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2008 CAS Annual Meeting NEW CLAIMS PRACTICES

Minh Vu
Regional Vice President



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EMERGING TRENDS in Workers Compensation Claims Administration

Increased Client Demands

- Control of Claims Program Design
- Involvement (in individual claims direction and settlements) enhanced by technology
- Renewed interest in integrated disability management

Continued Financial Pressure

- Industry is highly price competitive
 - Soft market
 - Service is viewed by many as a commodity
 - Decreasing revenues due to reduction in claims frequency

Difficulty in Recruiting Top Talent



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EMERGING TRENDS in Workers Compensation Claims Administration

Technological Enhancements

- Document Imaging
 - Virtual access
 - Reduced storage costs
- Automated claim triggers
 - At intake and throughout the life of a claim
 - Facilitate quick intervention by subject matter experts when needed
- Integrated process
 - Intake, medical direction, bill review, utilization review
 - Merging claims and bill review data bases
 - One-stop shopping versus managing multiple vendors
- Data Analytics



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EMERGING TRENDS in Workers Compensation Claims Administration

Expansion of Medical Cost Containment Practices

- Evolved in response to increased costs but also driven by state reforms
- Bill review process becomes more sophisticated
- Introduction of preferred medical network concept versus network discounts
 - Medical direction is key to cost control
 - Network discount is challenged in certain states
- Increased ALAE as percentage of Losses

Transparency

- Changes in bill review fee arrangements



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EMERGING TRENDS in Workers Compensation Claims Administration

Globalization

- Application of technology
- Use of low cost claim processing hubs

Consolidation and Diversification

- Among claims administration firms, medical cost containment firms
- Fewer firms offering wider range of services

Recruiting and Retaining Talents

- Training and compensation
- Need to provide work challenges



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Joel Raedeke
Assistant Vice President



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DATA ANALYTICS

- **Reports** without interpretations are 'informative'.
- **Interpretations** without recommendations are 'interesting'.
- **Recommendations** without program changes are 'good ideas'.
- **Program changes** without results are a 'good effort'.
- Program changes leading to **continual Improvement** are

Analytics in Action SM



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Pop Quiz #1 – Indemnity Shift

Year	Type	Incurred
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	IND	\$4,000
2004	IND	\$15,000
2004	IND	\$15,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$3,000
2005	IND	\$15,000
2005	IND	\$15,000

Year	Average incurred	Average incurred for Indemnity Claims	Average MO incurred	% of Indemnity claims
2004	\$4,100	\$11,333.33	\$1,000	30%
2005	\$4,000	\$15,000.00	\$1,250	20%

Assuming the incurred values are of like maturity, and there is no inflationary impact, which is the better year?

2004 _____

2005 _____



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Pop Quiz #2 – Safety Shift

Year	Type	Incurred
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	IND	\$4,000
2004	IND	\$15,000
2004	IND	\$15,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	MO	\$1,000
2005	IND	\$4,000
2005	IND	\$8,000
2005	IND	\$15,000
2005	IND	\$15,000

Year	FTE	Total Incurred	Claim Count	Claims per FTE	Average Incurred
2004	200	\$41,000	10	0.05	\$4,100
2005	400	\$48,000	10	0.041667	\$4,800

Assuming the incurred values are of like maturity, and there is no inflationary impact, which is the better year?

2004 _____

2005 _____



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Pop Quiz #3 – Timely Reporting Shift

Year	Type	Incurred
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	MO	\$1,000
2004	IND	\$4,000
2004	IND	\$15,000
2004	IND	\$15,000
2005	MO	\$200
2005	MO	\$200
2005	MO	\$200
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	MO	\$900
2005	IND	\$3,700
2005	IND	\$14,500
2005	IND	\$14,500

Year	FTE	Payroll	Total Incurred	Claim Count	Inc per FTE	Inc per \$100 Payroll	Claims per FTE
2004	200	\$10,000,000	\$41,000	10	\$205	\$0.41	0.05
2005	200	\$10,000,000	\$39,600	13	\$198	\$0.40	0.065

Assuming the incurred values are of like maturity, and there is no inflationary impact, which is the better year?

2004 _____

2005 _____



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Balancing Metrics

Metric	Potential Skewing Factors/weaknesses	Balancing Metric
Average incurred for Indemnity Claims	Change in settlement philosophy or practice, Percent of indemnity	Average incurred, Closure Rate, Percent of indemnity, Indemnity claims per FTE
Average Incurred	Reduction in normalized frequency (possible due to better safety), changes in reserving philosophy or practice, aggressive closure	Exposure normalized outcomes, reserving accuracy, closure rate
Incurred Per FTE	Inflation (unless a peer is used), changes in reserving philosophy or practice, shift in average wage, aggressive closure	Reserving accuracy, closure rate, average wage
Indemnity Claims per FTE	Late MO to LT conversions	MO to LT conversion rate, closure, disability duration



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Valid Comparisons

- **Points in time – maturity of claims**
- **Development**
- **Quest for the ‘Perfect Peer’**
 - **Challenges in defining a peer**
 - Jurisdiction/locale
 - Unions – terms of contract
 - Morale
 - Safety



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Valid Comparisons

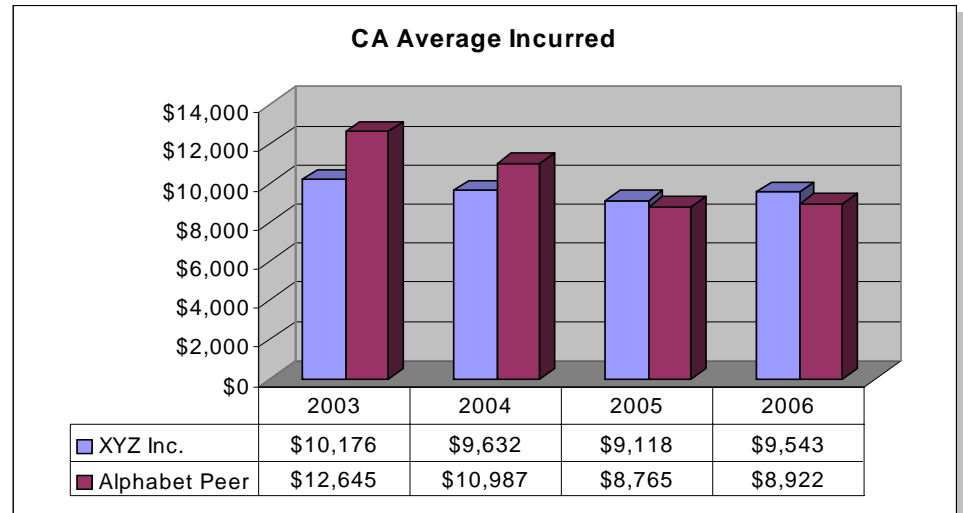
- **Solipsism**– I can only be compared with myself
 - **Accounting for changing circumstances**
 - Jurisdictional specific medical and wage inflation/deflation
 - Legislative changes



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Valid Comparisons

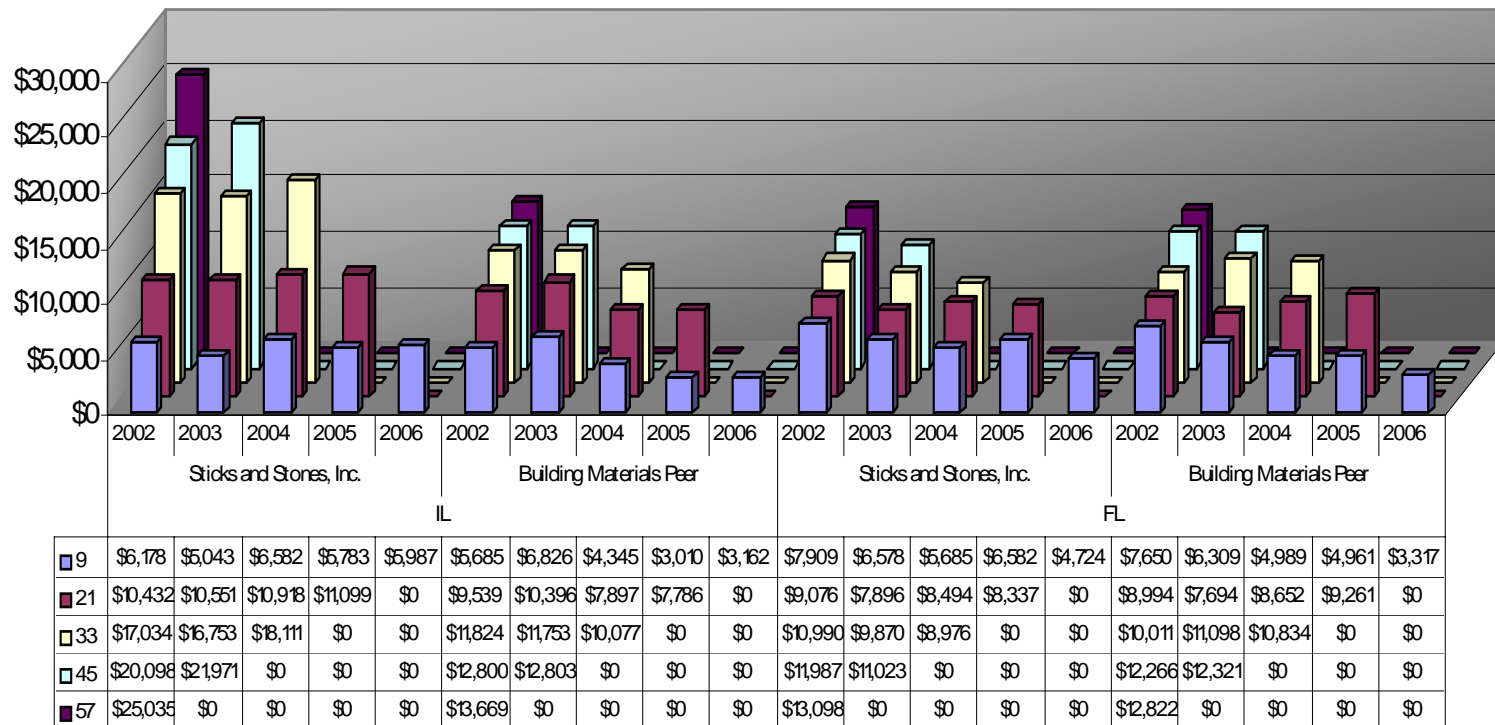
-**Divergence Trending_{SM}** – Even an imperfect peer can be useful





DATA ANALYTICS

Average Incurred

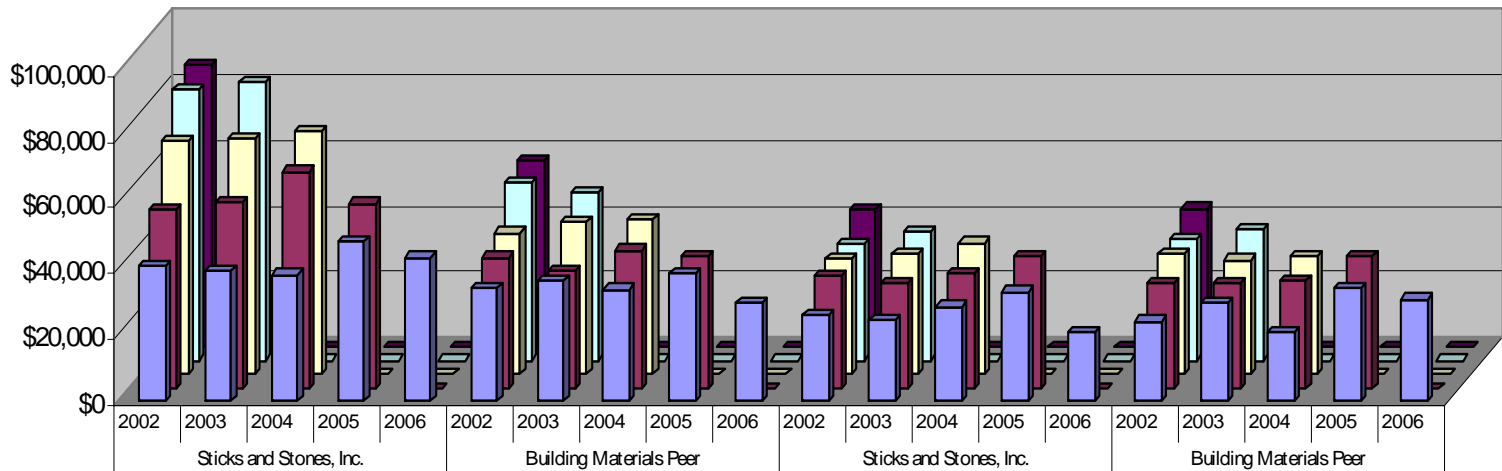




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DATA ANALYTICS

Average Incurred for Litigated Claims



■ 9	\$41,234	\$39,876	\$38,600	\$48,566	\$43,792	\$34,526	\$36,543	\$34,116	\$38,643	\$29,856	\$26,521	\$24,532	\$28,769	\$33,254	\$21,009	\$24,332	\$29,872	\$21,100	\$34,251	\$31,098
■ 21	\$54,038	\$66,086	\$65,678	\$55,971	\$0	\$39,675	\$35,392	\$41,858	\$39,820	\$0	\$34,221	\$31,987	\$34,523	\$39,876	\$0	\$31,854	\$31,895	\$32,587	\$39,811	\$0
■ 33	\$71,098	\$71,383	\$74,076	\$0	\$0	\$42,987	\$46,511	\$47,161	\$0	\$0	\$34,897	\$36,848	\$39,876	\$0	\$0	\$36,589	\$34,687	\$35,948	\$0	\$0
■ 45	\$82,633	\$84,355	\$0	\$0	\$0	\$54,086	\$51,061	\$0	\$0	\$0	\$35,611	\$39,040	\$0	\$0	\$0	\$36,987	\$39,897	\$0	\$0	\$0
■ 57	\$85,909	\$0	\$0	\$0	\$0	\$56,675	\$0	\$0	\$0	\$0	\$41,892	\$0	\$0	\$0	\$0	\$42,151	\$0	\$0	\$0	\$0



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DATA ANALYTICS

State	Defense Firm	Claim Outcome Rating	Expense Rating	Rank
IL	Suem, Falderworth and Densum	2	4	10
IL	Filinz Arrus	3	2	11
IL	Dewey, Cheatem and Howe	3	3	12
IL	Al Gettum	3	3	12

State	Defense Firm	Claim Outcome Rating	Expense Rating	Rank
IN	Mila and Ralph	2	4	10
IN	Al's Legal Beagle	3	2	11
IN	Dewey, Chetum and Hau	3	3	12
IN	Filing Beermen	3	3	12
IN	Gregory and Co.	3	4	13
IN	Skidrau and Slum	3	5	14
IN	Baruarth and Lang	4	4	16
IN	Suem Kim	4	6	18
IN	Appler and Bratherz	5	3	18
IN	Danald Truterling	5	5	20
IN	Jack and Jill	7	7	28

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Challenges

- Changes in jurisdictional legislation
- Setting appropriate settlement targets



Solutions

- Cost benefit analysis to gain support
- Identify intake and mid-case triggers to avoid litigation
- Defense firm outcome assessments
- Developing targeted settlement strategies