

12th Accident Compensation Seminar 2009 Rising to the Challenge

Melbourne 22nd – 24th November 2009



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An Assessment of the Importance of Claims Management on the Central Estimate

Cameron McCullagh & Andrew Cohen

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- Is claims management a significant factor in claims outcomes
- Employers Mutual – a case study
- The Balanced Scorecard
- Why is it important?
- Where to from here?



Is Claims Management a significant factor in future claims liability?

Victoria

Duration - proportion of workers on weekly payments

Agent	134 weeks	% of scheme average
Allianz	4.00%	103%
Cambridge	3.30%	85%
CGU	4.40%	113%
GBS	2.50%	64%
GIO	2.30%	59%
QBE	4.90%	126%
Scheme	3.90%	

Lowest

Highest

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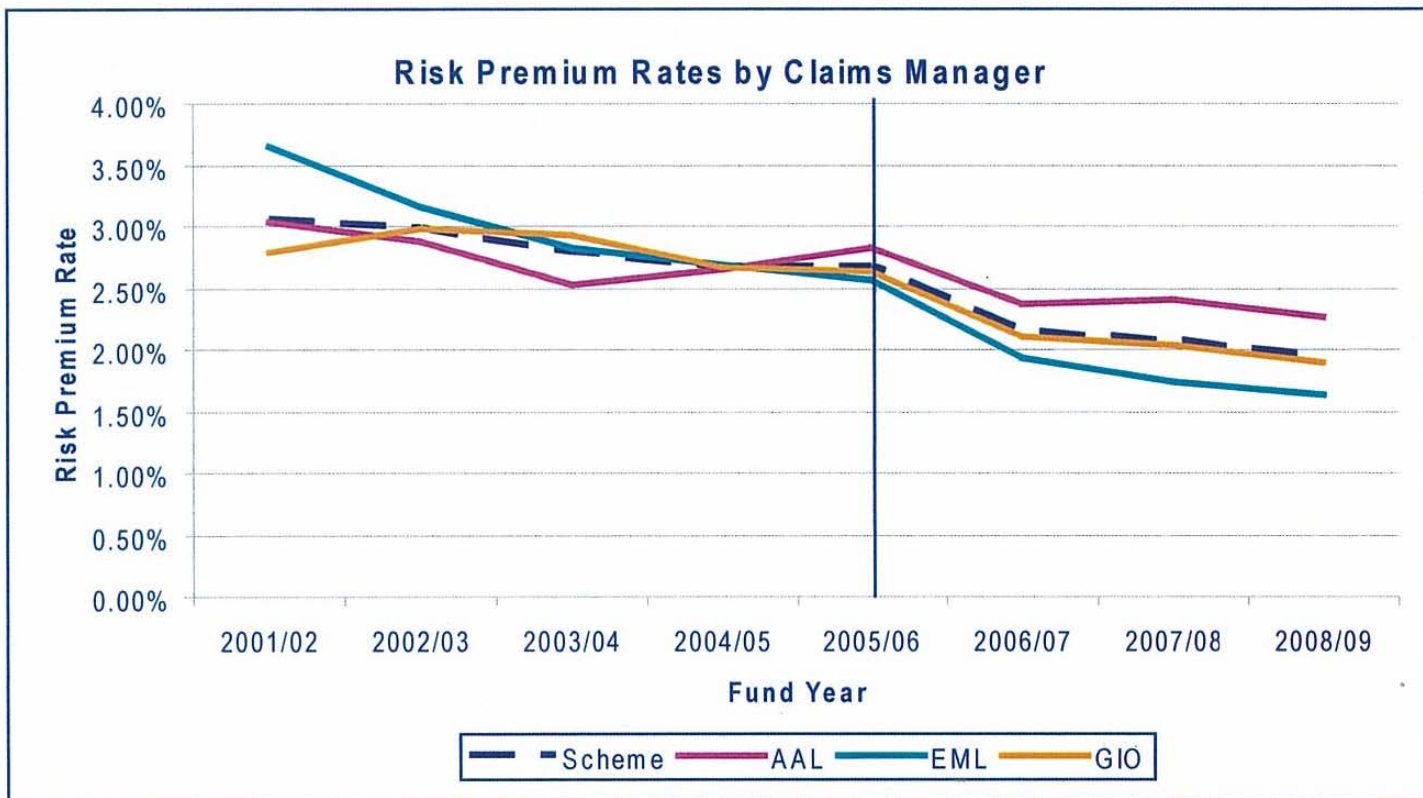


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Is Claims Management a significant factor in future claims liability?

SICorp NSW – Treasury Managed Fund

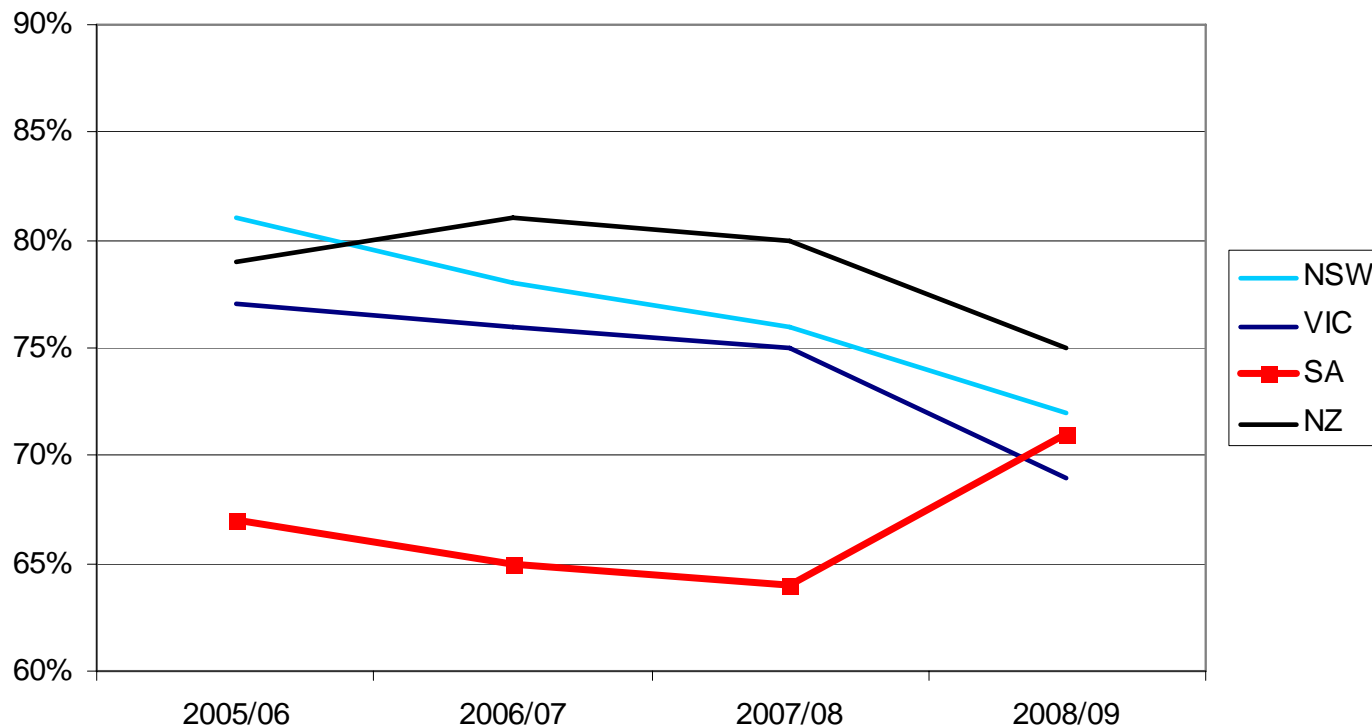




Is Claims Management a significant factor in future claims liability?

Campbell Report: Australia and New Zealand RTW Monitor

Durable RTW Rate (Comparative)



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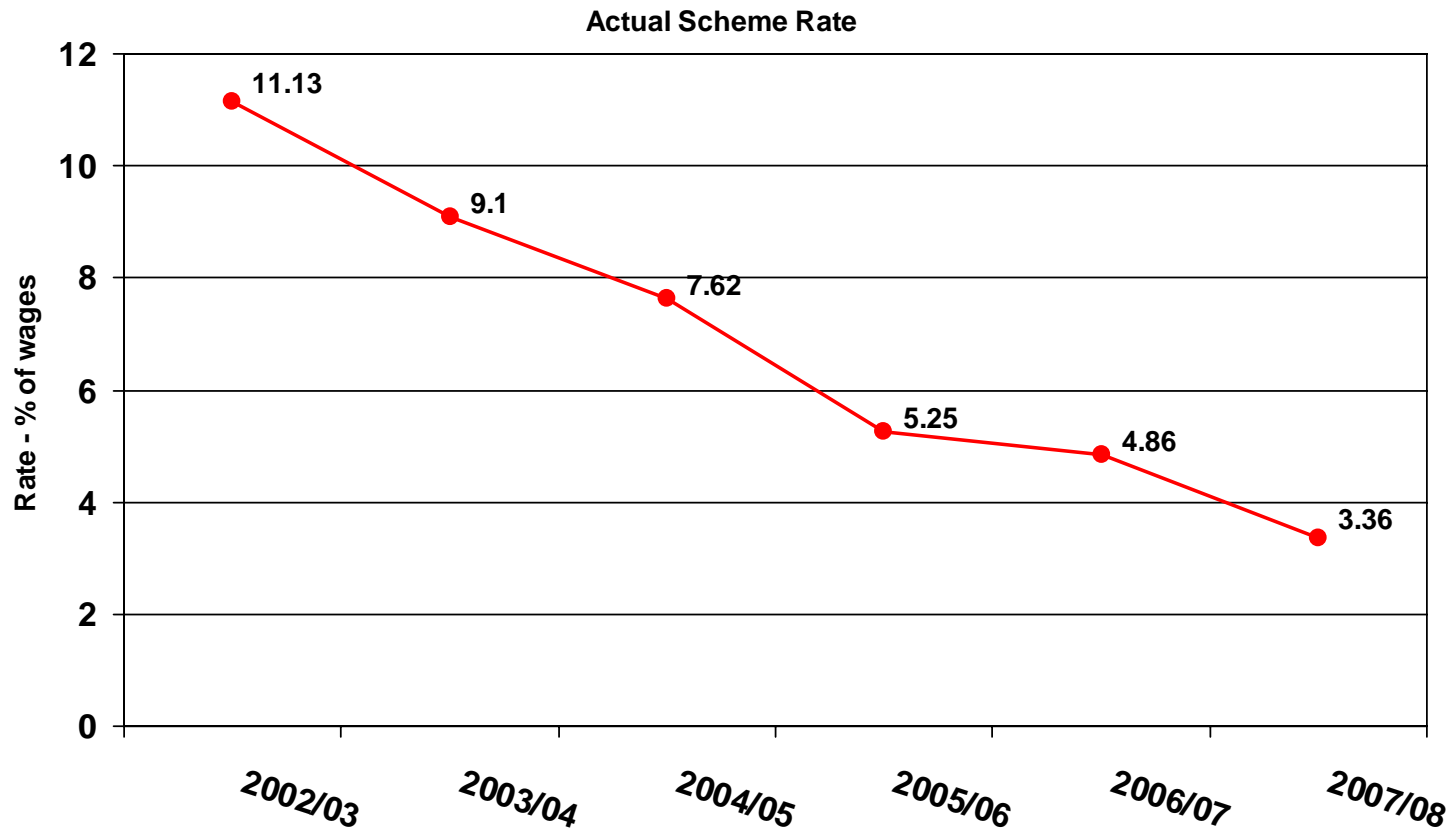


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Is Claims Management a significant factor in future claims liability?

Coal Services (NSW)





Is Claims Management a significant factor in future claims liability?

The examples show significant variances in performance:

- between different Agents
- over time and in the absence of legislative change that would account for the differences



Employers Mutual as a case study

What makes a difference?

- Corporate structure

- Culture

- Caseloads

- Standard Systems

- Quality Control



Culture

Internal

- Personal and professional development of our people

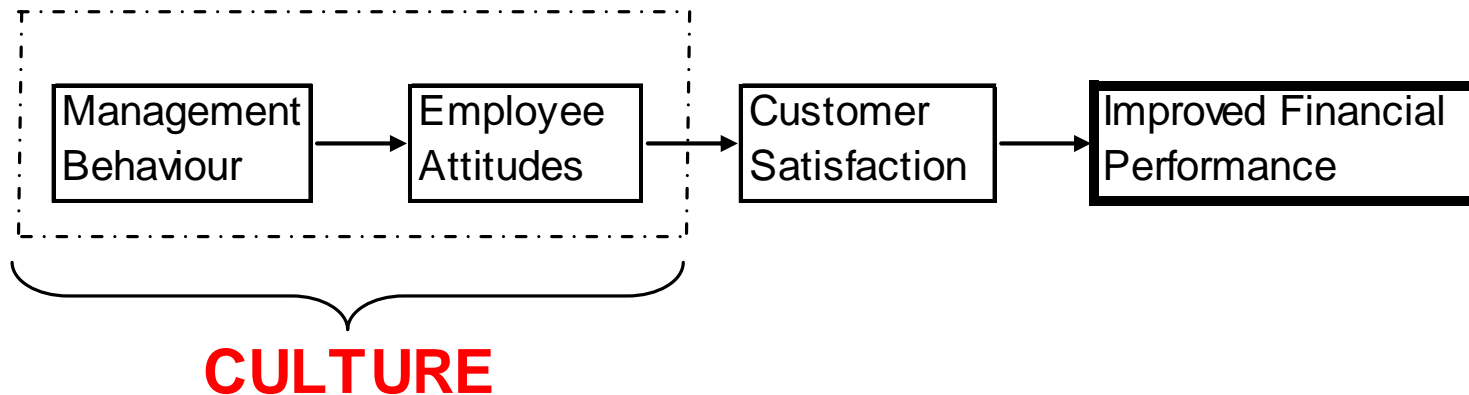
External

- Get people off compensation



Culture

- Engagement scores (ES) a measure of culture
- Evidence that high ES improves financial performance



- In context of WC, improved financial performance = improved RTW, better claim cost outcomes



Culture, Engagement Scores – The Evidence

- Towers Perrin-ISR Study ¹ – Rate of operating income growth 52% higher at companies with highly engaged employees
- Hewitt Associates ² – staff engagement levels 20% higher at double-digit growth companies than single-digit growth companies
- Watson Wyatt ³ – companies with highly committed employees deliver a 112% total shareholder return vs 76% at companies with low commitment levels

1 Towers Perrin-ISR: Engaged Employees Help Boost The Bottom Line, June 2006

2 Hewitt Associates: Employee Engagement Higher at Double Digit Growth Companies, April 2004

3 Watson Wyatt: Work USA 2000 Survey

All the above sourced from “Employee Engagement: The ‘People First’ Approach To Building A Business”, David Croston, 2008



Culture

Engagement score

Employers Mutual	
2008	74.26
2009	75.55

Employers score around 58% on average and 'employers of choice' around 81%



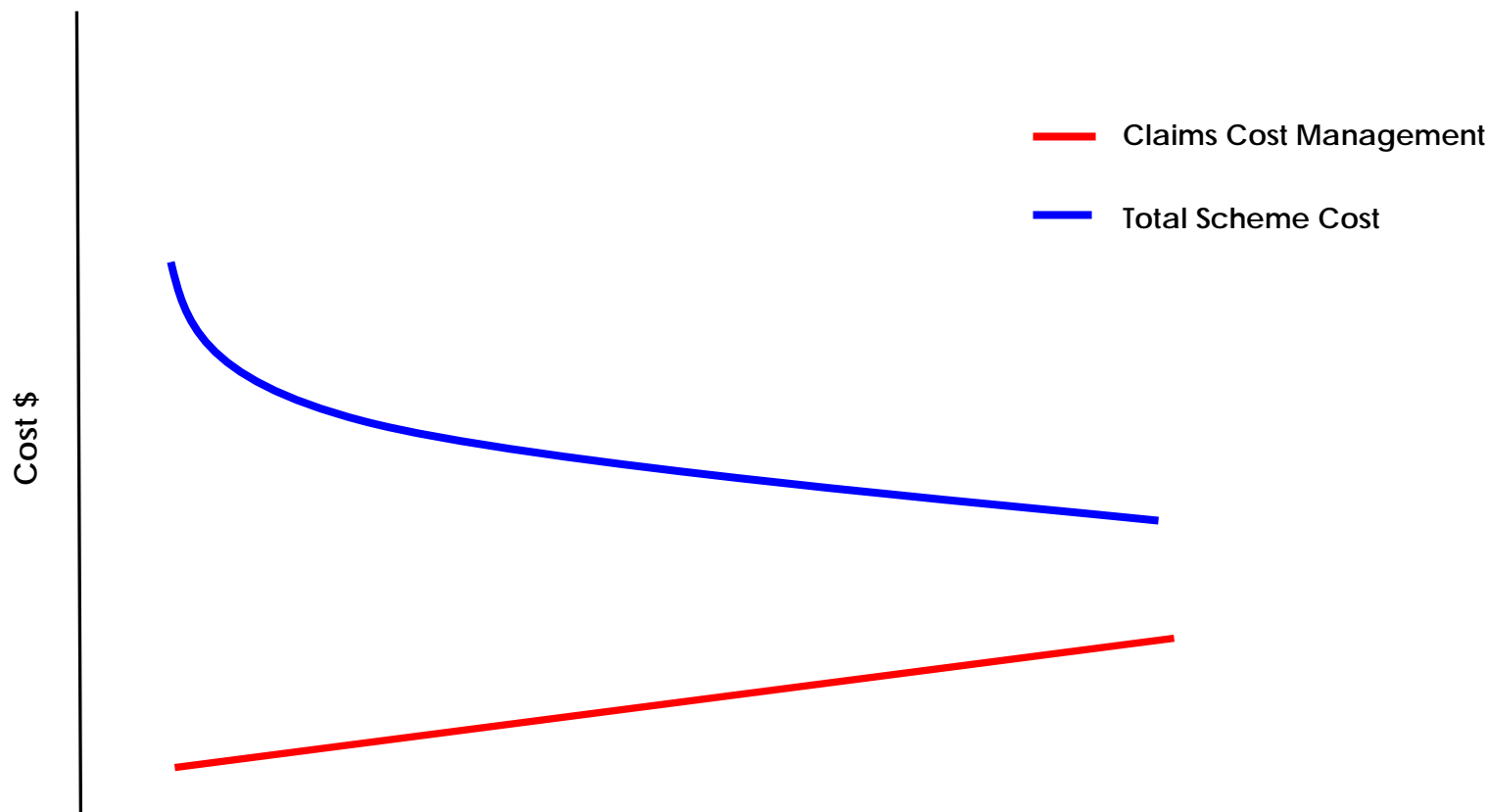
Caseloads

- Caseloads may be a proxy for resourcing.
- Would a measurable correlation be between how much is spent on claims management?





Scheme Cost v. Claims Management Cost





Quality Control

- Measurement of outcomes by team
- Manager file reviews
- Compliance team automated reviews
- Compliance file reviews
- Structured progress reviews
- Provider management reviews
- Authorisation framework



Claims Management Model Impacts Outcomes

- But how might we incorporate such “subjective elements” into the “objective” valuation process?
- A “balanced scorecard” approach?



A Framework for Assessing Risk Margins *

- Prepared by the Risk Margins Taskforce (Karl Marshall, Scott Collings, Matt Hodson & Conor O'Dowd)
- A useful paper which assists the profession in dealing with issues that are not easily quantifiable through analysis



What does paper say about Risk Margins?

- Analysis of historical data cannot alone capture adequately all aspects of future uncertainty
- There will always be a need for judgement
- In many situations judgement will (and should) dominate the assessment

**Can same be said for the (much larger) central estimate?
Can a similar approach be used for allowing for impacts
of claims management approach or legislative changes?**

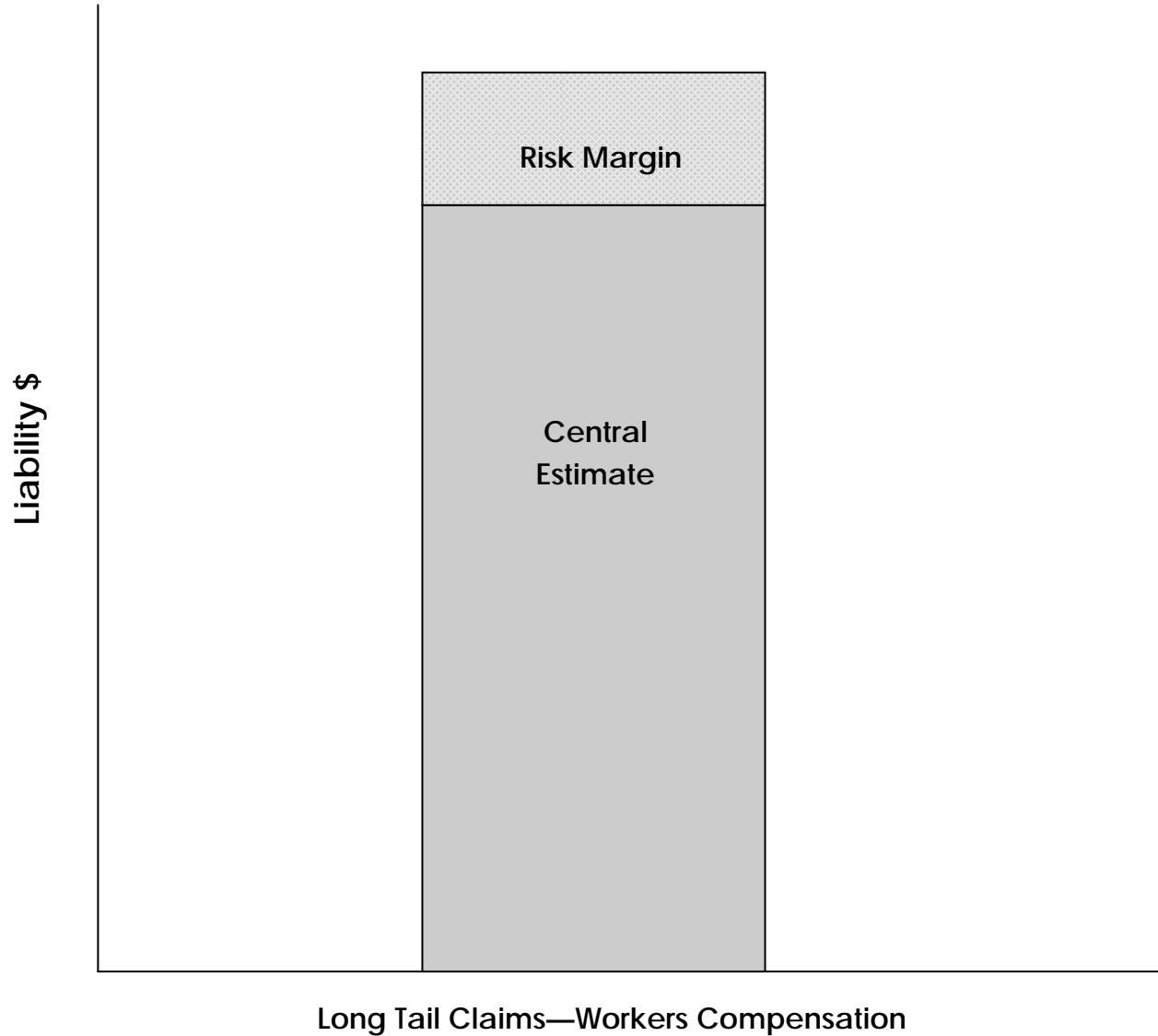
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Structured Approach

- A structured approach to combining qualitative considerations with quantitative analysis adds/provides:
 - a prompt of risk factors that may require consideration
 - a framework for consideration of risks (rigor and consistency)
 - documentary justification of the risk margin adopted



Balanced Scorecard

Examples from Table 3 *

Risk Component	Potential Risk Indicators	Motor Score OSC	Motor weight	Home Score OSC	Home weight
Data error	Knowledge of past processes affecting predictors	4	8	4	8
	Extend, timeliness, consistency and reliability of information from business	4	5	4	5
	Data subject of appropriate reconciliations and quality control	4	7	4	7
	Processes for obtaining and processing data are robust and replicable	5	3	5	3
	Frequency and severity of past mis-estimation due to revision of data	5	3	3	3
	Extend of current data issues and possible impact on predictors	4	3	5	3

Ultimately process ends up with a numerical score for effects that are subjective

* A Framework for Assessing Risk Margins, Risk Margins Taskforce (Karl Marshall, Scott Collings, Matt Hodson & Conor O'Dowd)



Actuary's Role in Identifying Elements of the Claims Management Model

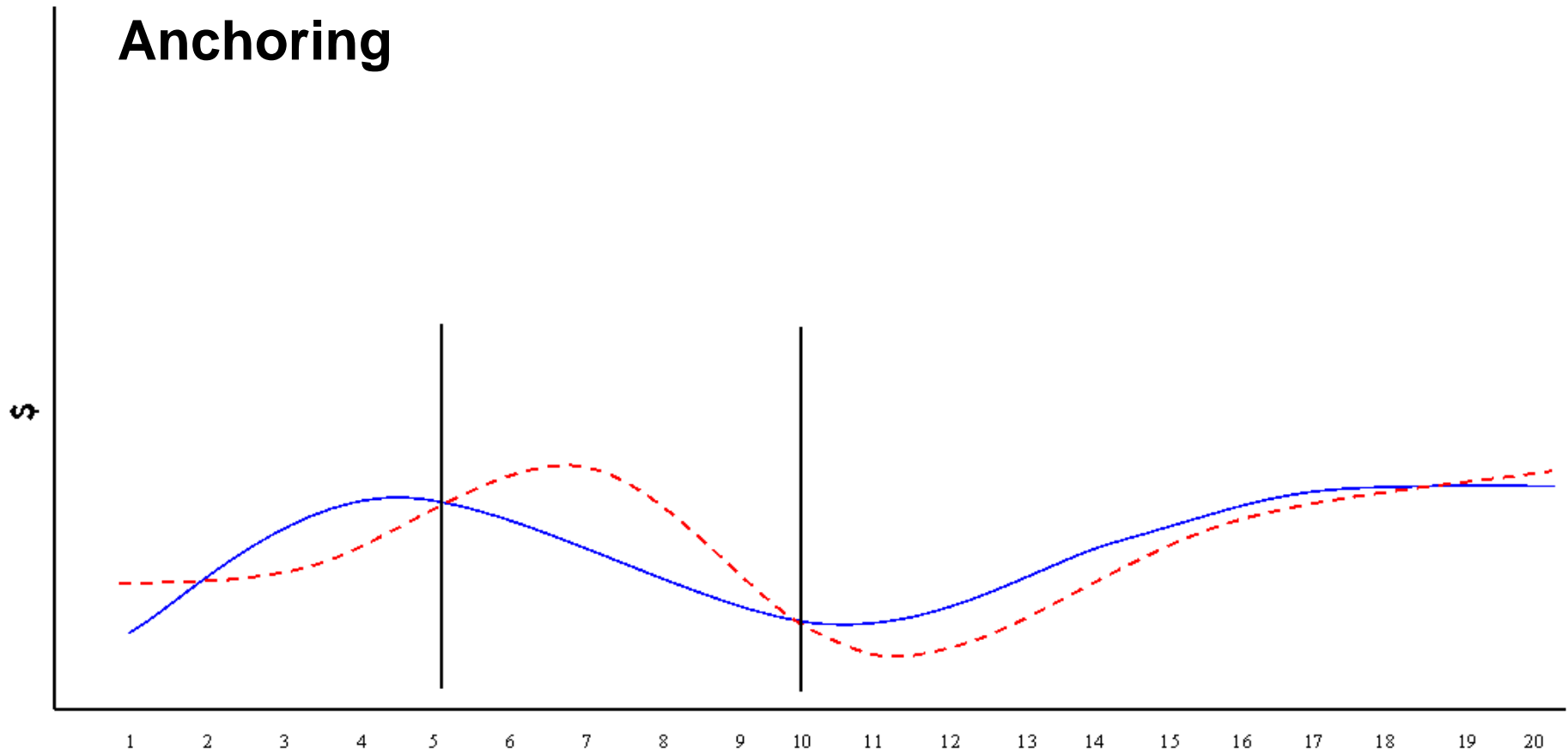
- Can a Balanced Scorecard help overcome scepticism?
- Trend is to capture 'soft' information – Financial Condition Report
- Are there lessons to be learnt from auditors:
 - Being at client's premises
 - Informally speaking to people at different levels and in departments
 - Follow the money





Actuary's Role in Identifying Elements of the Claims Management Model

Anchoring





Actuary's Role in Identifying Elements of the Claims Management Model

- Biggest impact of anchoring is the focus on the past:
 - False confidence in elegant statistical models
 - Cynicism about the accuracy of 'soft' information
 - Concerns with the correlation of 'soft' information with future outcomes
- Claims management changes can have a profound impact on the future cost of claims.
- As a profession there may be benefit in capturing these changes for consideration.



Why it is important?

- The advancement of society has been economically driven
- Economic advancement is based on the efficient allocation of resources

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Actuary's Role in Society

Theatre





Actuary's Role in Society

Culture



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Actuary's Role in Society

**Good Medical
Care**



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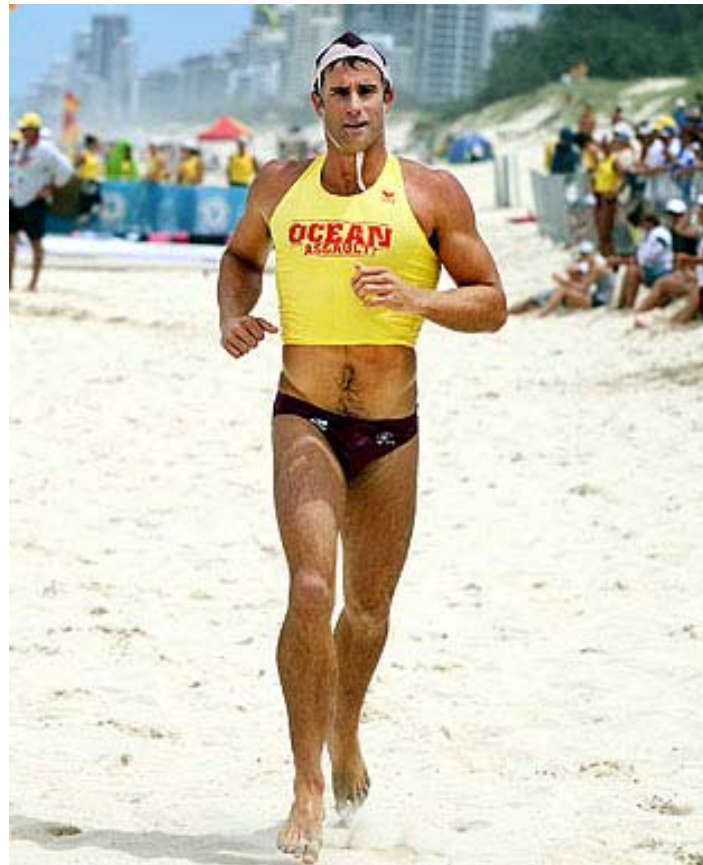


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Actuary's Role in Society

Sport





Improved estimation of claims liabilities (reducing anchoring) could:

- Improve Underwriting: reducing one of the elements of the cyclical nature of insurance.
- Decrease the risk of financial failures.
- Quickly reward good and punishing poor investment in claims management by Insurers / Claims Agents and Statutory Authorities



So what would it take?

- Acceptance by the actuary and the insurer that claims management is important and influential
- Governance and contracting arrangements that give the actuary a 'fair go' to obtain information without optimistic influence
- Some guidelines about 'when is it reasonable to recognise changes' in the actuarial valuation
- Balanced scorecard development that is sound, repeatable and auditable
- Explicit recognition of subjectivity and methods designed to deal with this rather than pretending that it is not subjective.

Are we up for it?

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QUESTIONS