

# **Workers Compensation Claims Adjusting: What Actuaries Need to Know**

Casualty Loss Reserve Seminar,  
Anaheim Marriott  
Grand Ballroom C  
September 7, 2018



# Agenda

- Introductions / Learning Objectives
- The Value of Actuarial Interactions
- Claims Process
- Claims Tools & Trends
- Questions & Discussion



# Speaking with You Today

- Dick Messick – Deloitte Consulting LLP
- Dolph Zielinski - CNA

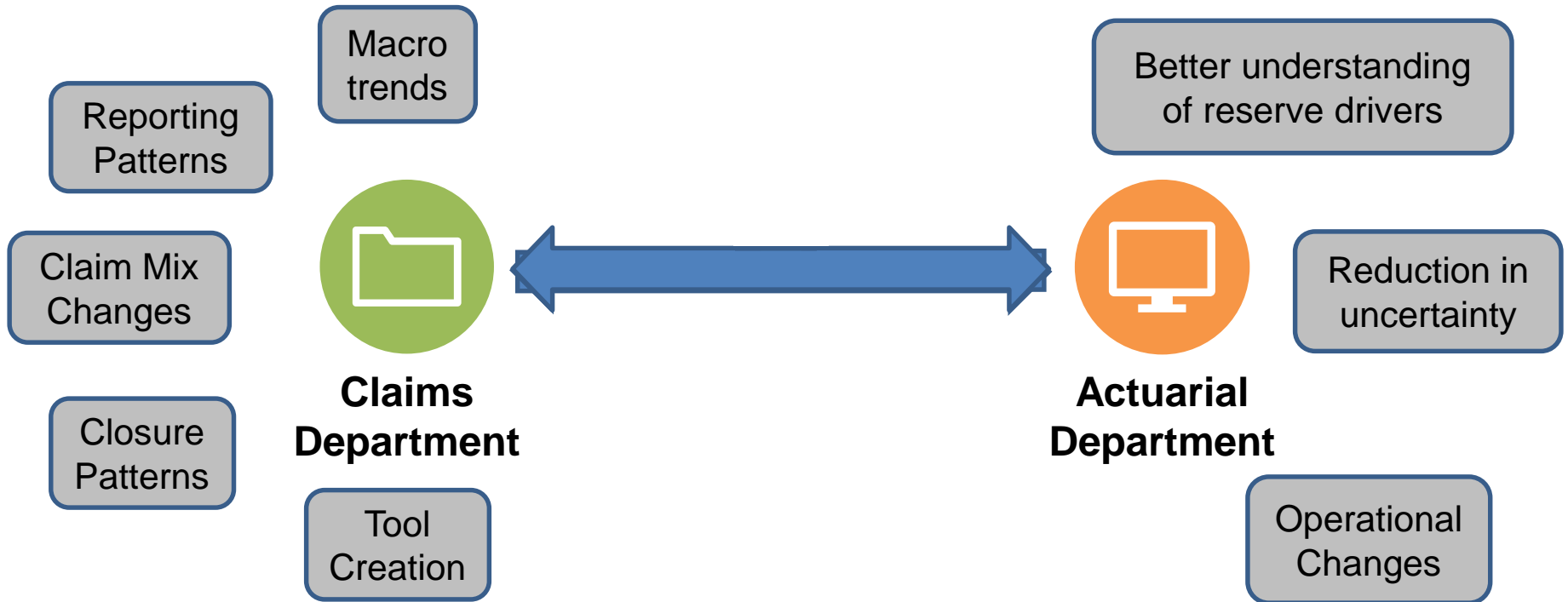


# Learning Objectives

- Understand the claim reserving process from the adjuster's perspective
- Understand claim adjusting leading practices
- Consider how a better understanding of the claims adjusting process will impact your actuarial analyses
- Understand how changes in the claim handling process can impact your actuarial reserve analyses



# Benefits of Interaction



*This relationship should be an interactive two-way street!*



# WC Claim Handling Objectives

## Meeting Insurer Contractual Obligations and Support Financial Goals Through:

- Achieve Maximum Medical Improvement
- Get the injured worker back on the job as quickly as possible (if not totally disabled)
  - Reduce duration of disability
  - Find appropriate work based on MMI level
- Obtain the best possible financial outcome
- Customer Satisfaction
  - This is the “Claims Customer Experience”
  - Becoming an important differentiator!



# WC Claims Process

## Core Activities

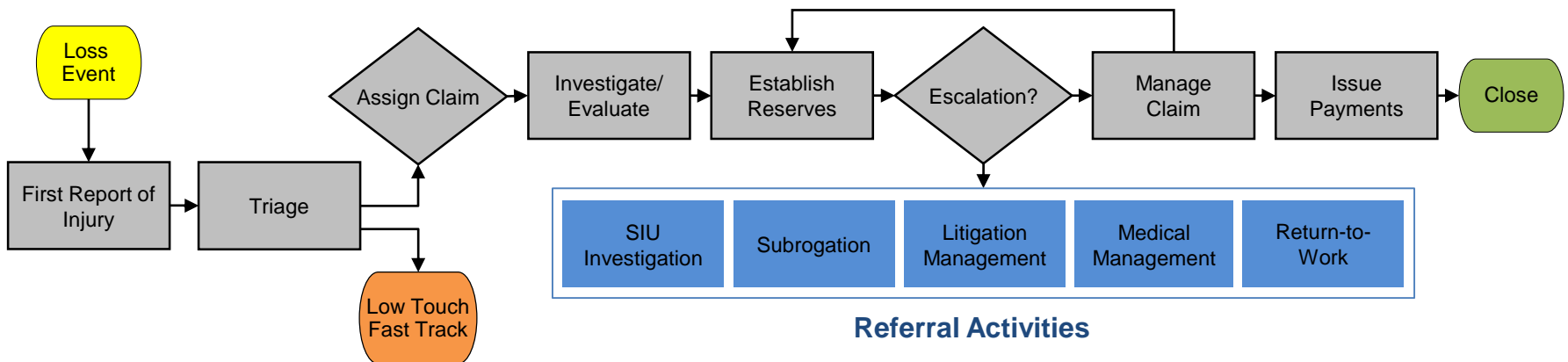
- FNOL/FROI
- Assignment
- Investigation
- Evaluation
- Reserving
- Negotiation
- Settlement
- Closure

## Referral Activities

- Medical Case Management
- Litigation Management
- Fraud/SIU
- Recovery Management
- Return-to-Work



# WC Claim Process Flow



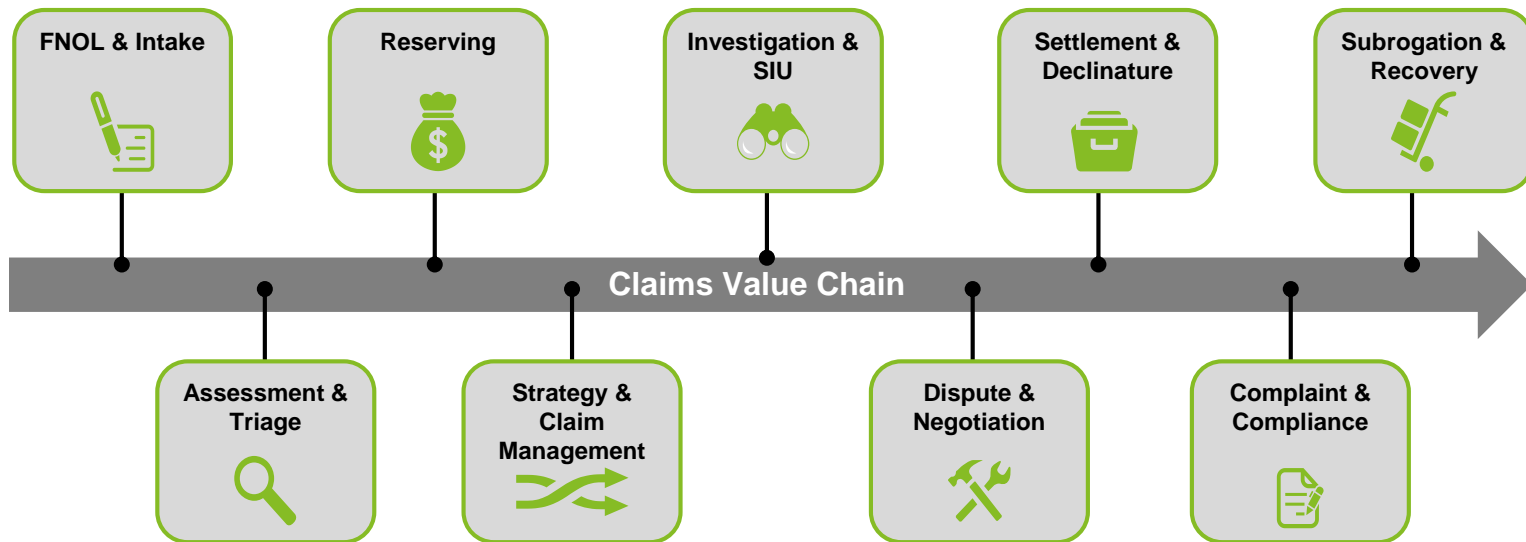
Information Available to Establish Accurate Reserves



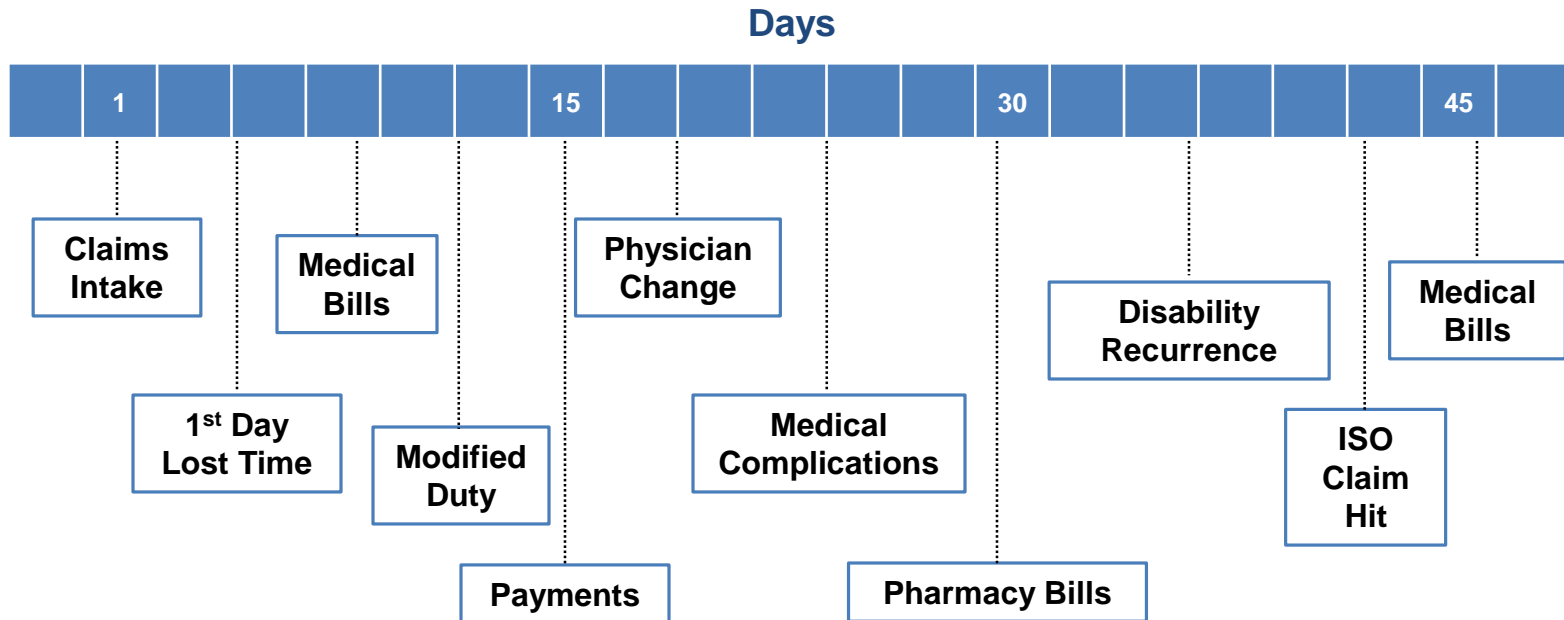


# WC Claim Decision Points

## Key Decision Points Across the Claims Value Chain



# Claims Sequence of Events



## ● The Information Paradox:

- As time passes, additional information is available that allows for appropriate interventions to be taken and more accurate reserves to be set
- Claim outcomes are generally improved by taking actions earlier in the life of a claim, but this is when less information is available to base the actions upon



# WC Claims Leading Practices

## Core Activity Leading Practices

### ● **FNOL / FROI**

- “Omnichannel” claims intake mechanisms, such as 24/7 call centers, agency portals, internet self-service, smart phones, etc.
- Use of “nurse hotline” to interact with claimants to assess injuries and recommend appropriate treatments for med only / minor injury claims

### ● **Assignment**

- Automated triage/assignment process that uses business rules and/or analytics to assign claims and make referrals to specialized resources

### ● **Investigation**

- Completion of 3-point contact (or reasonable attempts) with employee, employer, and medical provider within 24 hours of receipt of the claim
- Use of digital recorded statements when appropriate



# WC Claims Leading Practices

## Core Activity Leading Practices

### ● Reserving

- Reserves should not be set in anticipation of the best or worst possible result, but should reflect the probable outcome based upon both known and reasonably foreseeable factors
- Use of standardized, automated worksheets to instill uniformity in reserving practices

### ● Negotiation

- Proactive identification of subrogation potential and settlement offers made to appropriate claimants (e.g., non-represented claimants)
- Scenario planning introduced to manage negotiations

### ● Settlement

- Establishing “full & final” settlements, when permissible
- Use of annuity products to fund lifetime benefits settlements



# WC Claims Leading Practices

## Referral Activity Leading Practices

- **Medical Case Management**

- Proper and timely use of Independent Medical Examinations (IMEs)
- Timely assignment of telephonic or field nurse case manager and/or vocational rehabilitation manager, often driven by analytics
- Aggressive pursuit of maximum medical improvement status

- **Litigation Management**

- Clearly established litigation guidelines and reporting requirements
- Approved defense counsel panel with negotiated rates and flat fees up to a specific point in the litigation process

- **Fraud/SIU**

- Establish standardized fraud handling procedures, including aggressive legal actions
- Predictive models developed and integrated into fraud detection software and business rules



# WC Claims Leading Practices

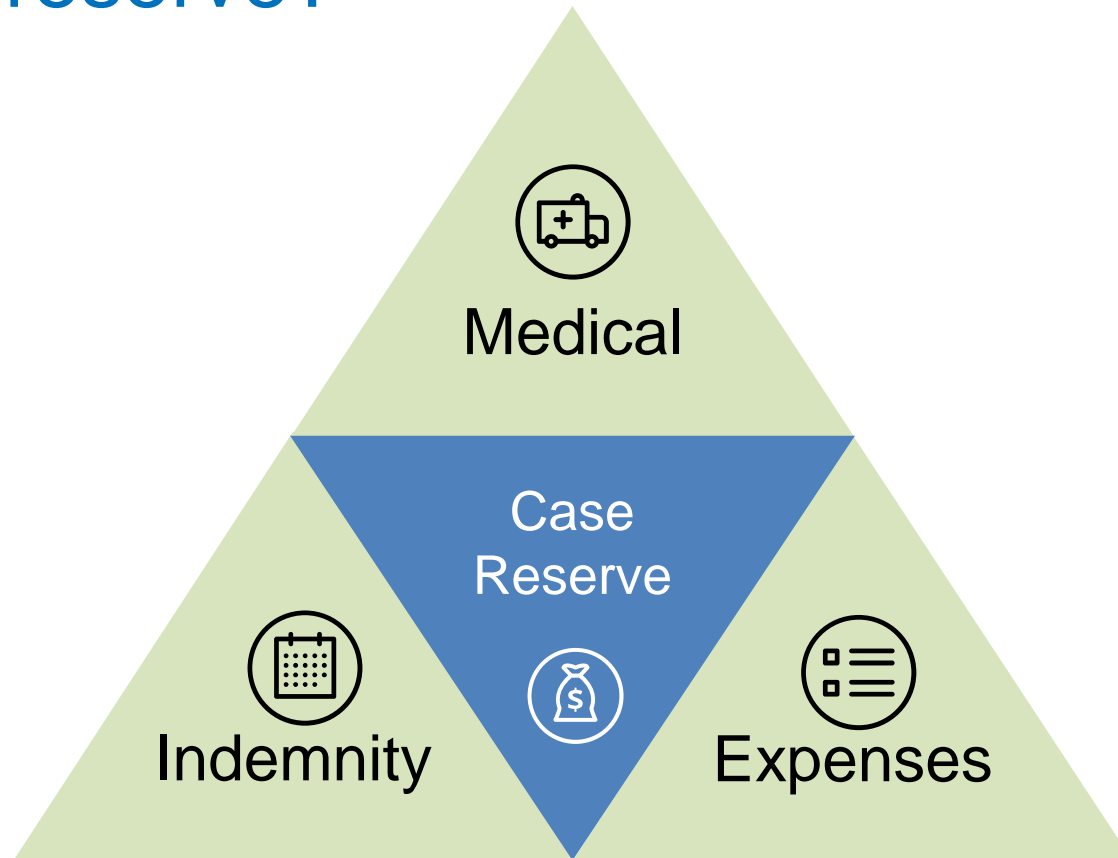
## Referral Activity Leading Practices

- **Recovery Management (Subrogation)**
  - Where injury is caused by a third-party or defective machinery, timely evaluation and pursuit of recovery should be made
  - Apportionment and/or other credit or recovery opportunities should be identified and pursued, when possible
  - Use of data analytics/predictive model to identify claims with high subrogation propensity
- **Return-to-Work**
  - Aggressive pursuit of return to work options
  - Use of light duty assignments at not-for-profit organizations



# Reserve Elements

- What components are considered in a case reserve?



# Reserving Issues/Implications

## The Issue

## Why?

## The Impact

## The Solution

### Under Reserving

- Wishful thinking
- Lack of info
- Inattention

- Results look *better*
- Last minute catch up
- Claims stay open longer

- Be attentive!
- Recognize potential claim value early
- Use frequent diaries

### Over Reserving

- Incorrect info
- Reading into a situation
- Being overly cautious (“better safe than sorry”)

- Results look *worse*
- Sloppy expense management
- Complacency

- Review all information early in the life of the claim
- Avoid knee jerk reactions!





# Reserving Issues/Implications

## The Issue

### **Delayed Recognition**

### **Stair-Stepping**

## Why?

- Random diary dates
- Blindly following diary dates

- Complacency
- Inexperience
- Lack of training

## The Impact

- Inaccurate reserves
- “Surprises” down the road

- Time consuming for adjuster
- Reserves never reflect ultimate values
- Reserves undervalued

## The Solution

- Set diaries for key events
- Adjust reserves when new info is received

- Gather and evaluate all needed information!



# Reserving Issues/Implications

- Any of the previous reserve issues may not be problematic, if they are consistent over time, but ...
- Watch out for inconsistency caused by:
  - Operational changes that are not communicated
  - New leadership
  - Revised performance measures
  - Changes in closure rates
  - Lack of standard procedures / reserve worksheets



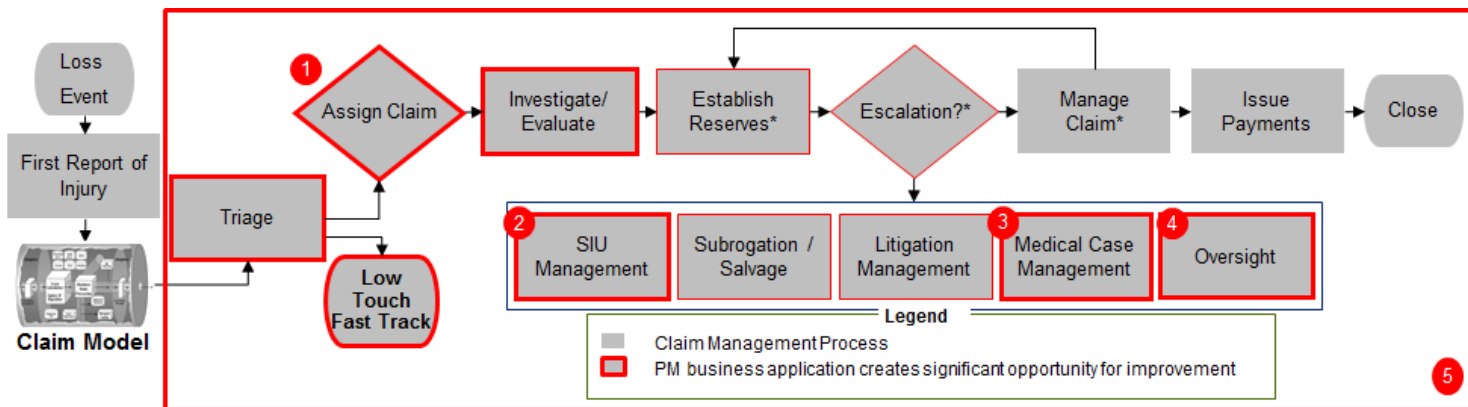
# Claims Tools & Trends

- Increased Use of Medical Management
  - Telephonic/Field Case Management
  - Nurse Staffed “1-800” Triage Lines
- Accelerated Closure Mechanisms
  - TPA Contractual Terms
  - Client Guidelines / SLA
- Analytical Models
  - Severity Models
  - Fraud/SIU Potential
  - Propensity to Litigate



# Predictive Analytics

Predictive analytics provides significant claims outcome improvement opportunities in a number of areas:



Model Enabled Process

## 1 Triage, Assign & Investigate

- Improved initial routing to low-touch processing boosts efficiency
- Claim severity matched to skill set reduces re-assignment rate and optimally deploys best resources
- Identifies claims where dedicated resources require increased oversight and support
- Detailed model outputs focus claim investigation and support decision making

## 2 SIU Investigation

- Model output driven referral process to fraud unit and / or surveillance unit:
  - Reduces referral lag from months to days
  - Better referral quality increases fraud unit acceptance rate and lowers friction costs
  - Automated referral rules improve consistency
- Fraud and surveillance role evolves from back-end mitigation to front-end deterrence

## 3 Medical Management

- Enables effective triage for medical case management
- Indicates the potential need for medical case management on both Lost Time and complex Medical Only claims
- Faster deployment of clinical resources improves return to work times

## 4 Oversight

- Enables claims staff to focus oversight on the more complex claims

## 5 Performance Management & Analysis

- Monitor claim outcomes utilizing model scores and injury group distributions to evaluate performance and model impact
- Create and utilize reports to monitor model adoption and understand other operational trends
- Utilize model output to determine which areas should have additional focus



# Text Analytics/Big Data

## Text Analytics

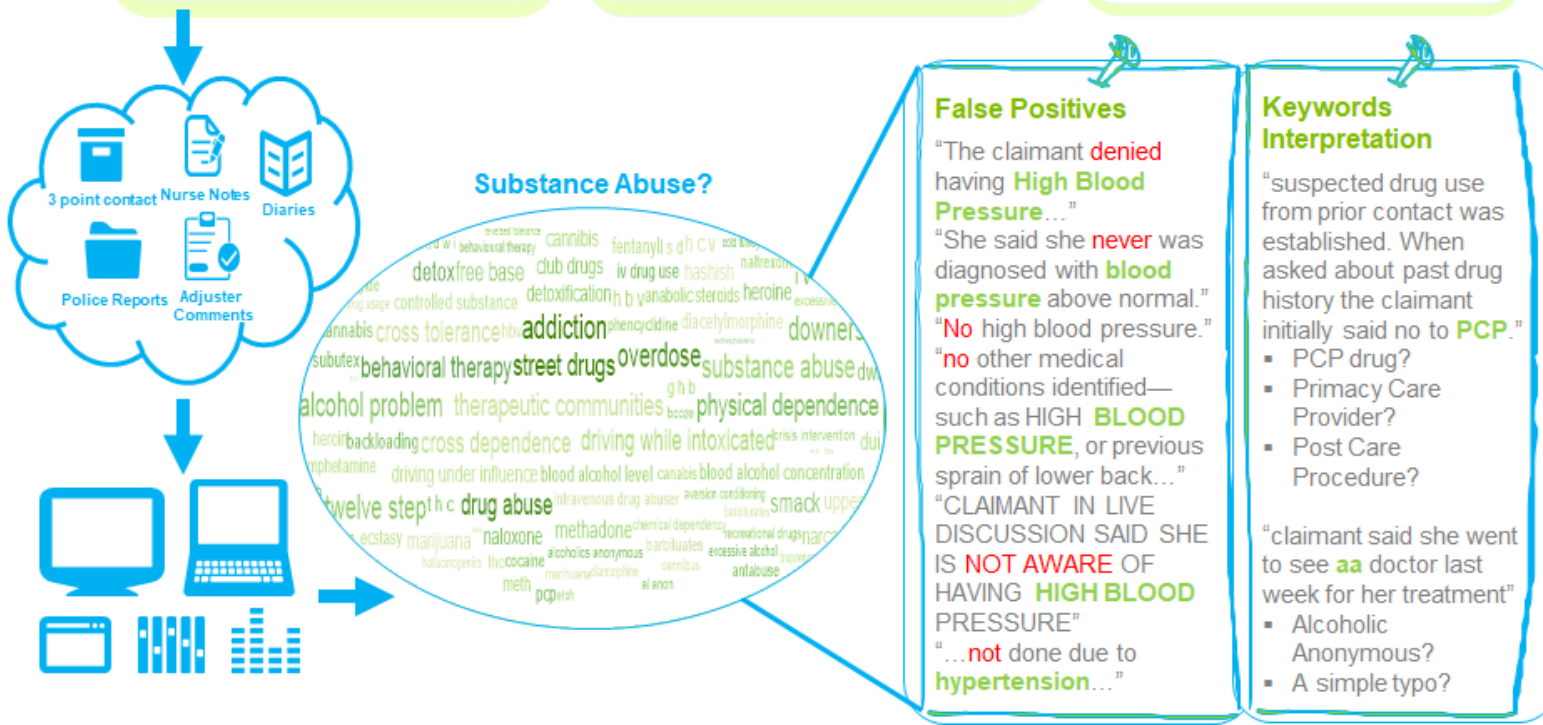
- Structured Data (Injury type, body type)
- Unstructured data (circumstances of accidents, foul play, behavioral / motivation levels)

## Big Data

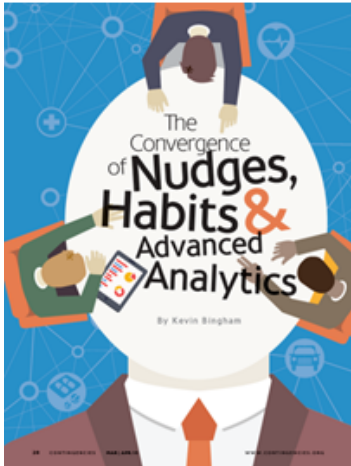
- Geo-demographic (density)
- Financial (slow payments)
- Pharmacy prescription behavior
- Medical diagnosis changes
- Highway accidents (fatal injuries)
- Etc.

## Other Novel Differentiators

- Normalization by venue, injury type
- Real time scoring / action
- Medical protocols
- Advanced business messaging
- Etc.



# Use of Behavioral Science



“WE ARE LIVING IN EXCITING TIMES. The convergence of big data, advanced analytics, and a deepening understanding of habits and how to ALTER human behavior through data-enhanced “nudges” is rapidly changing the world we live in.”

1. Prescription drug initiatives
2. Evidenced based medicine
3. Data-driven coupons fighting diabetes
4. Telematics
5. Hospital check lists

**“Habits aren’t destiny... habits can be ignored, changed or replaced.”**

- The Power of Habit

**“The bottom line, from our point of view, is that people are, shall we say, nudgeable.”**

- Nudge

March 1, 2016

## How to Help Reverse the Opioid Epidemic

by Kevin Bingham, Amel Arhab, Sundhar Sekhar and Denys Lebedev

### Summary:

One and a half times as many people die of drug overdoses as die in vehicle accidents. Here is how analytics can tackle the opioid catastrophe.



“Our hope is that through the use of predictive analytics (i.e., the ability to identify, in the first few days of receiving a claim, individuals most likely to become high consumers of opioids), prescribing guidelines and physician peer-to-peer outreach, we can help increase insurers’ and treating physicians’ awareness as they work to help prevent injured workers from struggling with dependency and addiction before the behaviors or habits ever form.”



# Questions and Discussion

