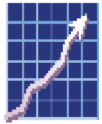

RMG CONSULTING
Claims and Risk Management Executives
www.insuranceaudits.com

1280 Route 46
Parsippany, New Jersey 07054

Phone 973-394-1730
Fax 973-394-1734
Email info@insuranceaudits.com

A National Insurance Company

TPA Processing Review

Table of Contents

Background 4
Accounting 5
Cash Controls 5
Funding Methods 6
Reconciliation 7
Actuarial 8
Claims 8
Audits 9
Contract 10
Operations 11
Information Technology 12
Booking Policy Data from MGAs 12
Tracking the Deal 12
Booking Claim Data from TPAs 13
Interim procedures when you do not get data loaded to COMPUTER SYSTEM 13
Level of detail loaded from TPAs 14
Require Everything and Load Check Level Information 14
Require everything and Load what is needed 15
Get It Booked, Now 15
Matching claim data to policy data 16
Premium Audit 16
Bureau & State Reporting 18
Software Vendor 18

Background

A NATIONAL INSURANCE COMPANY requested 'a walk thru' of their current internal workflow and processes for managing the Third Party Administrators (TPAs) that handle claims for the unbundled market business. This review focuses on areas of responsibility, workflow, interdepartmental communication and future procedures. This report reviews each functional discipline in alphabetical order.

- Accounting
- Actuarial
- Claims
- Operations

A NATIONAL INSURANCE COMPANY currently has several TPAs and will be inheriting several more from an operation in Connecticut. The impact of these additional TPAs on A NATIONAL INSURANCE COMPANY' growth merits special attention. This is because controlled growth was universally expressed as a crucial component of A NATIONAL INSURANCE COMPANY' future business plans throughout my discussions with staff members

Tracking information such as premium and claim data in an unbundled insurance market is vastly different from the approach used in most insurance companies where a policy number is used as the root for collecting information. In the unbundled insurance market, critical information is tracked by the deal, which for purposes of this report, is defined as a unique underwriting method such as guaranteed cost, captive, retro or deductible plan with a specific Managing General Agent (MGA) and TPA. In such an arrangement, losses are funded though a single loss fund escrow account, which is under the control of an outside vendor.

Many of the suggestions in this report may seem obvious; however, a few are controversial. Comprehensiveness of options available to A NATIONAL INSURANCE COMPANY' management team was the aim. This approach is also used because the purpose for this report is multi-dimensional. For some, this report provides a review of the basic principles of operating in an unbundled setting. In addition, this report explores alternatives and provides an understanding of tactics used by competitors. Also, this report can be used to help justify staffing levels going forward.

Finally, managing the unbundled business is tougher, and more expensive, than it looks on the surface. In traditional insurance business, companies need to build systems, underwrite risks, issue policies and settle claims. By comparison, companies in the unbundled market also need to build data interfaces with systems that they have never seen before, place escrow funds in bank accounts they do not own, and settle claims using adjusters who are not on their staff. Further, because so many transactional processes are 'outsourced', senior management often believes it only needs a small internal staff to oversee this process. Managing the unbundled market tests the limits of "doing more with less".

Accounting

In a traditional insurance company, the Accounting function is primarily a back office function, focused on maintaining the company's books of records including general ledger, GAAP and statutory reporting. Using management accounting techniques, the financial function also deals with tracking operational performance. However, in the unbundled insurance market, Accounting is the first and last line of defense for managing the TPAs.

Cash Controls

If the losses on a deal suddenly increase, the first department to see the increase in clams paid activity is the Accounting Department. For this reason, Accounting needs to have a "feel" for expected loss activity, and must be sensitive to unusual changes in activity, which may take the form of requests for unusually large dollar amounts by TPA for prefunding a large loss or an unusual number of funding requests. In either case, Accounting needs to alert the claims department to this activity.

Most of these increases for additional funds will be associated with the normal growth of accounts. Occasionally, a funding request will be of such a magnitude or occur with increased frequency to warrant an investigation. Because of volume of claims activity on most deals, many unusual requests turn out to either be random increases in claims activity or honest errors. However, fraud does occur with increasing regularity, and the Accounting Department needs to know that they are the first line of defense in protecting A NATIONAL INSURANCE COMPANY' capital. 'Falling asleep at the switch' can be costly.

Funding Methods

Today, TPAs use several methods to fund loss escrow accounts, such as setting up an Imprest Account and seeking replenishments on pre-set time periods or dollar levels to achieve a Zero Balance Account. For new and current TPAs, the long-term, preferred method of funding is through a Zero Balance Account (ZBA) funded as checks are presented for payment with a Positive Pay System in place. This way A NATIONAL INSURANCE COMPANY will (1) never fund a check that is not presented for payment (cleared) and (2) will retain the cash internally, for a longer period of time. Once an account is “up and running”, the average time lapse between a claim check being issued and cleared is three weeks.

Positive Pay is a system by which the TPA notifies the bank about which checks were issued by giving it an electronic file that includes check number, date and amount. When a check is presented, the bank’s system confirms that the check number and amount are correct. Differences in amounts are displayed on an error report, which is typically reviewed by bank personnel. If a check is presented that is not on the list, the issuing company is notified. Checks that are presented to the bank for payment, that are not on the system generated list include (1) data errors, (2) manual checks that were not entered into the claims system, and (3) “suspect” checks.

A Zero Balance Account is exactly what the name implies: a checking account that has a zero balance. The banking system performs most of its work between 3pm and 5pm. During this time period, the bank receives and posts the transactions that will clear the next day. As a result, with the proper systems in place, a customer can determine which checks will be posted to the account the following day and arrange for those funds to be deposited to the account.

When claim-funding requests exceed 200 per month, A NATIONAL INSURANCE COMPANY should begin to consider setting up an Automated Clearing House (ACH) credit account. This process will streamline the loss funding process: Each TPA can request daily replenishments for each ZBA cleared account; A NATIONAL INSURANCE COMPANY can review the request and deposit the funds to the TPA’s account.

On an ACH – Credit Account, a TPA request for the funds must be approved by A NATIONAL INSURANCE COMPANY. Never set-up an ACH Debit account that allows a TPA to request and receive loss funds without A NATIONAL INSURANCE COMPANY’s prior approval.

Banks that are often used by TPAs include Bank of America, Citicorp, Chase, Mellon and SunTrust. My experience with these banks have lead me to conclude that Bank of America has the best marketing department, Citicorp has the best systems, Mellon has the best company service and SunTrust has the most TPAs.

As A NATIONAL INSURANCE COMPANY and a lot of other insurance carriers have experienced, loading TPA claim data though Software Vendor process typically takes longer than expected. The same is true in switching the TPAs from an Imprest Account with funding replenishments on issued basis to a Zero Balance Account with funding on a presented, cleared basis. Making this change will take longer than planned. Concerns that a TPA may raise include:

- A ZBA was not part of the deal,
- TPA's Financial Management believes it will undertake unnecessary credit risk if it issues claim checks and needs to chase the cash deposits,
- TPA's system is not ready to accommodate Positive Pay, and
- Transition from the current banking system to a ZBA account with positive pay takes longer than expected.

If a current TPA objects to moving to a new banking relationship, A NATIONAL INSURANCE COMPANY should lower escrow balances, implement more frequent funding, and aggressively follow-up on outstanding checks thru the claims function.

Reconciliation

Financials is one of two areas that I.T. should set up a new TYPE OF COMPUTER SYSTEM Table to track results. The other area is a new Account Table to track the deal, which is discussed in the Operations – Tracking the Deal Section below.

As discussed above, Accounting establishes the initial bank account relationship with the TPA, and receives requests to replenish the loss funding escrow account. In addition, Accounting should receive the following information:

- From I.T., control numbers for the tape received from the TPA. This would include a claimant count, paid total numbers (all expense categories paid + losses paid – recoveries) and a total incurred number.

- From I.T., the balancing numbers from 1.) the Corporate System's data load from the TPA tape to their Claims Administration System (CAS), and 2.) data loaded to Provisional and COMPUTER SYSTEM.

- From Claims, the control numbers, which is normally the last page of the loss run, stating total claims, paid and insured numbers.

These numbers should be loaded monthly to a new TYPE OF COMPUTER SYSTEM Table, so that everyone can see the dollars by month over time deposited with the TPAs, loss information supplied by the TPA, numbers from the reformatting process at Software Vendor and the numbers loaded to COMPUTER SYSTEM.

As a starting point to this new process, an inception-to-date reconciliation of escrow loss funds disbursed to the TPAs as of DATE to the year-end loss runs should be undertaken as soon as possible by the Accounting Department.

Actuarial

In addition to its traditional pricing and reserving responsibilities, Actuarial can play a management-accounting role in the unbundled market. First, it can influence underwriters about increases or decreases in the type of business, line of business or region that should be written.

When starting to build an unbundled business, Actuarial can give the other operational areas statistical benchmarks for projected activity. For example, on a new account, Actuarial has an expected payout and reserving pattern. These projections can be compared to actual information received from the TPAs. If actual results are in line with projections, the book may be great business. A closer review of these numbers may indicate a significant break in the transactional processing somewhere in the process. This analysis can reveal deviations from basic control steps or lags in the timely reporting of claims to or from the TPA.

Again, an account with very few paid losses may indicate a great book of business; or may indicate operational issues such as the TPA is not receiving claims timely, or is extremely slow to set-up and settle cases.

Claims

Receiving, setting up, investigating claims and making payments to settle losses are all part of the claims process. However, the most critical part of the claims department function is coverage confirmation. Unfortunately, coverage confirmation is seldom done using the insurance companies systems. This is especially true when MGA interfaces are involved. In theory, data should flow from the MGAs rating system to the insurance companies systems, daily, seamless and completely. However, more often than not, the Claims Department is looking for a binder to confirm coverage well before a physical policy has been printed. This “timing” difference causes the Operational – TPA function a significant amount of trouble. (See Booking Claim Data from TPAs below.)

Once coverage confirmation process is in place, and the claims department at the TPA is functioning, the next issue is reserves. My experience is that there is significantly more reserve development, and reserve stair stepping, at TPAs than at claims insurance companies.

Audits

One way the Claims Department deals with this issue is via auditing. Some of the more common auditing techniques are:

- Large Loss Audit
- Claims Manager's Review
- Accountant's Random Audit
- Benchmarking and Focused Audits
- METHOD A & METHOD B LEO / Leakage Studies

Large Loss Audit

Claims Department selects a number of claims at the reporting level and reviews the completeness of the process. Simply, this type of audit must be performed regularly.

Claims Manager's Review

Certain files are selected based upon the Claims Manager's feel and experience. This is useful specially if there is limited statistical information.

Accountant's Random Audit

Accountant's Random Audit is used by Accounting firms and several reinsurers to determine what is happening with the average file. While useful to ensure that claim checks are in fact related to a certain claim, this process is expensive and yields limited results.

Benchmarking and Focused Audits

This process uses the available statistical data to determine in what areas the least amount of retraining will have the greatest impact, i.e., a significant decrease to ultimate losses. This technique is the only way I conduct claim audits. Quite simply, I like to know the problems before selecting claim files for auditing. Two simple Excel files are enclosed: One is a simple review of averages, highlighting Automobile areas that might be reviewed; the other is a cluster analysis showing Workers Compensation claims by quadrant.

METHOD A and METHOD B LEO Studies

The big name consulting firms have their own way of undertaking audits to achieve Best Practices. LEO stands for Loss Economic Opportunity. The process basically reviews each step of the claims process (coverage verification, investigation, litigation management, managed care, settlement, and recovery) to determine where improvements could be made. These improvements are then used to determine how much the loss ratio could be reduced if all claims were ideally handled. The study typically goes on to explain that for the claims department to handle everything properly it would add to staff. But because the claims department rarely gets the additional head count, the improvements are not implemented, and the multi-million studies are effectively useless.

Contract

Of critical importance to this process is the TPA Contract. Using the XYZ contract as an example, A NATIONAL INSURANCE COMPANY may want to consider the following additional clauses:

Supply of data: The XYZ contract currently reads, in Section 4, paragraph A - Supply of Data "for as long as this Agreement shall be in effect, Service Co. agrees to provide" data. If the deal is cancelled, and A NATIONAL INSURANCE COMPANY elects to have LPW run-off the claims, LPW is responsible for continuing to handle the claims and report data. However, in Exhibit C, A NATIONAL INSURANCE COMPANY is paying XYZ CERTAIN PERCENTAGE of gross premium, plus one-third of medical review fee savings. As a result, under this arrangement, XYZ receives most of their income up front, so they have already been paid for the bulk of their work, even though much of the work is yet to be performed. Therefore, once the contract ends, LPW may not have any incentive to continue to work with either the A NATIONAL INSURANCE COMPANY Claims or I.T Departments. Upon renewals, A NATIONAL INSURANCE COMPANY may want to consider adding language that pro rates the CERTAIN PERCENTAGE of gross premiums each calendar year.

In addition, I could not locate wording that explicitly references the A NATIONAL INSURANCE COMPANY Data Requirements package as part of the contract.

Direct debit account: Wording in Exhibit D, Paragraph 4, of the Venture contracts reads that the account will be set-up on a direct debit basis to support the funding of losses. Direct debit account needs to needs to be changed to ACH Credit account as soon as practically possible so that A NATIONAL INSURANCE COMPANY' Accounting Department will be in a position of pre-authorizing cash transactions rather than just being informed of them after the fact.

When setting up these accounts, most managers focus on the loss of interest. However, the real danger is the loss of principal because a "bad transaction" was allowed to go through the process.
Cleared basis vs. issued basis: Also, Exhibit D, Paragraph 4 of the Venture contract discusses conditions where the Service Co. is funding on a "cleared basis" and on an "issued basis". This wording implies that the Service Company can change, at its discretion, the method of replenishment. As a result, future contracts may want to explicitly discuss the agreed upon wording.

Operations

Operations include several distinct functions including Information Technology, Underwriting Services, Premium Audit, and Bureau & State Reporting. In addition, this department oversees responsibility of the Software Vendor process.

In some cases several of these functions are actually performed by the same unit, or are outsourced to an independent vendor. However, each function will be discussed individually to keep the disciplines separate.

Information Technology

A NATIONAL INSURANCE COMPANY utilizes the COMPUTER SYSTEM system on the AS400 platform as their system of record for policy and claim information. As the COMPUTER SYSTEM system is a policy – claim integrated system, significant changes to the internal workings of the system are challenging to update. However, A NATIONAL INSURANCE COMPANY' Information Technology department faces new issues with booking transactions from the unbundled market. These new issues include the following:

- Booking policy data from MGAs
- Tracking the deal
- Booking claim data from TPAs
- Tracking results of the various unbundled deals

Booking Policy Data from MGAs

Although Underwriting Services function and the I.T. Project to load policy data to COMPUTER SYSTEM are not part of the TPA review, I do want to acknowledge that these functions are important to managing the claims process. First, without policy detail in COMPUTER SYSTEM, claims will remain in provisional. Second, booking policy data to COMPUTER SYSTEM is harder than it looks, will take longer than expected, and will absorb a significant amount of I.T. resources.

Tracking the Deal

To make life manageable for the back office, most companies including Reliance National created an account number for each deal. A deal is defined as a group of insureds in a unique Underwriting plan. For example, if an association were insured by A NATIONAL INSURANCE COMPANY, they would be grouped together as a deal. In the next underwriting year, if that association formed a captive; a second account would be set-up. This is because the deal has fundamentally changed. In the first underwriting year, A NATIONAL INSURANCE COMPANY assumed insurance risks and funded the claims though an escrow account at the TPA. However, in the second year, the captive would fund the claims directly and only used A NATIONAL INSURANCE COMPANY as the primary insurance paper. As a result, the risks to A NATIONAL INSURANCE COMPANY have changed from Insurance, Credit and Operational Risk to simply Credit and Operational Risk.

Similar to policy information, I believe the deal should be 'codified', and the attributes of the deal stored on a table on the TYPE OF COMPUTER SYSTEM. This table does not need to be part of the

NAME OF COMPUTER system; however by existing on the TYPE OF COMPUTER SYSTEM, the same data is available to I.T., Accounting, Actuarial and Claims so that each can track information by deal. The account table should include as much information about the deal as possible including:

Account number	Account name
Effective date of the deal	Expiration date of the deal
Lines of business	States
Broker	Method of loss funding
Method for paying TPA service fees	Type of deal (guaranteed cost, retro, captive, etc.)
Bank used	Bank account
Range of policy numbers assigned	
Contracts (name, address, phone, fax, e-mail)	

Proper electronic filing now will save hundreds of hours later.

Booking Claim Data from TPAs

There are several aspects of loading claim data from TPAs that need to be addressed including:

- Interim procedures when you do not get data loaded to COMPUTER SYSTEM
- Level of detail loaded from TPAs
- Matching claim data to policy data
- Using the claim data for management analysis
- Tracking results of the various unbundled deals

Interim procedures when you do not get data loaded to COMPUTER SYSTEM

During the start-up phase of building the infrastructure for managing the TPA unbundled business, there is a lack of information in company's systems. This information void can be as short as 10 months (INSUANCE COMPANY A), or it may never be filled (General Accident). This issue will reemerge each time a new TPA is added to the process, and will occur each time a TPA's system crashes, or where a TPA implements a major system upgrade or replacement. Even when the information environment has stabilized, A NATIONAL INSURANCE COMPANY' I.T. department will need to contend with the TPA's system maintenance issues. For example, if we assume a TPA's system "crashes" once every 3 years, and A NATIONAL INSURANCE COMPANY has six TPAs, it is not unlikely to encounter a major data issue twice a year.
During these down periods, Accounting, Actuarial and Claims can feel like they are running blind. When this happens, I suggest the following steps:

- Monitor cash requests from TPAs much more carefully.
- Additional on-site claim reviews
- Lower the large loss reporting level and
- Obtaining data from the TPA in any fashion available, including hard copy loss runs and Excel Files.

Level of detail loaded from TPAs

Savvy insurance companies have a Data Requirements Package that they give to current and prospective TPAs. It defines the level of data detail that is expected in the arrangement. All of these packages are in one-inch, three-ring binders that are full of data elements and codes. This is in contrast to the unbundled insurance industry where there are three different schools of thought regarding how these packages are used and what level of detail to load into company's systems.

Require Everything and Load Check Level Information

This process was created by AIG and states that a TPA will send all required fields. Information Services, now AIG Claim Services, reviewed all data requirements for all lines, for all states, and then required this information to be loaded for all claims. For example, AIG requires detailed claim information fields to be supplied for non-DCI states. AIG also requires complete check information, which needs to match and balance to the loss run. Estimated time for a regional TPA to become in compliance ranges between nine and fifteen months.

A noteworthy point: Industry "rumors" contend that even though AIG has received check level detail for years, AIG's systems and Accounting Departments have only recently begun to demand that these data files balance to banking files, such as the escrow accounts that are in place. My understanding is AIG has one analyst for every fifteen TPAs.

Require everything and Load what is needed

Probably the most common process used today is to require everything and book what is needed. A number of large insurance carriers in the unbundled market have data requirements that require everything including checks. However, they only load information that is absolutely needed to their companies' systems. Check data is not needed for Bureau Compliance Requirements. In this case, the I.T. department feels more comfortable because the check data is available if needed.

Time to implement these data requirement for TPAs runs between four months to a year because the insurance company is not as strict about balancing transactional files to reported losses.

Few of these companies have integrated the Accounting Department's numbers into the control process.

Get It Booked, Now

A TPA claim analyst is taught about Bureau Compliance Requirements and about what rules are enforced. He or she is typically told to build an interface from the TPA claim system to the insurance company's claim system of record. Effectively, the TPA claim analyst takes data in the TPAs format and reformats the data to match the company's internal system. Two key balancing points exist to ensure data integrity: Daily escrow loss fund replenishment transactions and the loss run, which the claims department uses as its indicator of actual losses. Within this school of thought, responsibility for data reformatting is shifted from the TPA to an internal employee to make the process work ASAP.

In addition to INSURANCE COMPANY B, INSURANCE COMPANY C is currently using this procedure of receiving unformatted data from the TPAs system.

INSURANCE COMPANY B had one TPA analyst for every 20 TPAs. In addition, there was one Account Service Representative for every 100 accounts at Software Vendor in CITY, STATE to help with error corrections.

Matching claim data to policy data

This responsibility is the 'guts' of data quality. Compliance department in reporting information, Information Services in designing system edits and Policy Issuance in sending Deceleration pages to insured's, each needs to take the data quality function seriously. But these functions are amateurs when compared to Claims Information Technology TPA Analyst who has the job of matching claims data from an outside organization to policy data loaded from another outside organization and then must get financials booked while satisfying the quality needs of the Rating Bureaus, Actuarial, and Claims Management.

When claim data does not neatly match with policy information, the Claims – I.T. Analyst needs to determine what is the most likely error such as an incorrect coding by a TPA, a data interface that is dropping transactions or incomplete policy information. Further, this process yields little recognition for the Claims – I.T. Analyst because when this process works, no one notices, but when this process does not work, everyone does notice.

This process becomes even more complicated when the claims function confirms coverage using a binder issued by the MGA, which is later loaded into the system as policy information. In this case, the systems analyst attempts to re-confirm coverage based on the actual information coded to the system. When the information taken by the TPA from a binder differs from the data coded into the policy or claims system, a mismatch will occur. For A NATIONAL INSURANCE COMPANY, this process is a portion of the Provisional Error Correction process.

In the approximate twenty companies I have visited, I have met no more than 30 individuals who can handle this position well. Some analysts fail because they try for data perfection. These analysts more often than not end up booking nothing. Others lack the skills necessary to track data from the claims file to the TPA's system and onto the data file submitted, then the data reformatted to a common structure, and match it against prior information submitted and loaded to the company's internal claim system.

Premium Audit

Within the unbundled market, Premium Audit is one area that should take on additional responsibilities. Too often, the Premium Audit function is treated simply as a premium-billing unit. In addition to this necessary job take, I would recommend making Premium Audit department a quality control "Hammer". Specifically, the Premium Audit function should review the following:

Data Reasonableness – Before conducting a Premium Audit, undertake a review to match claim data against policy coding for reasonableness. Two examples follow:

Policy Data		**Claims Data**	
Policy1234		**Policy1234**	
State – New Jersey			
Class Code	Premium:	Class Code	Losses Booked
8810	$100,000	8810	$50,000
1741	$1,000	1741	$0
1742	$50,000	1742	$20,000
State – Delaware			
Class Code:	Premium:	Class Code	Losses Booked
8810	$19,000	8810	$9,000
8811	$8,000	8811	$0
Policy7890		**Policy7890**	
State – New Jersey			
Class Code	Premium:	Class Code	Losses Booked
8810	$100,000	8810	$5,000
1743	$1,000	1741	$0
1744	$50,000	1742	$100,000
State – Delaware			
Class Code:	Premium:	Class Code	Losses Booked
8812	$19,000	8812	$1,000
8813	$8,000	8813	$95,000

In the above example, Policy1234 has some differences between claims coding and policy detail. However, for Policy7890, class code 8813 in Delaware has losses nearly 12 times the premium. While possible, it is statistically unlikely. In this case, Premium Audit function should review this entry for reasonableness.

If there is a case where vendors (MGAs and TPAs) need to default codes, they should default to the same set of codes as much as possible.

<u>Bureau & State Reporting</u>

This function is responsible for a myriad of responsibilities including the following:

- Reviewing the data calls and reports for ISO, NCCI and State Insurance Department calls,
- Determining the data fields necessary to be collected from the TPAs to meet these calls, and
- Preparation of the reports

By default, the Bureau and State Reporting function performs a data quality control function, and more often than not will be the discipline that requests stricter data edits.

<u>Software Vendor</u>

Under the current plans for future growth, A NATIONAL INSURANCE COMPANY does not need Software Vendor indefinitely. However, A NATIONAL INSURANCE COMPANY would need Software Vendor on an ongoing basis under any of the following circumstances:

Massive Issuance of Customized Loss Runs – Software Vendor could print and ship loss runs to individual insureds more cheaply than A NATIONAL INSURANCE COMPANY could print the reports.

But I.T. needs to walk before it run. This situation is not unlike the evolution that Accounting needs to undergo in upgrading its banking systems with TPAs. Also, currently the amounts being charged by Software Vendor are not large enough to require immediate attention, and the resources to design cost effective plan to eliminate them are not currently available.

Steps that A NATIONAL INSURANCE COMPANY should undertake now to prepare for replacing Software Vendor include the following:

1. Hire the new Claims Data "Analyst"

2. Train the person in the technology used by A NATIONAL INSURANCE COMPANY including COMPUTER SYSTEM and TYPE OF COMPUTER SYSTEM Query.

3. Require that the Claims Data Analyst to take a course in insurance including the ways A NATIONAL INSURANCE COMPANY' rates risks, issues policies and books the transactions.

4. Require that individual to have a complete understanding of the State Insurance Department regulations along with the Bureau reporting requirements.

5. Require that person participate in several onsite audits with the Claims Department so the he or she gets to see claim files first hand along with the systems used by TPAs.

6. Require an understanding of the Corporate System process, from matching the data "ditto" to the record format, loading and converting of data, and the "Mismatch Process". The mismatch process entails several established routines that Software Vendor uses to determine the claims status, i.e. which claims are new, which claims are updates, and which claims are being reported under a different claim number. This last item is somewhat unique because most systems analysts believe "keys", such as claim number, are unique and do not change. However, at TPAs, claim numbers often change. For instance, if the first three digits of a claim number represent the branch office handling a file and a claim file were transferred from one office to another, the claims number would change.

7. Undertake a cost – benefit analysis by reviewing Software Vendor charges against projected "in – house" costs to determine if the function can be moved from Software Vendor in Amarillo to A NATIONAL INSURANCE COMPANY' offices in Exton.

8. Begin to build a new process by taking on a new account directly from a TPA and bypassing Software Vendor. Assuming this work will lay the groundwork for a new process and test its viability.