

## Mini Claim Audits Net Big Savings

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Agents, acting in the capacity of risk management consultants, are constantly looking for ways to enhance the value of their risk management role. One of the simplest ways an agent or broker can accomplish this task is to conduct and/or participate in claim audits on behalf of his or her commercial policyholders. Some agents acting as risk management consultants do not feel comfortable or capable of conducting full blown claim audits. Regardless of their level of expertise, almost any risk management consultant can conduct mini-audits to enable their policyholders see a dramatic decrease in their total loss costs.

Auditing, in this limited context, has two separate but equal components. The first audit component is to determine the policyholder's role in the reporting function. Most carriers and TPAs maintain fairly accurate statistics on when the claim is reported and/or received in their office. This data can be used to extrapolate how quickly your policyholders are submitting the first report of injury or report of claim information to their claims administrator.

Every policyholder must be made to understand that one of the simplest ways to control workers' compensation loss costs is to take any and every action possible to reduce or eliminate delays in reporting all of its workers' compensation claims. Each workers' compensation account is written on a loss sensitive rating basis. Even in so-called guaranteed cost policies, an experience modifier arises from the account's loss experience that is applied to rates at renewal. Accounts written with any level of deductible and/or self insured retention should recognize the need to do whatever is possible to control ultimate loss costs.

Once you have a grasp of the policyholder's role in promptly reporting claims, the next audit component is to examine the equally important role of the carrier or TPA in initiating prompt and meaningful contact<sup>1</sup> with the injured employee. The reporting information maintained by claims administrators referenced earlier will usually not reveal how quickly the carrier or TPA is initiating meaningful contact, so this phase will necessarily involve a physical review of claim files.

Total loss costs are directly impacted by the amount of time that elapses between any loss producing event and the first contact by a claims adjuster. In other words, every day that passes from the loss producing event and meaningful contact by a claims adjuster tasked with resolving the incident increases the total amount that will be paid in that claim. This "delay versus cost" correlation exists in all product

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<sup>1</sup> Meaningful contact can be most easily described by describing what it is not. Meaningful contact is not a post card mailed to the injured employee asking them to contact the adjuster during business hours. Meaningful contact is not initiating contact by leaving the employee a voice mail message or sending them an email message. Meaningful initial contact is speaking *directly* with the employee via phone or, better yet, in person.

lines of insurance and is, therefore, a matter of concern in all first and third party claims. However, some of the greatest delay costs appear in workers' compensation claims. Numerous studies have revealed that in workers' compensation claims, every day of delay of contact by a claims adjuster in a lost time claim can account for as much as a one percent increase in the total cost of the claim. So, using these numbers, if a workers' compensation claims adjuster cannot make meaningful first contact for seven days from the loss producing event, the total cost of that claim, on average, will be seven percent higher than if the adjuster had made contact with the injured employee the day of the accident.

Even if the carrier or TPA makes contact with the injured employee the day that the loss notice is received in the claims office, that will not overcome a three, five, seven day or longer delay by the insured in getting the loss reported to the claims administrator. It makes no difference whether the delay is caused by the insured's actions (or lack thereof) or by the claims administrator's; each day of delay will have a substantially similar effect insofar as the increased loss costs are concerned. Unless your audit reveals that your policyholder is reporting every workers' compensation claim to its claims administrator the same day as the incident, the remedial efforts should begin with the policyholder.

If the claims administrator's delay in establishing initial contact with the injured employee goes beyond a one business day threshold from the date of its receipt of the claim, then remedial action steps will need to be discussed with the appropriate management level personnel within the claims department. It does not make any difference who is responsible for the delay, "day is a day is a day" when it comes to increased claims costs and initial contact delay.

Carriers, more so than TPAs, may respond to the policyholder's complaints about initial delay with the argument that the policyholder has no real interest in the specifics about how the carrier administers a particular claim or whole group of claims. As previously discussed, due to the rating sensitivity of all workers' compensation coverage, nothing could be further from the truth. Additionally, many of the same studies that have documented the correlation between increased claims costs and initial contact delay also have reported that prompt, meaningful initial contact will:

- Reduce the injured employee's total time off work,
- Increase the chances the employee will achieve a superior medical outcome, and
- Increase the likelihood that the injured employee will still be employed over the next five years.

Depending on the size of the account and the frequency associated with its workers' compensation claims, not every claim will need to be reviewed in order to determine how well the carrier or TPA is responding to claims. Usually, a representative sample of claims can be audited to get a fairly accurate picture of the claims administrator's lag time for initial meaningful contact. For example, if an account has a frequency of lost time claims equal to one hundred twenty (120) claims per year, a good statistical sample to review would be twenty to thirty files. Remember, unless there are other overriding concerns regarding the overall quality of claims administration, the audit will be limited to just determining the promptness of meaningful initial contact. This type of audit can be conducted in a relatively short time with minimal disruption to the claims department being audited. More importantly, this type of audit can be conducted for a very reasonable cost to the insured of both time and money.

Unless physical claim audits were negotiated at the time the policy terms and premiums were negotiated with the carrier or during the contractual negotiation phase with the TPA, there will likely be some resistance when a broker or agent, acting as a risk management consultant, attempts to arrange a physical claim audit. There may be many reasons given by a carrier or TPA as to why the insured and/or its risk management consultant should not be allowed to conduct a physical audit of the policyholder's workers' compensation claims. The most common, but erroneous, arguments offered by carriers and TPAs in workers' compensation claims arise from privacy, confidentiality, or even HIPPA concerns. These arguments are nothing more than smoke screens. Bear in mind that the carrier or TPA is acting as the agent for the insured in administering workers' compensation claims. Additionally, there is a specific exemption in HIPPA relating to privacy in workers' compensation claims.

Every commercial account will benefit from implementing processes that reduce the delay in contacting any claimant relating to insurance coverage, especially injured workers' compensation employees. Agents and brokers acting as risk management consultants can and should play a valuable role in working with both their policyholders and insurance carriers in reducing initial contact delay. Conducting mini-claims audits to uncover and resolve sources of delay is one method available to every practicing risk management consultant to assist their accounts in capturing these significant potential savings in total claims costs.

What does this mean for the agent or broker with small, medium, or large commercial accounts? The answer is simple: Conduct mini-claims audits!

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