the cornerstone for building a program that ensures compliance with the industry's "best practices."

There are numerous correlations between claims management performance and ultimate claims costs. Several claims management functions and their desired outcome should be considered when establishing either a performance guarantee contract or predetermined claims handling specifications.

Good claims management includes thorough investigations, enabling adjusters to recognize key issues. Once these are recognized, a good followup requires proactive timelines and posted diary dates. Jurisdictional filings should be tightly monitored to avoid expiration of statutes of limitations, interest payments and/or penalties.

Proper medical records handling is an important step in good claims management. That's why all medical records and reports must be aggressively accumulated and analyzed to determine initial compensability issues and required adjustments to action plans, if or as warranted.

Detailed and well-organized claims files must be maintained for future legal defense evaluation and action plans.

The rationale behind the amount of case reserves should also be part of the




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file. In the event medical case management and/or vocational rehabilitation management are required, establishment of specific expectations and assessment timelines need to be agreed upon and included within the claim's action plan. Future monitoring by the adjuster will determine continued utilization of such vendors.

Communication is an important aspect throughout the claims management

process. Quality dialogue with the injured employee and/or designated representatives improves the likelihood of positive closure or resolution.

In a perfect world, all workers' comp claims would be managed by experienced claims adjusters. These adjusters would handle a reasonable caseload and understand the need for expense control and proactive claims management.

But it's not a perfect world in this ever-increasing competitive marketplace with its economic constraints and challenges. Companies would do well—to the tune of hundreds of thousands of dollars in possible cost savings—to perform a reality check of their workers' compensation program to ensure "best practices" performance. It's that simple. 

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