An Industry Perspective

Transforming Workers' Compensation Claims

Technology Brings Urgency & Optimum Outcomes To Costly Cases

This paper is based on research carried out by Health Strategy Associates and FINEOS Corporation for the webinar "Plotting the Course to Effective Workers' Compensation Claims Management" hosted by Risk and Insurance Magazine in May 2010.

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We have $5.8 trillion in covered wages, which comes through in $85 billion in Workers' Compensation costs. Behind 132 million workers' benefits are 1.2 million injuries requiring recuperation beyond the day of the incident.
- National Academy of Social Insurance

Tough times give rise to innovative solutions. It's one of history's enduring lessons. Today's economy is stringent, and one word describes the outlook for today's Workers' Compensation insurance market, "guarded." The economy is plagued by inflation, lagging productivity, immense national debt, a sizable trade deficit, and feeble growth. The country's labor market has experienced a collapse in private sector wages and salaries, and employment continues to flounder. Workers' Compensation premium growth in a jobless recovery appears flat at best for the foreseeable future.

Overall, the U.S. Property and Casualty industry is stable, having benefited from the 2009 investment market recovery. The economy, however, crawls, so what do we see? The largest drop in net premiums in years. Combined ratios for Workers' Comp have risen from 101 to 110 escalating pressure on daily operations. Record capacity chases greatly depressed exposures. Moreover, estimates project a $6 billion deficiency in private carriers' reserves.

According to the most recent National Council on Compensation Insurance (NCCI) numbers, the average Workers' Comp indemnity claim increased 5.8 percent in 2008 (a persistent pattern), and average medical claim costs outpaced inflation. Low investment returns on portfolios persist, denying insurers relief in offsetting underwriting losses. Moreover, new federal healthcare laws and national regulation loom over a political landscape in upheaval. Throw in work-related injuries resulting from an aging workforce, obesity, and distracted driving and equipment operations' effects, and "guarded" is, indeed, the outlook.

All Is Not Bleak

In 2009, the Workers' Comp residual market depopulation continued at a fast clip. Meanwhile, claim frequency continues to decline thanks to safer workplaces. Lost time frequencies decline as well. Still, debilitating injuries generate claims that fail to receive the immediate attention they warrant. Herein lies the path to enhanced cost control: technology can improve your claims model by accurately assessing claims, prioritizing them, and managing them more effectively.

Know Your Claims System's Processes

"If you can't describe what you're doing as a process, you don't know what you're doing." W. Edwards Deming, renowned quality authority, spoke these prophetic words, words that hold great weight for the Workers' Comp industry, an industry, by and large, using a passive, reactive claims model. Given the issues affecting the industry, understanding what your model's processes are is, indeed, crucial. Questioning your current system's approach can lead to critical advantages.

Does your technology, fortified with business intelligence, detect and focus on those claims most affecting the bottom line and bear down on them with the appropriate resources?

Do you have a model that auto-adjudicates the appropriate claims from the first report of injury, a system that eliminates delays and controls claims costs from day one? Does your technology, fortified with business intelligence, detect and focus on those claims most affecting the bottom line and bear down on them with the appropriate resources? Does your system isolate relevant information to determine injury types, provider trends, treatment specifics, loss location, and cause of injury? Does your technology turn understanding into action and automatically route priority claims to your most skillful claims handlers with no intervention needed? Does it promote collaboration among key parties—from nurse case manager to investigator, attorney, subrogation department, and others? If these capabilities sound like a match made in Workers' Comp heaven, read on. It's here and it's a match whose time has arrived.

Claims Organizations Can Better Focus

Far too often, the crucial, costly claims get lost in the flood of high-volume minor claims. Getting to the major claims in an expeditious manner with the very best resources often fails to take place. Incident Reports go into the system without a reserve since the claims handler contemplates no payment. A Medical Only claim involves no lost time from work beyond mandated waiting periods but includes no injury permanence. A Medical Only Claim can occur with just a one-day office visit and, of course, run six months or longer.

Attention Would Be Better Spent On

The Enhanced Medical Only claim—it includes data input into the claim system about the claim, plus reserves. The Other Than Medical Only (Lost Time) category—it includes any claim not fitting the incident report, medical only claim, or enhanced medical only claim definitions. This includes all lost time claims beyond state mandatory waiting periods, any claims with permanency, and any claims with disfigurement. And, finally, the Occupational Disease Claims—this category includes Medical Only, Enhanced Medical Only, and Other Than Medical Only claims, which include obvious occupational diseases such as asbestosis, black lung, repetitive trauma, etc. The desired outcome is making the very best exposure assessment and promptly assigning crucial, costly claims to the most effective adjusters.

A rich body of management expertise exists and applying its principles to the claims process is eye-opening indeed.

Bottomline

The new claims model can improve vital statistics by shifting claims handlers' focus from 77 percent of the cases representing just 6 percent of claims costs to the 23 percent that represent 94 percent of the costs[1].

The Power Of Vision

Claims technology earns praise for its ability to automate tasks, and rightfully so. It boosts claims management efficiency. After all, any step you automate means one less manual administrative task. Automation, however, isn't enough. Something else, something insightful is needed—the ability to see the shadows claims cast over coverage. That takes vision, a special vision. In the corporate world, taglines and branding proclaim companies' vision. Honda's is "The Power Of Dreams." Toyota's is "Moving Forward." CEOs live or die by the vision they embrace and so can tasks and processes.

What might the Workers' Compensation claims processing vision be?

Automate & Concentrate

Superior claims management benefits from Lasik-like enhancement—an innovative ability to sharpen adjusters' claims acuity so that they properly concentrate on priority cases. Give claims handlers a precise way to see a claim's true potential, and you give them a way to be proactive, a means to expedite the handling of high-priority cases. The key? Automate and Concentrate. This capability to distinguish minor claims from major claims arises from long-respected, time-proven practices, and now technology makes it a surprisingly fresh, effective way to rein in claims costs.

From Austerity To Prosperity

That old adage "An ounce of prevention is worth a pound of cure" reigns supreme. Workplace safety will always be the best claims management tool. Still, claims will occur and when they do we must apply what the discipline of Management has learned. A rich body of management expertise is out there and applying its principles to the claims process is eye-opening indeed. It holds the potential for 180-degree change.

[1] These percentages, excerpted from a webinar, "Plotting the Course to Effective Workers' Compensation Claims Management," cite data provided by Health Strategy Associates and Medata. *Risk and Insurance Magazine* hosted the May 2010 webinar.

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You should never stop the process of improvement.

Consider post-war Japan. “Made In Japan” was once synonymous with shoddy goods. Japan rose like the Phoenix from atomic ashes, thanks largely to one American, W. Edwards Deming. His work in quality control, quality management, and productivity in the early 1950s created a high demand for Japanese products, quite a turnaround. Companies like Sony, Canon, Hitachi, Panasonic, Nissan, Honda, and Toyota emerged, dominating their industries, dominating world markets.

Deming’s tenets may age but they don’t grow old—a key distinction. In prosperous new age companies such as Facebook, Deming’s words echo down the hallways. Facebook’s Mark Zuckerberg, TIME magazine’s 2010 Person of the Year, for instance, follows tenet eight, “Drive out fear.” Remove the fear that prevents employees from working in an organization’s best interests.

Deming’s accomplishments brought him fame, but they brought Japan something more. Uber success. While Japan faces economic woes as does much of the world, there’s no denying how quickly the country ascended to economic prominence. Perhaps Japan’s chief executives have drifted afar from Deming’s teachings, teachings that sixty years later, carry significance for insurance companies: improving your processes’ quality will reduce expenses while increasing productivity and market share. One thing is certain: Deming’s lessons are not lost on contemporary management mentors.

From Good To Great

Jim Collins studies enduring great companies—how they grow, how they attain superior performance, and how good companies can become great companies. Collins invested more than a decade of research into the topic and authored or co-authored four books, including the classic *Built To Last*, a fixture on the *Business Week* best seller list for more than six years. His 2001 management classic, *Good To Great: Why Some Companies Make the Leap ... and Others Don’t* serves up Deming-like philosophies that bear fruit for Workers’ Comp claims processes.

Collins defines “greatness” as financial performance multiples better than the market average over a sustained period. Evoking Deming’s Constancy of Purpose, Collins finds the main factor for transitioning to greatness is a narrow focusing of a company’s resources on its field of competence. Collins points out that in Deming’s world you can always do better. You should never stop the process of improvement.

An organization must continuously improve its processes, products, and services.

Constancy Of Purpose

Deming's tenet, Constancy of Purpose, especially carries implications for the management of Workers' Comp claims. According to Deming, two general types of problems exist in business: the problems of today and the problems of tomorrow. Getting wrapped up with the problems of today is easy. Too easy. The problems of the future, said Deming, demand constancy of purpose, that is, an organization must continuously improve its processes, products, and services. Four questions cut to the core of things.

1. Does your claims management process exhibit constancy of purpose?
2. Is its vision sharp?
3. If not, how better to focus it?
4. Can it predict claims' outcomes?

There's an old expression, "He can't see the forest for the trees." People often focus on things that promise success when, in fact, they delay favorable outcomes. Case in point. An executive touring a Workers' Comp claims center watched with great interest as a nurse case manager literally counted with her finger how many medical procedures had been done in a claim. As she counted, she made tick marks on paper to determine if it exceeded the legal requirements. Hardly high tech and certainly not efficient, but a classic case of not seeing the forest for the trees. She was missing the big picture, much to the detriment of her company. The truth is the case she was so focused on that 77 percent of cases causing far less damage than that critical 23 percent. Was she truly helping people or going through the usual motions?

Get People Back To Work

Prolonged absence from work is self-perpetuating. A 2001 study examined the likelihood of someone returning to work after an injury. When first conducted, the conclusion was 26 weeks or about six months. The study was conducted and re-evaluated as Deming proposes. The newer study indicates there is only a 50 percent chance that an injured employee will return to work after a 12-week absence. This probability declines to a 25 percent chance to return to work after a six-month absence and drops further to 1 percent after a one-year absence. The mission is clear: get people back to work. The longer employees stay out of work the better the chance they will never return to work. The study revealed that a claims adjuster has 12 weeks to get information and manage the claim to have a 50 percent chance of returning individuals to work. "Easy" claimants return to work in the first few weeks. The danger comes from longer-term claimants where typically 12 or 14 days pass until claims handlers get solid medical information.

Early, targeted, coordinated intervention ensures successful return to work, and getting people back to work matters.

The current claims model process adjudicates the claim, pays it, and moves on. The new, proactive disability prevention model lets claims handlers anticipate and assess the total impact of illness or injury and then drive claims deemed a priority toward an optimum outcome. Early, targeted, coordinated intervention ensures successful return to work, and getting people back to work matters.

Alignment, Not Assignment

To err is human, and that's what makes the current model reactive as opposed to proactive. Claims handlers and claims organizations drive the process using the rearview mirror, relying on information *after* they receive it. Outcomes prove better, however, when they drive looking out the windshield. Unfortunately, the current model is passive. And here a strategic choice is missed. The old model generally assigns "the next available" claims handler a case instead of performing an adjuster alignment selecting "the best available" claims handler based on previous outcomes—backed by accurate data.

The next generation model represents conscious thought and conscious action based on claims handlers' training, experience, and specialization the sum of which translates into performance. It's perceptive in that it recognizes skilled claims adjusters' accomplishments in specialized areas and matches them with the most difficult claims. The result? Your most qualified adjusters go one on one with the most challenging claims.

This next-generation model advocates conscious thought and conscious action. That's constancy of purpose Deming would approve. It focuses on the long-term interest from the start. It's an aggressive process of automation and filtering, and it goes back to Dr. Deming's original premise: if you can't describe the process, you don't know what you're doing.

Predictive Disability Model's Benefits

So your current model doesn't measure up. What do you do? Technology offers rapid-fire action. Use it. Free your claims handlers to help individuals truly in need. Use online resources that let claims handlers learn about injuries with one click of the mouse. Get rid of those heavy medical manuals. Provide guidelines, not handcuffs.

Create a detailed roadmap for every claim. From the start, know the destination of every claim. Start by automating the low-priority cases out of view. Implement aggressive auto-adjudication, and auto-adjudicate from the first report of injury. Partner with digital providers. Gather all the information necessary, assign a claim number, and give the medical community incentive to give you as much digital information as possible.

Put the right resources on a claim, implement the right claims handling plan, and reserve appropriately.

If a claim gets off course, learn why and get it back on course. Set up automated tasks and actions for more frequent, timely follow-up predicated on knowledge of injuries and conditions. Behind the scenes the system analyzes various occupational, medical, and demographic information and will create a score telling when to expect a return to work. Put the right resources on a claim, implement the right claims handling plan, and reserve appropriately.

Establish business rules that expedite claims management and more efficiently manage the claims process. Accomplish even more. Use predictive analytics' ability to "learn" based on its ability to analyze historical data and compare it to current data. Predictive analytics thus can better assess risks and determine how best to mitigate them. It can proactively guide a claims adjuster's decision-making. And this new model continually learns: tweak it to get better and better results. Recognize and address out-of-control, uncalled for treatment. Escalate red alert claims to the claims manager's attention.

Let Technology Drive New Efficiencies

Non-life, best-in-class carriers around the globe enjoy an average 7 points better combined ratios with superior growth and less volatility. How? By focusing on three performance pillars—Information, Technology, and Innovation—that mesh to produce more optimum outcomes.

- Take advantage of comprehensive functionality. Today's claims systems have evolved into feature-rich tools.
- Put efficiency to work. Reduce cycle times. Diminish manual tasks. Free claims adjusters to bring new value to processes while zeroing in on high-priority cases.
- Put effectiveness to work. Reduce leakage. Make best practices standard operating procedure. Increase the ability to control costs. Reduce reserves.
- Detect fraud. Use the tools at your disposal including external analytics. Link analysis and even social networking information. See, for instance, how your injured worker's weekend basketball game went.
- Let Business Intelligence transform data into accident avoidance results. After all, the best claim is the claim that never occurs.
- Capture knowledge. Accumulate a repository of information based on how the most skilled claims handlers manage claims. Build business intelligence into your processes.
- Achieve agility. Handle complex payments more efficiently.

The new claims model fosters constancy of purpose that continually improves claims service.

- Enhance compliance by having more accurate information.
- Save time. Another benefit from technology includes speed: time is money. Get the claim off to the right start. Achieve maximum efficiency. Calculate payments and get correct recurring payments going out. Increase efficiency while putting an end to inaccurate checks.
- Enjoy the advantages of decision support.
- Improve customer service. Process claims faster.

Employ innovative technological solutions that strengthen your operations by making your processes more flexible. When you do, information, technology, and innovation will open the door to optimum claims outcomes.

Constancy Of Purpose In Action

The new claims model fosters constancy of purpose that continually improves claims service. It represents a welcome departure from the old passive model. It is proactive, not reactive. It lets claims handlers drive from the front windshield, not the rear. It moves the focus from claims processing and payment to claims predicting and planning. It's aggressive, not passive. It no longer relies on past practices; it is purpose and process driven and employs best practices. It uses the best adjuster available, not the next available adjuster. It prefers structured data to unstructured data. In lieu of stair-step reserving it uses initial ultimate claim cost reserving. It's founded on outcome-based expectations, not resolution-based expectations. And in a marked departure from the status quo, it matches claims with appropriately experienced claims handlers, not just any handler. It's important to note that predictive modeling doesn't replace claims handlers; rather it frees and enhances them, empowering them to more effectively help those most in need. Combined with best practices and management controls, better results will be realized. It brings urgency and optimum outcomes to Workers' Compensation cases warranting expeditious action.

Transforming Workers' Compensation Claims

The Japanese Union of Scientists and Engineers annually bestows the Deming Prize to those who accomplish major advances in quality by transforming old approaches into new ones. The Deming Prize ranks as one of the world's highest awards for Total Quality Management. While no Deming Prize exists for Workers' Comp Claim Management, that doesn't mean that you can't transform your claims processes into total quality claims management.

Carriers must pursue, develop and implement claims handling innovations that deliver more accurate, more efficient results.

"True innovation comes from the producer—not the customer." W. Edwards Deming said that. Translated into the Workers' Comp realm, Deming's statement means carriers *must* pursue, develop, and implement claims handling innovations that deliver more accurate, more efficient results. In plain words: pursue a higher quality approach to the administration of Workers' Comp claims and transform how you process them, especially the high-priority claims. The payoff comes with the results—more efficient processes, better customer service, and more profitable performance in this demanding economy. Just knowing you are managing claims better than ever while providing customers superior service carries its own reward, Deming Prize or not. And then there's that business benchmark known as the bottom line. It'll be rewarding as well.

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