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

Cameron McCullagh & Andrew Cohen
• 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**

<table>
<thead>
<tr>
<th>Agent</th>
<th>134 weeks</th>
<th>% of scheme average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz</td>
<td>4.00%</td>
<td>103%</td>
</tr>
<tr>
<td>Cambridge</td>
<td>3.30%</td>
<td>85%</td>
</tr>
<tr>
<td>CGU</td>
<td>4.40%</td>
<td>113%</td>
</tr>
<tr>
<td>GBS</td>
<td>2.50%</td>
<td>64%</td>
</tr>
<tr>
<td>GIO</td>
<td>2.30%</td>
<td>59%</td>
</tr>
<tr>
<td>QBE</td>
<td>4.90%</td>
<td>126%</td>
</tr>
<tr>
<td>Scheme</td>
<td>3.90%</td>
<td></td>
</tr>
</tbody>
</table>
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)
Is Claims Management a significant factor in future claims liability?

Coal Services (NSW)

![Graph showing the actual scheme rate from 2002/03 to 2007/08 with a decreasing trend.

- 2002/03: 11.13%
- 2003/04: 9.1%
- 2004/05: 7.62%
- 2005/06: 5.25%
- 2006/07: 4.86%
- 2007/08: 3.36%]
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 Study¹ – Rate of operating income growth 52% higher at companies with highly engaged employees

• Hewitt Associates² – staff engagement levels 20% higher at double-digit growth companies than single-digit growth companies

• Watson Wyatt³ – 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

<table>
<thead>
<tr>
<th>Employers Mutual</th>
<th>2008</th>
<th>74.26</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>75.55</td>
<td></td>
</tr>
</tbody>
</table>

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

- Red: Claims Cost Management
- Blue: Total Scheme Cost

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
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?
Risk Margin

Central Estimate

Long Tail Claims—Workers Compensation

Liability $
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 *

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

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

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
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
Actuary’s Role in Society

Theatre
Actuary’s Role in Society

Culture
Actuary’s Role in Society

Good Medical Care
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?
QUESTIONS