

Claims

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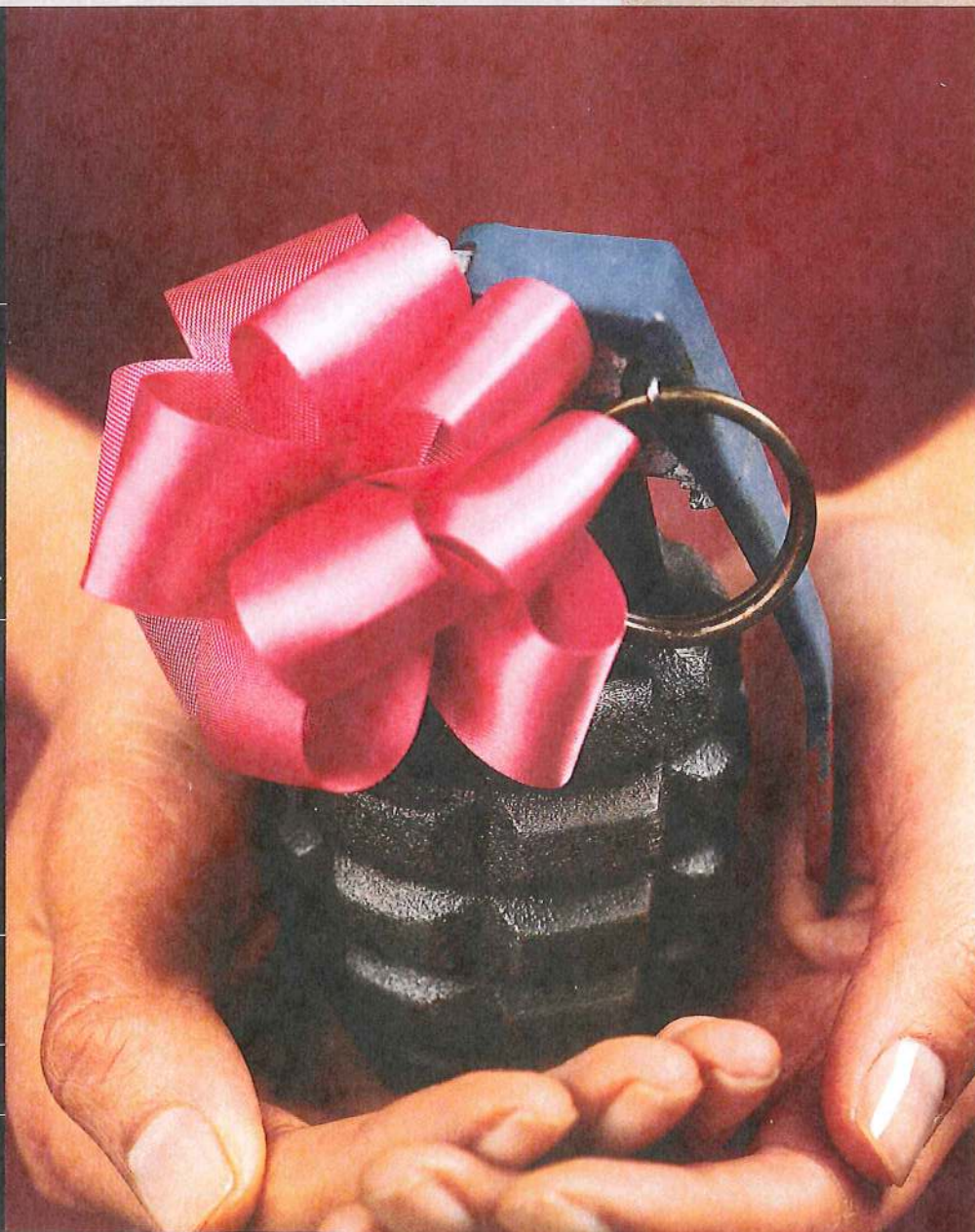
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ATLANTA GA 30342-2276
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Effective Claim Audits

The Right Program Can Provide Opportunities and Insights



The objective for any claim-paying organization is to strike the right balance in making good on the promise made by the coverage that was sold: Indemnify and make whole the insured as quickly and efficiently as possible.

Anyone purchasing an insurance policy is doing so with the idea that someday a loss will occur, and a claim will be submitted. Given that very few policyholders actually read their policies — and those that do tend to not fully understand all the coverages — it's no surprise that once a loss happens, the insured often finds himself in uncharted waters with not much to go on.

Enter the claim adjuster. Their job is to evaluate the loss, manage outside experts, apply coverage, negotiate and settle with the insured, pay the claim, and close the file. While they are at it, they are to use experience to identify potential fraud, and recovery

opportunities — all this while supervisors coach and auditors provide feedback.

Claim-Handling Best Practices

There is much talk in the industry regarding “best” or “leading” claim practices. Ongoing efforts across the industry seek to define, codify, and implement these practices. However, in the real world, adjusters spend most of their time reacting to outside stimuli: phone messages, new mail, new claim assignments, and diary prompts. They work at a rapid pace, but their activities are largely dictated by their diary systems — open a claim, make a phone call, enter a note, and create a diary for a week later — not by the claim-handling best practices instilled in an organization. They spend their time trying to clear all of those to-do lists and keep their heads above water rather than creating and executing a handling plan appropriate to each individual claim, with a focus on identifying and making decisions necessary to achieve the most cost-effective claim resolution.

How should we best think about achieving high-quality outcomes through best-practices file-handling and an effective audit process? Below is a model that separates the claim-handling process into discrete steps and makes a distinction between supervision and oversight as compared to the file audit process.

Claims intake/notice of loss. Once the loss occurs, the policyholder contacts his agent, the carrier, the TPA, or whatever party is on the other end of the toll-free number on their insurance card. While some carriers are offering web-enabled/self-service loss intake and reporting capabilities, the majority of losses are reported telephonically. Capturing pertinent information, validating basic coverage, and getting the information into the claim process is the job of the intake function. Also, capturing complete and accurate information up front is critical to the claim-handling process and any downstream audit or file review.

Claim triage and assignment. Effec-

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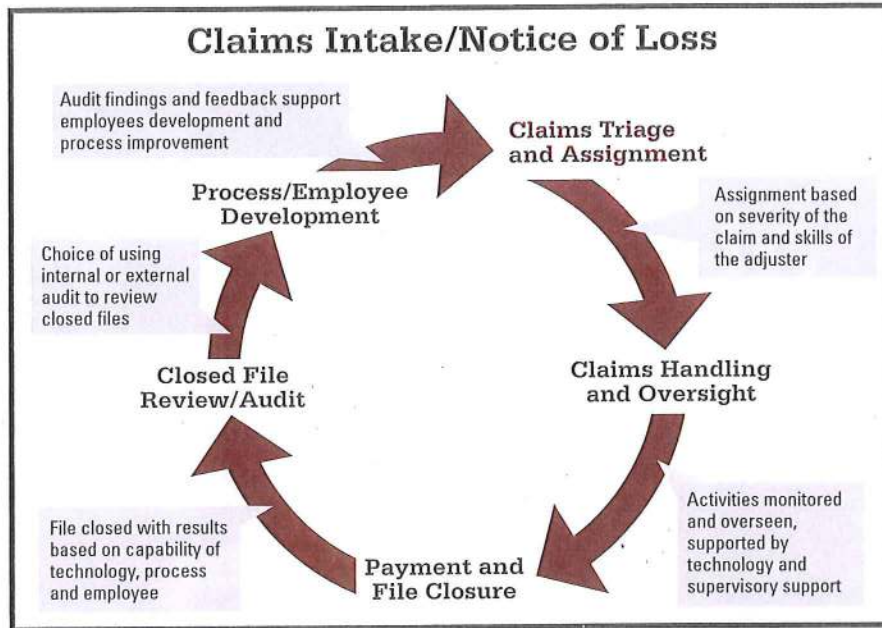
tively assessing the loss and making the proper assignment is an important feature in any claim process. This is done either through automation and business rules or by an experienced supervisor reviewing the loss information and assign-

ing the loss to an adjuster who can best handle the claim based on severity and line of business.

Claim handling and oversight. Once the claim is assigned to the correct adjuster, the "handling" begins. First contact, in-

terviews, information gathering, applying coverage, looking for third-party liability, and recovery opportunities are all part of the process. The most important element in this phase is making sure that the correct level of oversight is being applied to bridge any gaps between the demands of the file and the experience of the adjuster. Oversight is typically provided by claim supervisors or lead adjusters. Technology plays a role in tracking the progress of the file through a prescribed process, calling for milestones to be completed, such as first contact, first report, follow-up reports, and closure. Keeping track of these time-in-process elements is important, and provides an indication or early warning of a file that is not being managed well. Equally important, however, is monitoring reserve development as the file matures and determining whether the development is in line with the final payout on the claim.

Payment and file closure. After negotiating and settling the loss, the adjuster pays the loss and the file is closed. Supervisory oversight and a level of approval



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are necessary for all but the most experienced adjusters in making final settlement on the file. Once the payment is made, it's difficult to recover any potential overpayments or duplicate payments. Missed recovery opportunities need to be identified.

Closed-file review/audit. The audit process, often taking the form of a closed file review, is critical to achieving high performance levels, even though it is moving to a more systematic and continuous approach rather than a point in time. Audit teams can be internal to the carrier or the TPA, or can be an independent third party hired to provide an outside view. The choice whether to use one or the other — or both — is a management decision, based on the objectives of the audit and the requirements of a given client.

An internal audit is a standing, ongoing file review team often staffed from the production floor by senior adjusters with opportunities to rotate back into the claim unit. This "rotational" opportunity keeps the team fresh. Knowing what pitfalls await those handling files, understanding trends, and identifying common errors will improve the knowledge and skills of the adjuster. The internal audit team uses a consistent scorecard known to adjusters and supervisors being audited, and findings are specific and actionable down to the employee level for performance review/actions and employee development.

An external audit consists of hiring someone to perform periodic (typically annual) reviews. The external auditors can be client specific, in the case of a carrier/TPA arrangement. There is the benefit of an outside view supported by experience gained from performing audits at other carriers and TPAs, insights and best practices that can be shared. Audit results are based on a known scorecard and results of the audit are fed back into the development of people and processes. The outside audit can provide a second set of eyes and a fresh look at the data and processes used. It will provide an independent evaluation of the current process and assist with individual issues and trends across the company. Additionally, an external audit can help validate internal audit findings. By definition, the audit is reactive and there is

Supporting the Claim Examiner

Supervisors are often the best, most seasoned adjusters. Their job is to identify and solve potential problems before they arise, and to mentor their teams to ensure optimal performance.

In many organizations, the ability to see what is going on within their teams is limited to weekly reports and mandatory, periodic reviews of every claim their team handles. Supervisors often develop tricks and routines, such as focusing on a few performance metrics to monitor, a process for selecting claims for spot checks, or a checklist of things to look for in claim files. Although this enables them to do their jobs, it may not be aligned with the top priorities of the claim operation as a whole. If supervisors are not getting real-time insight into the highest-priority issues, then they need better process visibility and problem identification tools that help them understand what is going on and where they need to focus their attention.

Items to oversee while a file is open include:

- ▶ Tracking time in process/ KPIs.
- ▶ Accuracy of estimates and reserving.
- ▶ Claim severity/experience match. Is the assignment holding up, or is the adjuster in over his or her head?
- ▶ Steady and effective communication with the insured.
- ▶ Identification of fraud, third-party liability, and recovery opportunities.

little opportunity to rectify errors, only to learn from them going forward. This is the critical link that many companies do not have in place.

Process improvement and employee development. Conducting closed-file reviews and audits will be of limited use unless the findings are fed back into the

process improvement and employee development process. There is no better place to uncover trends and tendencies, — even identify potential holes in the training program — than with an effective audit and closed-file review. Results of the review can go down to the adjuster level and identify specific needs, while



LEADING INTERNATIONAL PROPERTY ADJUSTERS

MEMBER PROFILE

Jack Woodley is the Executive Vice President and a Managing Partner of Cramer Johnson Wiggins & Associates. For over 35 years Jack has been adjusting losses and claims. Along the way he has held various management positions but has never left his first love, adjusting major losses. Jack was one of the founders of the independent adjusting company, Cramer Johnson Wiggins & Associates that is a leading independent firm with offices throughout Florida, Georgia, Texas, and Arizona.

Jack is a designated adjuster written into several policies because of his talent and reputation. Jack is well known in the industry for his ability to respond to a loss on a timely basis and the unique capability to win the confidence of the broker, insured and the carrier he represents. Handling multi million dollar complicated losses including time element is a daily activity. He is a recognized expert handling Florida sinkhole losses. He is in his element when called on to handle a large loss.



Jack D. Woodley
Cramer Johnson
Wiggins & Associates
Orlando, FL
(407) 849-0044,
ext. 3020
jwoodley@cjlw-assoc.com

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trends can be identified that lead to overall changes in process, increased technological support, or even improved policy language and underwriting decisions.

Ideal Audit Programs

Successful audit programs don't just tie-and-tie the file back to time-in-process met-

comes may be substandard. Coverage could have been "blown" or reserves not developed timely or accurately. Outside vendors could have been mishandled, or file control abdicated once attorneys became involved. There could have been recovery opportunities ignored or not followed up on. The list goes on. So while you should focus on items

promises made in the coverages sold, and execute as efficiently as possible. It's a tall order, to be sure. Customer and premium retention is on the line, and so is achieving an underwriting profit. Despite best efforts, the potential for overpayment and inefficiency remains.

This is where the feedback and findings from an effective auditing program can provide insights as to where process improvements can be made and training and development opportunities lie. Focusing resources on developing and maintaining solid claim-handling and oversight processes, along with a strong and effective audit program, will allow your claim department to outperform. ■

Conducting closed-file reviews and audits will be of limited use unless the findings are fed back into the process improvement and employee development process.

rics. Rather, they evaluate the final outcome relative to indemnity payout and loss expense management. In other words, it's important to remember that a file can be handled within all the specified parameters based on time-in-process metrics, but the quality inside the file and the indemnity and expense out-

that are readily able to be tracked, don't be satisfied with this. Make sure to dive fully into the files to determine whether losses are being handled effectively and that money is not going out the door unnecessarily.

Remember that the objective is to pay (and pay quickly), pay pursuant to the

Jay Campbell is an executive vice president for Engle Martin & Associates, an independent loss adjusting services and claim administration company. He can be reached at 404-303-7160, jcampbell@englemartin.com, www.englemartin.com.

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