

2008 ALUCA TurksLegal Scholarship

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Question 3: The Claims Department – What is the Best Model?

Here is your chance to build the ideal claims department. Describe the best practice model for a claims department's structure and how you would implement it. There are a host of practical issues for you to address. For instance, how would you ensure a consistent and professional approach to claims management through your team? What structures and processes would you adopt to promote this? How would your processes and team structure promote fair and equitable claims decisions?

Your response should address what the operational units would look like. You should tell us how your model claims department would be staffed in terms of skill sets and experience. How would you build training and developing new staff into the structure? How would you motivate your team? Please include in your responses some specific ideas on how work would flow through the team and your views about whether special claims teams focused on particular injuries or diseases or whether divisions based on claims duration are beneficial and if so, why?

Introduction

With an increase in claims incidence across the life insurance industry^G and strong competition between life insurers it is more important than ever to have the claims department of an insurer operating at an optimum level.

It is generally accepted that operating at an optimum level means achieving maximum profitability whilst maintaining a high level of customer¹ and client² satisfaction.

Review of claims department structures in Australia, the United Kingdom and the United States of America^{C, J} there is no one model documented and defined that is agreed upon as "ideal" in order to achieve optimum results. There is however definite characteristics that can be considered to improve the success of claims department including parameters such as structure, training, development, workflow, staff retention and feedback.

¹ Customer: agent / broker

² Client: insured

Discussion

Across the life insurance industry worldwide there are a variety of claims team structures, each with their own successes and failures, suggesting that there is no one model that will bring optimal claims success for everyone. A successful claims department should have an ethos tightly aligned with their company core values. A major life insurer in Australia has a core value of Trust “we do what we say and empower ourselves to deliver,”^K it would be expected that a company with such a value would have a strong focus on meeting client needs and ensuring the claims department has the resources necessary to do this. Whilst Joy Reymond^J from Unam Provident UK explained they follow a “customer-centric” model, meaning teams within their claims department are defined by the customer / dealer group their claims come from. This has allowed their claims department to reach set goals in ratings through customer satisfaction. Whilst this is considered a successful mode for Unum Provident, it is not an ideal model for a company whose core values are aligned with maximum profit or client satisfaction.

Drawing on company vision and values for direction is a useful way to ensure good assimilation between a working model and company goals. This will provide a basis for a defined team structure.

Company vision and values aside there are a variety of structures implemented in the life insurance industry which are obvious from a practical perspective and generally accepted as best practice. These include:

- Wholesale and retail areas functioning as separate operational areas. Specific requirements check for non-disclosure and eligibility of claim, there is a natural allowance to separate retail and wholesale claims teams^L.
- Wholesale claims areas are best divided into the funds they are managing claims for, thus allowing for easy implementation of each funds specific guidelines.
- Within the retail claims area there is a generally accepted natural division of Income Protection, Trauma/Total and Permanent disablement and Death claims teams to ensure specialist skills result in the optimum claims experience (see Appendix A).

Income Protection tends to be a specialist assessment area. Within income protection there is generally a further division of claims and the options for this division are many including but not limited to:

1. Duration – Separation of claims by the duration of the claim period
2. Condition – Separation of claims based on conditions eg. musculoskeletal, cardiac, psychological
3. Alpha – Split with out reference to claim detail
4. Adviser group – Separated to enhance customer experience of the claim process

To further complicate possible options there are often then sub splits of claims, for example a duration based model may then have a specialist sub team addressing Psychological conditions. The IFSA Depression and Nervous Disorders Survey (2006)^G indicated that mental illness claims accounted for 30% of overall department costs. With this playing such a key role in the overall profitability of the claims department additional resources specific for psychological claims could prove a worthy investment.

There are different challenges presented with each working model, for example a 'duration' model, for the Income Protection claims department, may be identified as most suitable with claims teams broken into groups such as 0-6 months; 6-24 months; greater than 24 month claim duration. In this scenario each team would employ staff with a variety of expertise and experience. The more varied the background of assessors in each group, the greater the depth of knowledge to draw upon when assessing claims. This model will allow team members to develop skills across a broad range of medical conditions, whilst having a colleague who may be more specialised in an area with either superior technical or medical knowledge, for assistance when required. It also allows for claims that have been ongoing for some time to be reviewed by a new case manager at critical points of the claims duration allowing for reassessment which may reveal previously undetected information leading to a favourable outcome. Whilst the above positives for the duration model are apparent, there are some drawbacks to this model, such as the 24 month-plus claims assessors losing claim eligibility assessment skills.^H

Regardless of the ideal structure identifies, each claims team should have a team manager, senior case managers, case managers and an assistant case manager along with administrative support. Each with a well defined role and clear Key Performance Indicators (KPIs) to support this. The overall success of the team will depend on each individual taking ownership of their designated role and the ability of the group to come together and work as a team.

Team managers play an important role in workflow management of their team, aiming to not only align an assessors specific skill set to the claim (taking into consideration risk profiling³), but also ensuring case loads are kept at an optimum level (40 for Income Protection and 60 for lump sum claims). There should also be a separate administration team for logging of claims, system updating and payment processing, which will allow for segregation of duties and risk management.

A claims department requires support from specialists including legal, medical, financial, rehabilitation specialists (refer to diagram 1). These support staff should be available for case conferencing and collaboration on complex claims. Utilisation of these specialist resources is critical to the development of a well rounded strategy for ongoing claims decisions for the assessor.

³ Risk Profiling: to assess the risk of a claim based on set parameters such as risk commencement, sum insured, benefit period, claim condition.

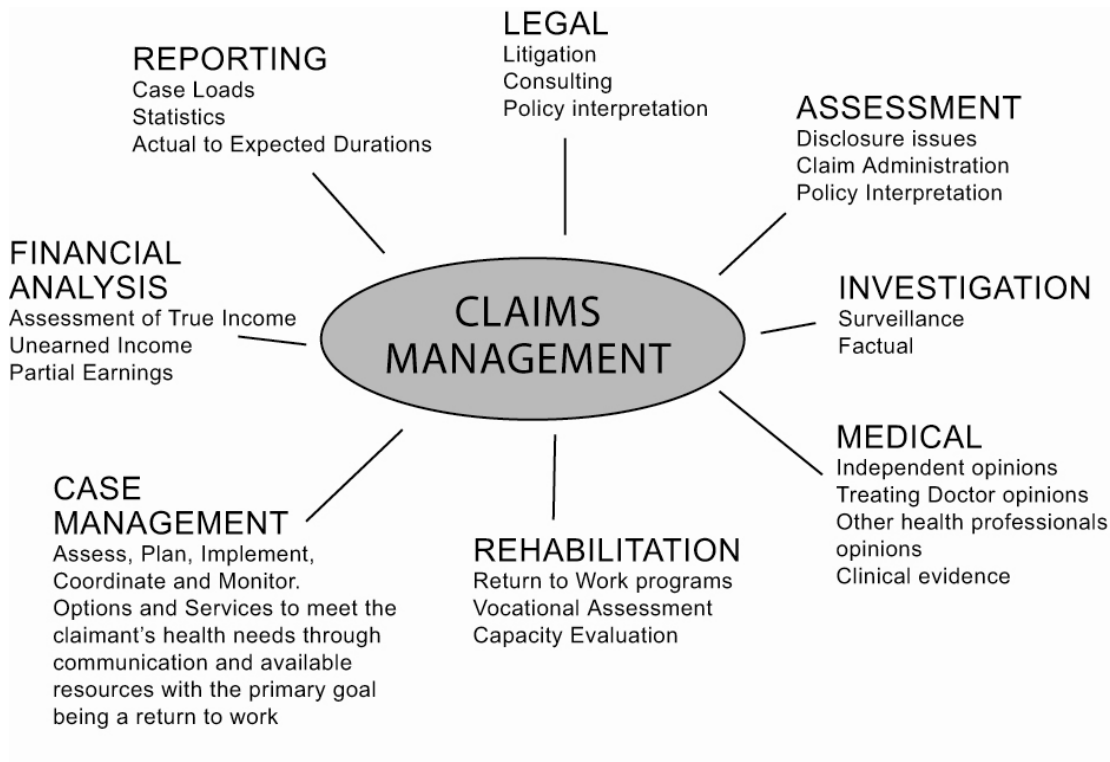


Diagram 1.^H Claims management

To ensure claims risk is managed effectively profiling of claims is required prior to the allocation of claims to assessors. This will ensure assessor skills are matched to each claim, for example a musculoskeletal claim being allocated to an assessor with an exercise science background, or a Business Expense claim being allocated to an assessor with a greater experience in the area of financials and business. Risk profiling is a vital step to ensuring claims are prudently managed by the most relevant team members, particularly in determining eligibility and the early phases of assessment.

To ensure equitable decision making across each of claims teams a separate area for technical review should be implemented, independent to the claims department. The formation of a technical services team to review assessment decisions and provide quality

assurance checks on claims will ensure a consistent assessment approach across all teams and allow training needs to be identified when patterns emerge from these reviews. Feedback of this information to the claims assessment team is essential to the claims team success. This review process should also play an integral part in the career progression of assessors and the formation of Key Performance Indicators for staff performance reviews.

For optimal customer and client satisfaction an independent area for complaints resolution, with a team well versed in both the internal and external dispute resolution paths is important to provide objective review of claims decisions.

Open communication within the claims department is important not only to determine training needs, but also to ensure both internal and external stakeholders are meeting service level agreements and ensuring that all work is of a high standard. Each of the many stakeholders that may play a role in the assessment of a claim need to be informed regularly of both successes and areas in need of improvement to ensure that the claims process and workflow procedures are as effective as possible. Feedback to outside departments is also important in ensuring a more profitable company (see diagram 2), for example feedback from the claims team to product development areas on claims experience may affect future upgrades to products; underwriting feedback may allow for review of underwriting principles for certain conditions. For all feedback loops, it is important to ensure that clear communication lines are in place allowing an effective and efficient process for all involved.



Diagram 2. High level feedback loop from claims team

Whilst technical knowledge is very important, the 'soft skills' of an assessor cannot be underestimated when working toward optimum claim outcomes. A collaborative approach by the assessor involving all stakeholders⁴, particularly the insured in the early phase of claim notification and assessment, will allow a good rapport to be established and for open communication in relation to the claims experience^E.

⁴ Stakeholders can include: Insured, advisor, claims team, employer, fund manager, treating practitioners

The performance and attitude of individuals in management roles within claims departments are key to success. Not only will they play an integral part in the team structure, facilitation of feedback, and training of assessors, but also people management and the implementation of any agreed changes. As suggested by Jim Collins, implementation of change and the overall success of a department will begin with great leadership^B. It is therefore very important that the leaders of the team are sufficiently trained and supported in these critical roles.

It is also important to note that the successful implementation of any change in the team, particularly that of structure, is dependent upon all parties being well informed with set expectations, and sufficient planning to ensure any transition by staff is as smooth as possible.

The recruitment and retention of the right staff in the right roles of a claims team will play an integral part in the team success. Management must be in-tune with the needs of all staff of varying generations (Boomers, Gen X and Gen Y) and attitudes. The multiple issues to be taken into consideration are shown in diagram 3^F. Ultimately a positive culture in the workplace will grow increasing workers productivity and adding to the success of a team as a whole.

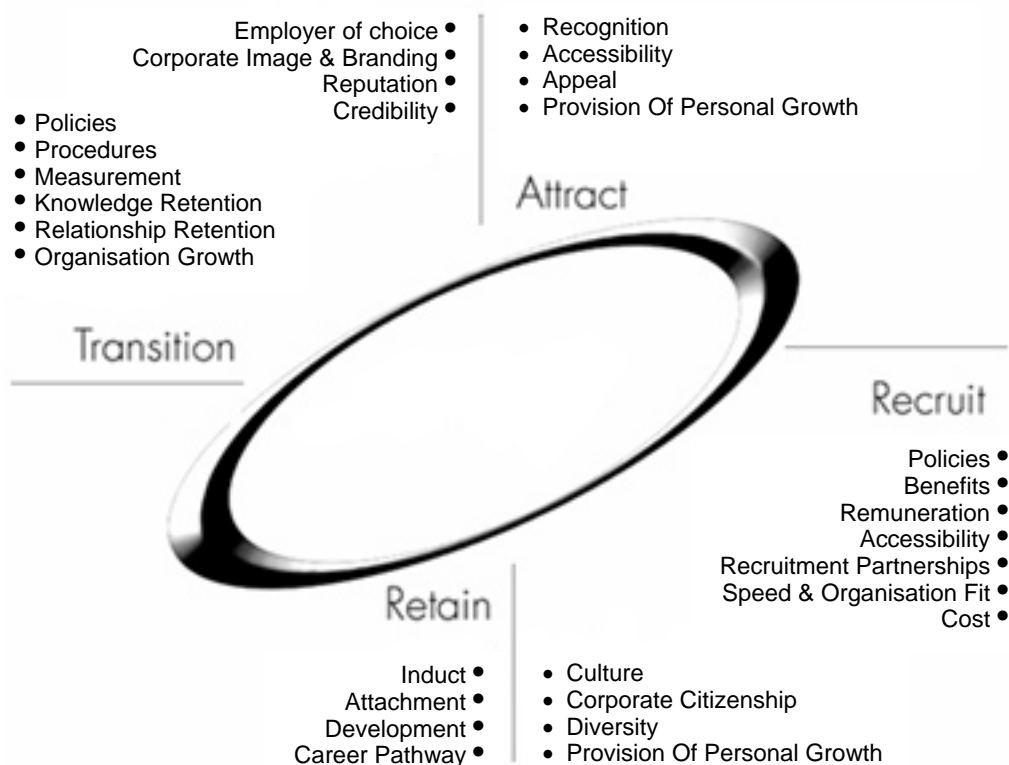


Diagram 3.^F People management

Career progression is often a high priority for motivated staff. The training of claims team staff should ultimately lead the individual to reach career goals. An ideal structure should take into account succession planning opportunities to allow a clear career path. This will have a positive impact on staff retention in the organisation^D. Career progression may also be aligned with professional organisations such as ANZIIF (the Australian and New Zealand Institute of Insurance and Finance) to not only ensure requirements meet industry standard, but to give individuals an industry recognised qualification, such as their 'Generation i' concept^L. Incorporating recognised course work will allow individuals to progress their career and demonstrate advanced knowledge and professionalism in claims issues relating to life and disability products^A.

Once changes have been implemented to a claims department structure it is critical to measure the success or otherwise of the changes by reporting on measurable outcomes outlining claims experience. This is vital in the building and maintenance of a successful claims team. Figures on claims terminations, and current and projected reserves cannot only be utilised for management reporting, but also to motivate team members and assist in employees being result focused in their daily activities.

Conclusion

The ideal claims department structure will ultimately depend on the core values of the company. The claims department should have a variety of expertise including assessors with varied backgrounds, from allied health degrees to those with more extensive claims experience. Various specialist panels should be available for support and case conferencing of more difficult claims. Feedback from technical claims analysts would allow for an effective training to be tailored at all levels and standard assessment decisions across all teams. Feedback from the claims team as a whole will also play a pivotal role in allowing other areas of the business to improve their processes.

The formulation of a claims team structure, based on the principles and ideas proposed, could be a cost-effective means of improving the claims experience of life insurers. There can also not be enough importance placed on the customer relationships built by assessors with both the insured and the advisor. There needs to be a defined balance between risk management and customer service focus.

Whilst there is currently minimal literature on this topic, the life insurance industry can definitely utilise guidance in this realm to ensure the claims department is performing at maximum profitability.

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APPENDIX A. A possible retail claims structure.

