

Complementing an Actuarial Review with a Claims Review

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Quality In Everything We Do

Presenters

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Overview

1. Trigger for a claims review from the actuary's perspective
2. Claims review process
 1. Operational Review – Understanding the operational environment of the carrier prior to the review
 2. Conducting a successful claim review
3. How to consider findings in actuarial analysis
4. Potential value of claims review beyond the actuarial review

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Triggers for a claims review from an actuary's perspective

- 1 Trigger for a claims review from the actuary's perspective
- 2 Basic process for claims review
- 3 How to consider findings in an actuarial analysis
- 4 Potential value of claims beyond the actuarial review

- ▶ Several possible triggers exist that you can be looking for
 - ▶ Recent major business environment changes, i.e., M&A, jurisdictional, legislative
 - ▶ Findings from questioning of claims department or TPA
 - ▶ Data diagnostics performed before or during the analysis
 - ▶ Unexplained adverse or favorable development
- ▶ These things are often elementary, but may not be viewed through the lens of a possible claims review

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Findings from questioning with claims department/TPA

- 1 Trigger for a claims review from the actuary's perspective
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- ▶ Asking the right questions early on can point to issues
 - ▶ What specific objectives and guidelines does your department have in setting case reserves?
 - ▶ Have there been any significant changes in the guidelines for setting and reviewing case reserves during the last year(s)?
 - ▶ Are any special procedures or guidelines applied in the reserving of large or catastrophic claims? If so, please describe.
 - ▶ Has the size of the caseload of the average claims adjuster changed significantly in the past several years?
 - ▶ When, in the sequence of events, is a claim file established?
 - ▶ Have there been changes in the rate of settlement of claims recently?
 - ▶ Has there been any shift from the employment of company adjusters to independent adjusters?
 - ▶ Could you provide copies of recent claim audits?

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Findings from questioning with claims department/TPA

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- ▶ Example: Change in case reserving policy
 - ▶ Company: Excess and surplus lines Insurer
 - ▶ Trigger: Claims Director disclosed a change in policy for reserving expenses during annual interview
 - ▶ Issue: Incurred expenses were expected to surge over the coming quarters as newly reported and existing claims were reserved at a higher level
 - ▶ Solution: Claims supervisor reviewed and monitored activity to approximately quantify impact of this change. We compared this estimate to the observed (adverse) development and tempered the change in our estimates accordingly.

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Data diagnostics

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- ▶ Take the time to perform the traditional data diagnostics every year, and do so early in the process
- ▶ Types of diagnostics
 - ▶ Basic claim triangles
 - ▶ Loss and claim count diagnostics
 - ▶ Average claim diagnostics
- ▶ Review for consistency relative to your claims interviews

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Basic claim triangle diagnostics

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- ▶ Example: Jump in incurred diagonal
 - ▶ Company: Mid-sized auto and general liability insurer
 - ▶ Trigger: Observed an unexpected jump in the diagonal of incurred triangle
 - ▶ Issue: After raising question to claims department, learned that the authority level of adjusters had increased from \$50K to \$250K
 - ▶ Solution: Claims review performed to monitor and quantify these increases, results of which were considered in selected ultimates
- ▶ Example: Spike in reported claims
 - ▶ Company: General liability insurer with exposure to construction defect ("CD")
 - ▶ Trigger: Significant increase in reported claims in a specific report year ("RY")
 - ▶ Issue: Method of allocation of CD claims to RY had changed, and were being allocated to last RY as opposed to an even allocation
 - ▶ Solution: Claims review to identify and restate the allocations, resulting in lower frequency estimates for more recent RYs

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Loss and claim count diagnostics

1 Trigger for a claims review from the actuary's perspective
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- ▶ Loss and claim count diagnostics
 - ▶ **Ratio of paid-to-reported claims:** may indicate changes in case outstanding adequacy or settlement patterns
 - ▶ **Ratio of paid claims to on-level earned premium:** may indicate changes in speed of claims payment or in underwriting results
 - ▶ **Ratio of closed-to-reported claim counts:** may indicate changes in the settlement rate of claims
- ▶ Important: Understand any changes in deductibles, limits, coverages, or mix of business/claims

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Loss and claim count diagnostics

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- ▶ Example: Acceleration of claims settlement
 - ▶ Company: Mid-size workers' compensation writer
 - ▶ Trigger: Observed a significant increase in the ratio of paid to reported loss
 - ▶ Issue: Due to a management order, claim settlement became much more proactive and faster. Also accompanied by a strengthening in case reserves.
 - ▶ Solution: Claims reviewed performed to understand and quantify both of these effects, allowing for a Berquist-Sherman approach

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Average claim diagnostics

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- ▶ Average claim diagnostics (inflationary trends expected)
 - ▶ **Average reported claim (report loss/reported claim count):** may indicate either changes in payments or case outstanding
 - ▶ **Average paid claim (paid loss/closed claim count):** may indicate change in payment speed
 - ▶ **Average case outstanding (case/open claim count):** may indicate change in case reserve adequacy
- ▶ Important:
 - ▶ Understand definition of reported and closed claims (may have \$0 claims)
 - ▶ Beware of large claims that may distort diagnostics (either remove or limit)

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Average claim diagnostics

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- ▶ Example: Increase in average medical payment
 - ▶ Company: Regional commercial lines insurer
 - ▶ Trigger: Observed a significant increase in the average paid medical claim
 - ▶ Issue: Due to complaints from medical providers, time between receipt of billing to payment abruptly decreased from 90 days to 3 days
 - ▶ Solution: Claims review performed understand and restate the payments to avoid distortion of paid methods. Claims review also quantified savings that were achieved due to earlier payment.

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Unexplained adverse or favorable development

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- ▶ Performance of an "actual vs expected" or "hindsight" analysis at each review may also be a trigger
- ▶ Consistent adverse or favorable development could be indicative of a shift in claims practices, or in a mismatch between assumptions and exposure being analyzed
- ▶ Beneficial to review experience not just in total for each class, but by accident year as well
- ▶ The result of the claims review may also help you decide whether to give weight to the experience or not

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Unexplained adverse or favorable development

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- ▶ Example: Unexplained adverse development
 - ▶ Company: Large global specialty lines writer
 - ▶ Trigger: Increase in frequency of very large claims
 - ▶ Issue: Severe claims not being managed proactively and optimally
 - ▶ Solution: Claims review identified opportunities to rectify existing large claims and better handle future large claims. Also led to a change in industry benchmark being used for analysis.
- ▶ Example: Unexplained adverse development
 - ▶ Company: Large fortune 100 corporation with significant retained liability
 - ▶ Trigger: Quarter after quarter of adverse development
 - ▶ Issue: Delayed recognition of severe claims was impacting bottom line
 - ▶ Solution: Claims review identified factors correlated to adverse development and put controls in place to mitigate in the future

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Understanding the review triggers – baseline operational review

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- ▶ Who is handling the claims?
- ▶ What is driving the current environment?
- ▶ High-level operational review – establishing a baseline
 - ▶ Ownership/subsidiary structure
 - ▶ Organizational changes
 - ▶ Carrier staffing model
 - ▶ Client/industry penetration & specialties
 - ▶ Key vendor relationships, including TPA's
 - ▶ Claim management guidelines
 - ▶ Reserve and settlement guidelines & authorities
 - ▶ Relationship between claims and actuarial departments

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Deeper dive into the claims metrics

1. Trigger for a claims review from the actuary's perspective
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- ▶ Program trending
 - ▶ Loss Ratio
 - ▶ Frequency
 - ▶ Severity
 - ▶ Lost work days/OSHA (WC)
 - ▶ Overall + rate-adjusted where available
 - ▶ By coverage line, policy year, accident year
- ▶ Key performance indicators
 - ▶ Claim closure
 - ▶ Expense management
 - ▶ Indemnity vs. medical (WC)
 - ▶ Litigation Costs

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Establishing guidelines and logistics; setting expectations

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- ▶ Finalize goals of review
- ▶ Depth of review
- ▶ Field office involvement
- ▶ Determine expected output of review
 - ▶ Report
 - ▶ Metrics
 - ▶ Action planning
 - ▶ Corrective action/follow-up
- ▶ Logistics
- ▶ Timetable

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Building or choosing the review tool

1. Trigger for a claims review from the actuary's perspective
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- ▶ Review tool format
 - ▶ Usually Access-based
 - ▶ Pre-populated with claim selections
 - ▶ Should allow for pre-formatted reporting based on findings
- ▶ Review tool content
 - ▶ Focus areas
 - ▶ Baseline questions by coverage line
 - ▶ Ability to modify based on specific carrier needs/goals
 - ▶ Weighting element – Scoring
- ▶ Review tool example

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Review Tool – Screen Shot Sample

1. Trigger for a claims review from the actuary's perspective
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The screenshot shows a web-based form with several sections:

- General:** Includes fields for 'Case No.', 'Case Name', 'Default Case', 'Audit Case', and 'Comments'.
- Triggering:** Contains checkboxes for 'Use Deviation Entry', 'Use Deviation Entry (Yes/No)', and 'Use Deviation Entry (Yes/No)'. It also has a 'Triggering' dropdown menu.
- Investigation:** Includes checkboxes for 'Investigation (Yes/No)', 'Investigation (Yes/No)', 'Investigation (Yes/No)', and 'Investigation (Yes/No)'. It also has a 'Investigation' dropdown menu.
- Comments:** Includes checkboxes for 'Comments (Yes/No)', 'Comments (Yes/No)', 'Comments (Yes/No)', and 'Comments (Yes/No)'. It also has a 'Comments' dropdown menu.
- Buttons:** Includes 'Save', 'Cancel', and 'Print' buttons.

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Claim selection process

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- ▶ Claim selection – statistical significance & randomness
- ▶ Forced selection – agreed parameters
 - ▶ Open or closed
 - ▶ Age of claim
 - ▶ Type of claim
 - ▶ Severity of claim
 - ▶ Field claim office representation
 - ▶ Major/high cost claims
 - ▶ Litigated claims
- ▶ Claim field office involvement/cooperation

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Inside the claim review

1. Trigger for a claims review from the actuary's perspective
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- ▶ Pre-audit/team consistency
- ▶ Quality assurance
- ▶ Location of review
 - ▶ Home Office
 - ▶ Field Offices
 - ▶ Remote/Web
- ▶ Complex claim review & concurrence
- ▶ Daily team discussion/wrap-up
- ▶ Notes/trends

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Communication with key stakeholders

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- ▶ Project kick-off
- ▶ Claim office involvement
- ▶ Claim office communication/feedback
 - ▶ Daily issue discussion
 - ▶ Claim-specific concerns/questions
 - ▶ Jurisdictional or expert guidance
- ▶ Actuarial/base team communication
- ▶ Preliminary audit results

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Report & Metrics

- 1. Trigger for a claims review from the actuary's perspective
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- ▶ Instant reporting – quantitative results
- ▶ Final quality assurance
- ▶ Initial draft review with key stakeholders
- ▶ Detailed written report interpreting findings
 - ▶ Review results by category, claim office, overall
 - ▶ Key qualitative trends
 - ▶ Identify Improvement opportunities
 - ▶ Suggested action plan/training needed
- ▶ Additional review needed?
- ▶ Review results tied back to key metrics

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Process Improvement and ongoing review process

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- ▶ Key review findings
- ▶ Claim office feedback
- ▶ Additional or deeper review/audit required?
- ▶ Identify specific action steps/training
- ▶ Quantify value of improvement – metrics & actuarial impact
- ▶ Timelines for next steps

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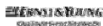
Considering findings in the actuarial analysis

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- ▶ The results of the claims review may inform and affect the actuarial analysis in several ways
 - ▶ May suggest adjustments or partitions of the data
 - ▶ May inform assumptions
 - ▶ May suggest which methods are more appropriate
 - ▶ May inform on the reasonable width of the range

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May suggest adjustments or partitions of the data

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- ▶ The claims review may indicate that subsets of the exposures are driving significantly different results from a claims perspective
 - ▶ State differences
 - ▶ Class differences
- ▶ Or, specific individual claims may be identified as unique and subject to different development behavior
 - ▶ Latent claims (asbestos, environmental, construction defect)
 - ▶ Large losses at limit
 - ▶ Hurricane losses

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May inform assumptions

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- ▶ Expected loss ratios
 - ▶ May indicate which historical period should be relied on
 - ▶ May be a basis for making an adjustment to industry
 - ▶ May be a basis for making adjustments to current year
- ▶ Loss development patterns
 - ▶ Again, may indicate which historical period to rely on
 - ▶ May result in exclusion of some specific claims
 - ▶ May result is restatement of case reserve levels (e.g. B-S)
- ▶ Also, often valuable to get claims input on reasonability of assumptions, especially if relying on industry

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May suggest which methods are more appropriate

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- ▶ Consistency of settlement and case reserving practices may point you towards one method or another
- ▶ In cases where methods are deemed not reliable, claims input may allow for adjustment and improvement
- ▶ In cases where there are a limited number of open claims and limited potential for additional reporting, the claims review may yield an actual IBNR estimate to consider

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May inform on the reasonable width of the range

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- ▶ Often times an actuary's range is based on a benchmark width or rule of thumb
- ▶ Discussion of these low and high IBNR estimates with the claims professional may indicate that one of the ends of the range is not realistic or reasonable
- ▶ In cases where different "reasonable" assumptions and methods were used to determine range, claims input on low and high assumptions and methods can be considered, as was discussed on the last two slides

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Window into client organization

- 1 Trigger for a claims review from the actuary's perspective
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- ▶ Identify field claim office or TPA issues
 - ▶ Verify trends identified in actuarial analysis
 - ▶ Claim reporting
 - ▶ Items impacting severity (varies by coverage line)
 - ▶ Vendor relationships
 - ▶ Specific client type/industry issues
 - ▶ Guidelines/changes needed?

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Identify improvement opportunities


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- ▶ Quantify critical claim performance issues
 - ▶ Data quality
 - ▶ Data security
 - ▶ Reserving accuracy
 - ▶ Quality of field office claim staff
 - ▶ Claim supervision & field office management
 - ▶ Process vs. rigor
 - ▶ Claim leakage

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