

Analysis of the
An Account for
A National Reinsurance Company

Tracking and Trending Report
Date

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EXECUTIVE SUMMARY

Purpose

Historically, Claims Systems and Risk Management Information Systems have had three basic functions:

- 1) To process the claim including setting-up the initial claim, setting reserves, issuing payments, and diarying follow-up items.
- 2) To be an Accounting system to track payments allocate the cost of risk and help determine ultimate loss costs through Actuarial methods. In addition, related systems enhancements were made to track duplicate claims, reprice medical invoices and review medical utilization.
- 3) To report on the activity through the use of hard copy reports, often referred to as Loss Runs or Claim Listings. In some instances, this data is now being made available via the new tools brought to the industry via the internet.

The purpose of this new Tracking and Trending Report is to begin to use all of the data previously and currently being collected, to offer the Reinsurer an insight into the claims process by using an "intelligent system". With this new "intelligent system", based upon statistical methods and using new database tools, we can now offer new ways to begin to look at the claim data. We believe this will help the Reinsurer in making informed "day-to-day" managerial decisions on what needs to be accomplished. Going forward, we want to be able to help the Reinsurer spot "weak spots" in the claims process, and begin to benchmark performance of essential vendors used in the Risk Management process.

Goals

The goal of this new report is simple. We want to turn data into action. Today, too much data is collected and not used. Also, too many reports are produced and not read. This is resulting in increased operational costs for our valued customers without, sometimes, providing a proper return on investment. Therefore, we are hopeful that these new reports will help the reader to immediately, simply and with little or no cost, take action that will reduce your ultimate losses.

ACCOUNT PROFILE

Data Quality

In order to maximize this report, we reviewed the claims provided in two different data formats, in several different files, for the YEAR accident year, and nine months of YEAR accident year. In order to ensure the mapping of data was correct, we requested ten claim screen prints from TPA. This information was used to confirm that our mapping was correct. For reference purposes, this information is enclosed as Exhibit I. Overall, the data quality of the financial record on the database looked reasonable enough to be used for statistical analysis.

As the data was in several different files, and in different formats, the data is analyzed in several different ways. Not all data was used in every analysis. The best fitting data was used to analyze the data and reveal areas where additional review is appropriate. Consequently, some reports will show different totals.

Classes of Data Analyzed

As this is the first prototype of this report for National Reinsurance Company, the only class of data reviewed was by claim data. This type of analysis can be done using other data including Premium, Exposure, or Managed Care Company, to name a few possibilities.

STATISTICAL REVIEW OF THE DATA

Averages

In order to turn the data into useful information, several steps had to be taken. An essential component of this analysis is to calculate averages for each location. Then using statistical methods, we compare the results for each location. An example of this data, by state, is shown as Exhibit II.

This analysis of National Account's claim data, revealed the following noteworthy items:

- The amount of exposure, approximately \$1.4 billion of salary in Florida, along with the number of claims reported in this state appears to warrant a separate review. Approximately, one-third of the account is located in Florida. We would suggest a coverage confirmation review be conducted to ensure that only valid claims are being processed. Even a small break down in coverage confirmation for Florida exposure would result in a tremendous increase in ultimate incurreds.
- Overall, ALE looks very reasonable with only two locations worth a more in-depth look.
- Indemnity normally is a significant amount of the total Workers Compensation claim costs. However, in Number locations these expenses appear to unusually high.
- There are twenty-one areas that we suggest medical expenses be reviewed in more detail. Medical Costs in several areas appear to be driving the ultimate cost of the claims.

Reserve Trends

As the claims on the National Account are less than two years old, an analysis reserves on Open Workers Compensation Claims with no Recent Financial Activity was not undertaken. Normally, this review points to claim offices that are not closing claim files in a timely manner.

Payment Trends

We did not detect any unusual negative trends in any type of payments including medical, allocated, expense, and loss payments.

Recovery Trends

Recent articles have established recovery benchmarks. These studies suggest that W.C. recoveries should be at least 1.9 percent of losses. We did not see any location with a significant amount of claim recoveries. Given the huge potential of recoveries from subrogation, 2nd Injury Funds, Social Security offsets, we suggest that RMG begin a review of claims to review for potential recoveries. Through our partnerships, and industry contacts, RMG can help National Reinsurance Company with the necessary claims recovery talent needed to look for recovery opportunities.

This issue is already addressed in our signed agreement.

Claim Diary, Supervision oversight and follow-up

As none of the diary notes is available, we are unable to review this category for National Reinsurance Company, now. However, based upon our successes elsewhere in reducing loss costs associated with the lack of working claim diary or supervision, we suggest National Reinsurance Company have this work included in upcoming audits.

Claim Occurrences over \$500K

As National Reinsurance Company has a \$500k retention, we reviewed the data to determine if there were any incidents where individual claims could be linked to a single occurrence. While there are a few claims that appear to be the result of a single occurrence, none of these claims totaled over \$500k. Exhibit III 1 lists the few claims that are over \$500k.

Duplicate Claims

Exhibit IV reveals claims that appear to be duplicates. Correcting these errors would reduce the overall incurred on the account.

COMPARISONS

Time to Close

As this account is not yet two years old, a Time to Close analysis was not undertaken.

Medical Vs Incurred

As expected, and shown on Exhibits V and Exhibit VI, there is a direct statistical correlation between the amount of medical expenses incurred on a claim file, and the ultimate incurred. However, we did notice a few locations where the Medical Expense was unusually high. Consequently, we recommend that a Managed Care efficiency review be done for twenty-one locations where the Medical is an above average percent of the total incurred. We believe a Managed Care efficiency audit should look at the following items:

1. Nursing oversight, and the related costs,
2. The effectiveness of the Medical Bill re-pricing software being utilized,
3. The effectiveness of the Managed Care Utilization review, and
4. The PPO pricing discount being obtained on behalf of Sprint.

We would like to reiterate our observation, that medical costs seem to be the essential area for concern. Further, we believe that focused medical audits are warranted in these twenty-one locations.

ALE Vs Incurred

Similar to the Medical vs. Incurred Analysis done above, there is a direct correlation between ALE Costs and the ultimate incurred, please see the attached graph listed as Exhibit VII. Our analysis points to two locations that have a statistical high percentage of total claim costs being spent on allocated expenses. These expenses might be for legal fees, investigation or adjusting activity. However, in order to ensure that every dollar is being spent wisely, and with National Reinsurance Company's best interest "at heart", we believe that allocated expenses be audited for these two locations.

Our understanding is that TPA's Claim Administrative fees are outside of the program, and paid directly by National Account to the TPA. This is a key reason why this expense category has less importance for this review.

Indemnity Vs Incurred

Again, there is a direct correlation between Indemnity costs related to lost time cases, and the ultimate incurred. Please see the attached graph listed as Exhibit VIII. Our analysis points to nine locations that have a statistical high percentage of total costs being spent on Indemnity. We believe additional efforts to control lost time accidents, via Loss Control, seem appropriate. Also, back to work and reduced duty programs may prove useful. We suggest an audit of Indemnity payments be done to ensure that these payments are both reasonable, and accurate. This includes checking the average weekly wage, the Indemnity payment calculation, and the duration of lost time results from the injury.

Frequency and Type of Loss

Additional Loss Control efforts in Florida, Virginia, Louisiana, Tennessee, Georgia, and California appear warranted. Exhibit IX lists the incurred for five Occupations with above average incurreds. As we our analysis did not reveal anything special that could be done to reduce the incurred for these occupations, we suggest that Loss Control efforts to control accidental claims form these five occupations be reviewed. In addition, we conducted a review of losses by nature of accident. However, there were to many claims coded to miscellaneous – unclassified to make this review meaningful.

BANKING

Payment Accuracy, Outstanding checks, escrows review

None of the Banking analysis can be done at this point in time, as this data is not currently available to RMG for review. However, based upon our successes elsewhere in reducing costs associated with loss funding, and in improving cashflow, we strongly suggest National Reinsurance Company have an onsite audit done at the TPA's Home Office to review this area.

As an example, positive pay is a very effective anti-fraud service offered by most claims management organizations. Under positive pay, the corporation issuing checks sends the disbursing entity a copy of the issue file (check #, account #, date, payee, and amount). When checks are presented for payment, only those checks that match the authorized issue file are paid. Today, with scanners and laser jet printers, the amount of fraudulent claim checks presented is a big and growing problem. Only those organizations taking proper safe guards will be protected.

REGIONAL OFFICES

As shown on Exhibit X, we believe that National Account – and National Reinsurance Company has taken steps with TPA to consolidate claims into several regional dedicated units. This type of claims management arrangement accomplishes the following:

- To reduce administration for the business unit claim managers and at corporate.
- To increase ownership in adjusting offices that currently has few National Account claims and consequently no significant continuous relationship with your company.
- To improve the consistency of service by concentrating the work in the hands of fewer claims adjusters.

There a few claims that appear to be handled by other offices. In the course of a normal audit, the reporting procedures should be reviewed to ensure consistency.

RECOMMENDATIONS

We suggest the following next steps:

- Undertake a national claim audit at TPA's home office. This audit should include the 143 claim files listed on Exhibit XI.
- Conduct an operational audit to ensure the accuracy of all financial billings, including a current checking account reconciliation, escrow levels, and system interface controls. In addition, this review should include procedures for reporting new claims, confirming coverage, requesting and paying for all managed care activities including nurse involvement, medical bill repricing , and PPO activities.
- Conduct a coverage confirmation audit in Florida to ensure claimants are properly verified.
- Undertake a California claims audit for both Indemnity and Medical expenses.
- Review the claim recovery activities being taken on behalf of National Reinsurance Company on the National Account account.