FIRST REPORT OF INJURY: IMPACT ON CLAIMS COSTS

A white Paper authored by:

Anne Engleman, engleman etcetera
Patrick Vice

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EXECUTIVE SUMMARY

Lag time - the time between an incident and claims process initiation – has been reported to impact overall claims costs including litigation, administration, and, most significantly, ultimate indemnity payments.

But, to what degree? We invite you to read on for details.

We conclude that by reducing ‘lag time’ in addressing claims; risk managers, brokers, and insurers can substantially reduce costs: loss adjustment, litigation, and indemnity.

We provide metrics to analyze the impact of further reduction in claims reporting lag time.
Settling claims is one of the true products of insurance. However, the claims process has not received the technology attention that other elements of the insurance processes have.

Anecdotal evidence suggests that the total cost of a claim increases the longer a claim is neglected. Yet, there has been little in the way of systematic study to understand how technology could reduce the lag times. This white paper documents current knowledge of the opportunities to reduce costs, and improve service, by cutting out friction points in loss reporting.

In the 'old' days of total risk transfer, reporting claims was not important for the insured because s/he wasn’t bearing the risk. And, there was little sense of urgency for the insurer because any claim costs added as a result of an insured's reporting delay were tacked on to the next renewal premium. As long as the premium could be adjusted to reflect the cost of dealing with an insured's actual experience (behavior), it really didn’t matter if claim costs increased. In fact, an insured's reporting process was viewed as a measure of 'cooperation'. Policies actually spelled out (and still do) the number of days that the insured had to report claims. Many US States went on to mandate these reporting periods.

The effect was to create an 'entitlement mentality'. True to human nature, most insureds reported claims at the last possible moment; stretching 'lag times' to the maximum allowable. Failure to meet claim reporting mandates was viewed by insurers as an opportunity to dispute/deny coverage.

Times are rapidly changing.

During the last decade a plethora of reforms in underwriting, administration, and management of workers compensation lead to a far more sophisticated insured understanding of cost containment. With the advent of retained risk and other types of underwriting options, insurers found themselves in a highly competitive market, with ever increasing pressure to reduce premiums yet deliver better and better customer service. Early reporting of claims suddenly became critical, as insurers realized they could better manage costs if they knew of a claim.

Can next generation technology reduce lag time in claim management and lower costs with any significance?

1 An excellent source of various regulations is '2000 Analysis of Workers' Compensation Laws' U.S. Chamber of Commerce. Additionally, see: 'The New Claims World Part 2' by Jim Del Vecchia, Risk & Insurance, April 17, 2000, www.riskandinsurance.com

2 'The Importance of Prompt Claim Reporting' by Conor P. Jennings and John P. McGoogan, Liberty Mutual – Business Insurance – Risk Strategies Resource Library

3 'On-the-Job Injuries Being Reported Sooner: Delays Mean Higher Costs', Kemper Insurance Media Release. Contact Kevin E. Barber, Public Relations Director. Study was based on 77,945 lost time workers compensation claims closed in 1993.
Since the Kemper Study other insurers have reported similar improvements in reporting delays. The SAIF Corporation in Oregon reports 70.5% of claims (medical and indemnity claims in 1998) were reported within 10 days. SAIF is targeting to have 80% of claims reported within 10 days for 1999 claims.

The Impact of Lag on Claim Costs

The Hartford recently published a definitive lag-time study (2000), looking specifically at the impact of lag time on claim costs. The study looked only at indemnity claims, with data from over 53,000 permanent partial and temporary claims between 1996 and 1999.

The results indicated a progressive increase in claim costs with increased lag time.

Claims reported within 2 weeks of injury were 18% more expensive than those reported within one week. Claims reported within 3 weeks were 29% more expensive than those reported within one week. Similarly, claims reported at 4 weeks were 31% higher and at five weeks they were 45% higher.

The Hartford Study also looked at the impact of reporting delay on claim costs for specific injury types:

<table>
<thead>
<tr>
<th>Injury Type</th>
<th>Impact of Reporting Period on Cost of Claims</th>
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<tbody>
<tr>
<td>Back Injuries</td>
<td>This type of injury is where lag time has the greatest impact on claim cost. Overall, claims reported after the first week were 35% more expensive. This increased to 40% when claims reported on the same day of injury were excluded. This reflects a common tendency to wait a few days to see if pain ‘settles down’.</td>
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<tr>
<td>Sprains &amp; Strains</td>
<td>Claims reported after the first week were 13% more expensive. This increased to 16% when claims reported on the same day of injury were excluded.</td>
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<tr>
<td>Carpal Tunnel</td>
<td>Claims reported after the first week of an employee reporting symptoms, lead to an 11% increase in claim costs. The difficulty with Carpal Tunnel or similar cumulative trauma disorders is that their development is slow and progressive and it is hard to pinpoint exact causes and accident dates.</td>
</tr>
</tbody>
</table>

The Hartford also analyzed the impact of reporting delays for Fractures & Wounds and Dislocations. For Fractures and Wounds, the wide range of severity made quantification of lag time on costs difficult. For example, there is a significant difference in reporting procedures for a compound leg fracture versus reporting a hairline fracture of the small finger on the non-dominant hand. Quantification of dislocation lag time/costs impact was inconclusive; though this may be a reflection of a relatively small number of dislocation cases in the sample.

These findings were supported by an earlier study conducted by Liberty Mutual which also confirmed the industry adage that prompt claim reporting lowered allocated loss adjustment expenses (ALAE).

The Impact of Lag on Claim Closure

The Liberty Mutual Study also looked at the impact of lag time on the speed of claim closure. As expected, the longer the lag, the longer it took to close a claim (except for serious injuries).

The Impact of Lag on Litigation

The previously mentioned Kemper Insurance Study also looked at the impact of reporting delay on claim outcome.

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4 The SAF Corporation 'Injured Worker Score Card' 10/7/99
6 ibid Footnote 1 – All data was based on the loss experience of Liberty Mutual's national account of business. Only closed claims were examined, only indemnity claims were examined, Run-off contracts were excluded, occupational disease claims were excluded, No development of loss or adjustments for inflation or benefit levels were made.
7 ibid Footnote 1
8 ibid Footnote 2
specifically, whether or not the claim would become litigated. Their findings also supported conventional wisdom:

**longer the reporting period - higher the probability of litigation.**

(Source: Kemper Insurance, 1994)

Surely these savings are transferable to the Workers Compensation arena?

Research from the Workers Compensation Fund of Utah (WCFU) suggests that the cost of manually processing a workers compensation bills is $15 on average. Using web based processing WCFU have been able to reduce cost to $4 on average; another example of over 70% reduction in costs.

**Online Claim Reporting**

There is no doubt early reporting reduces claim costs and improves outcomes. And it appears that the Internet reduces the costs even further.

The next horizon for insurers is to create highly secure, highly configurable data entry screens which minimize the amount of effort of claim filers, ensure a high level of accuracy and cause claim systems to be instantly updated. In other words, claim reporting will become truly interactive.

And ultimately, the old ‘double whammy’ of increased claim costs and increased administration costs will be removed; to be replaced with a far greater focus on customer satisfaction. This is far more likely to improve profit than the discounting and scaling back of service prevalent in the last decade.

**Interested Industry Groups**

Trade associations have taken an active interest in claims reporting and are encouraging suppliers to adopt industry standards to facilitate data exchange.

The Risk and Insurance Management Society (RIMS) is the largest North American trade association for risk professionals. RIMS has established a Technology Advisory Council – reporting to its executive committee – which has set data standards for claims as a high priority.

ACORD is a joint venture between the major P&C underwriters and independent agents. It has recently established two working groups to facilitate commercial lines and claims standards.

ACORD is actively working with RIMS to coordinate efforts.

**Conclusion**

When automated, First Report of Injury for Workers’ Compensation specifically, and First Notice of Loss for P&C have significant potential to reduce friction costs and lower indemnity. The risk and insurance communities have recognized this and have developed committees to encourage progress.

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9 ibid Footnote 1


SOURCES:


The SAIF Corporation ‘Injured Worker Score Card’ 10/7/99. www.saif.com

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‘Excusing ’Late Notice’ of Claims’ by Seth B. Schafler, Risk & Insurance, April 2000, www.riskandinsurance.com


‘Moving@ the Speed of ‘E’ by Bill Schrempf, NCCI Summer 2000 Issues Report, www.ncci.com


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ANNE ENGLEMAN

Anne is an international consultant specialising in collection of research and application of strategies for managing absence in the workplace, regardless of whether the absence is work related (workers compensation) or not. With over 16 years of experience working for insurers, employers and providers, Anne understands the range of issues facing the various stakeholders. As a result, she has been successful in teaming with them to improve their productivity and cost savings - in both financial and human resource terms.

anne@englemanetc.com.au
61.2.9953.0464

PATRICK VICE

Patrick has over 20 years experience enabling electronic commerce in the risk management and insurance communities. He has worked with insurance companies, risk managers, insurance brokers, and technology suppliers to successfully implement projects and programmes to realize the benefits of existing and emerging technologies.

patrickvice@home.com
416.540.3008

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