

# Insurance Networking News

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## WORKERS' COMPENSATION

# Reducing The Workload

By Steve Dwyer, Senior Editor

The runaway costs of processing workers' compensation insurance is a big reason carriers must invest in technology to improve workflow, classify claims, calculate benefits, identify fraud and improve return-to-work outcomes.

For years, administration of workers' compensation insurance at Boston-based OneBeacon Insurance Group was viewed as an occupational hazard—a bona fide accident waiting to happen.

With antiquated operating systems trying to support the effort, OneBeacon, which sells \$40 million in workers' compensation coverage a year, had a difficult time furnishing transactional data for workers' comp insurance to the state rating bureaus and statistical agents in the states that it wrote workers' comp insurance.

To most insurers that dabble in workers' comp, dealing with state bureaus—most of whom have stringent reporting policies—is akin to living dangerously.

"Reporting bureaus maintain very detailed histories of all information submitted by an insurer," states Kathleen Taylor, senior vice president, corporate business information services, for OneBeacon.

If the data submitted doesn't jibe with a carrier's reporting history, an insurer may be subject to fines and surcharges. "The system that we depended upon to process workers' comp was prone to error. As a result, we experienced significant data issues as it related to bureau reporting," Taylor says.

In OneBeacon's case, investing in a new homegrown system to support workers' comp wasn't a financial option. Instead of building, OneBeacon bought—forging an outsourcing agreement with Jersey City, N.J.-based Insurance Services Office (ISO) whereby ISO would collect and record all workers' comp premium and loss information from OneBeacon, and then develop and compile corresponding unit statistical reports from that information. Once completed, ISO would submit the information to the regulatory agencies.

All told, the implementation of the ISO solution, which is expected to be fully operational by spring, will enable OneBeacon to reap "significant work-

ers' comp savings within our IT unit and modest savings within our business units," Taylor explains.

"We're now able to identify missing or incorrect information and make corrections online. We're experiencing a

major boost in data quality and we're reducing the surcharges once paid to reporting bureaus."

## Little room for error

Most insurers that offer workers' comp

coverage understand there are many hoops to jump through to enhance loss ratios, improve ratemaking and get a better handle on necessary reserving.

Undoubtedly, insurers such as OneBeacon have long concluded that

## Workflow issues impair administration

**Processing workers' compensation insurance** involves participation and input from many parties, the majority of whom operate from multiple and disparate operating systems.

As a result, the emergence of Web-based, real-time data exchange solutions has become imperative. In some ways, workers' comp is not unlike the processing required for an auto claim, which involves data exchange efficiencies between adjusters, auto repair shops, car rental agencies and more.

"Web services is the key to better workers' compensation processing," says Randy Wheeler, CEO and founder of Valley Oak Systems, a San Ramon, Calif.-based provider of claims management software. "With workers' comp, there are lots of parties operating from disparate systems. There are time lags in processing that undermine the process. This also works against the whole mission of workers' comp in the first place—to get people back to work more quickly."

Accessing data from a unified system with multiple front-end access points, a physician might log on to input a diagnosis, Wheeler says. And, return-to-work coordinators might activate the system to log progress of a person's rehabilitation, and provide an updated timetable for return to work. Oftentimes, returning to work more quickly can occur if the insured is able to perform other less stressful duties, he adds.

Loss-control experts and risk managers who compile reports that read-just a company's risk exposure based on frequency of claims activity should also be included in the claims-cycle loop.

"The whole goal is to reduce paper processing significantly through seamless transmission of data to all parties," explains Wheeler. "It's essential to have one system that can distribute data on a claim as it comes in, and provide better bill review capabilities. Bills can be scanned and integrated into a database. With one unified system, there are no dual-system challenges—there's a transparency attached to it. The claim is all part of a master file."

Insurers are getting the message about shoring up data exchange. "After investing in paperless processing solutions and then predictive mod-

eling for workers' comp, the third generation of our workers' comp technology investment was designed to engage all participants in the workers' comp system," says Vincent Armentano, vice president, workers' compensation, for Travelers Property Casualty Corp., Hartford, Conn. "Many of our efforts over the past eight years have been centered on these objectives."

To drive the administration of its workers' comp program, Denver-based Pinnacol Assurance, which provides about 50% of all workers' comp policies sold in Colorado, developed an intranet site called Centerpoint that enables all internal parties to access medical records and review claims status. "We are now able to better evaluate a claim early in the cycle," says Rob Norris, CIO for Pinnacol Assurance. "Some claims are self-managing while others are more complex. Where electronic solutions have really made a difference is in the ability to put important data in the hands of examiners much more quickly than was possible through manual processing."

The advent of claims hubs and Web portals are helping drive efficiencies with workers' comp claims processing. "Insurers want solutions that can really make a difference in cost containment with workers' comp bill review," says Tara Ambrose, vice president product management at San Rafael, Calif.-based Fair Isaac Corp.

"Electronic billing hubs are just now starting to take shape. Being able to provide an easy and accessible Web portal has also become a priority, providing the ability to access data anywhere and anytime, with customized reporting capabilities."

Fair Isaac offers a portal solution that enables all affiliates in the claims processing loop to establish individualized user rights and access points—all from one integrated system. Within the portal, bills can be reviewed by multiple parties, all having various levels of access, to determine benefits schedules. While individualized access is a key driver, another key is the establishment of business rules to capture workers' comp bills into a system and then characterize those claims based on type. Fair Isaac's Capstone solution supports business-rules development for the purpose of claims decision-making procedures.

electronic efficiencies represent an integral part of most everything they do. With workers' compensation coverage, the argument for dynamic technology solutions might be even more compelling due to the myriad obstacles that insurers encounter.

Taylor of OneBeacon—formerly the CGU Group, renamed following its acquisition by White Mountain Group in 2001—regards its ISO outsourcing agreement as just one of several areas of responsibility needed to ensure optimization of workers' comp administration.

In addition to bureau reporting, insurance companies are exploring better ways to identify specific characteristics of claims, identify fraud, reduce paper processing and find a methodology for calculating benefits. For example, the lump-sum settlements paid to workers for permanent total disability or life pension cases must factor in a state's average weekly wage (SAWW) calculations.

"Attorneys who calculate lump-sum settlements for permanent total disability or life pension cases without factoring in the projected SAWW increase over the expected life of the injured worker risk malpractice," says David DePaolo, president and CEO of workcompcentral.com Inc., a provider of Web-based workers' comp resources based in Camarillo, Calif.

"Insurance companies and employers failing to comply with these requirements face a high probability of a workers' compensation judge rejecting their settlements or imposing severe penalties, further delaying the disposition of cases and increasing costs ultimately passed on to the employer through higher premiums," he adds.

Calculating benefits is regarded as an internal responsibility. On the other end of the spectrum are the initiatives that insurers must explore to enhance external workflow—via real-time exchange of data—with all its affiliates in the claims value chain (see "Workflow Issues Impair Administration,").

## Enhancing workflow

"With physicians, electronic communication of medical bills and notes helps speed communication and management of claims," says Vincent Armentano, vice president, workers' compensation, for Travelers Property Casualty Corp., Hartford, Conn. "With injured workers, we provide a Web site ([www.mywcinfo.com](http://www.mywcinfo.com)) that provides state rules and regulations, forms, the ability to e-mail adjusters, and information on their claim. With employers, we push critical information to risk managers and their designated contacts electronically when certain events occur. This 'push' technology has critical information sent to them, instead of searching it out."

While real-time data exchange and file sharing to enhance workflow remains a priority, insurers are making more efforts to better classify claims, which enables them to formulate more defined back-to-work schedules and in turn improve claims outcomes.

But like a fingerprint, workers' comp claims have very fine and distinctive characteristics that are often hard to quantify upfront. With better rules- and knowledge-based technology solutions, insurers can identify claims and make better assumptions.

"For every insurer, there is a percentage of claims that can be auto-adjudicated, but often aren't. If a system could

identify these claims, it could flag the ones that might have to be assigned immediately to an adjuster," says Randy Wheeler, CEO for San Ramon, Calif.-based Valley Oak Systems Inc.

"There are business rules developed for claims—based on the type of injury—that might stipulate an insurer will pay benefits for 60 days for, let's say, a back injury before benefits must be re-evaluated."

An intuitive workers' comp solution could make a quick determination that if benefits exceed that 60-day period, it would flag this and then determine a new course of action, states Wheeler.

"The business rules built into the system can alert those in the value chain that a claim has the potential to become a \$50,000 payout if the parties involved—insurers, attorneys, medical providers and nurses—don't get on top of it immediately. Because with workers' comp, once disability benefits begin, it's like a snowball: they become harder to stop."

## The clock is ticking

Others agree that with workers' comp, time plays a crucial role in claims resolution—perhaps more so than other types of insurance, such as an auto or homeowners claim.

"Probably the most compelling reason to implement electronic solutions to enhance workers' comp is that these solutions put medical records into the hands of the people who need to examine the claims," says Rob Norris, CIO for Denver, Colo.-based Pinnacol Assurance, which provides about 50% of all workers' comp policies sold in Colorado.

"Under manual processes, people have to stuff envelopes and mail out

cases to perhaps an adjuster or a return-to-work specialist," he explains. "Delays in getting this information to the people who need it quickly prolong the process." To address workflow issues and to

place pertinent data into experts' hands quickly, Pinnacol, which writes \$500 million in workers' comp premiums and processes 48,000 claims per year, adopted a solution last year that could better collect and sort claims data.

Using a Web-based data collection solution developed by Vista, Calif.-based Cardiff Software Inc., Pinnacol automatically sorts and identifies claim forms and document attachments received from fax and scanner devices, encompassing more than 35,000 workers' compensation bills it receives monthly.

"We have a highly skilled internal IT department, but that said, we still need to look outside to embrace third-party support for workers' comp," says Norris.

"The product we now deploy for claims has helped us increase throughput by 90% to 98% per form, reduce processing costs by 50% to 90%, and eliminate form sorting through automatic form identification," he says.

## Work in progress

Turning workers' comp administration into an asset rather than a liability for insurers will continue to be a work in progress, industry experts say.

The good news is: As it pertains to workers' comp, "a sense of stability has returned regarding reserves, loss ratios and pricing for these products, but it seems every seven to 10 years there have to be new reforms put in place," says workcompcentral.com's DePaolo. "Individuals (filing claims) always seem to find loopholes in the system and this throws the system out of whack again."

The discouraging news is that the U.S. Department of Labor recently reported that workers' compensation

## A view of the entire claim

**There are still a large number of workers' comp providers that struggle with the process of pinpointing characteristics of claims.**

At the heart of the matter is the fact that producing a clear picture of a workers' comp claim "is similar to a cube where one side of the cube is viewable but the other sides are dark," says Kelly Stephen, vice president product development, healthcare and insurance, at San Rafael, Calif.-based Fair Isaac Corp. "With a workers' comp claim, the objective is to establish views from all sides of the cube so that all the parties involved in claims processing can come forth with decisions based on expertise and knowledge."

For Travelers Property Casualty Corp. "viewing the entire cube" of workers' comp claims didn't occur overnight. About a decade ago, the Hartford, Conn.-based carrier's objective was centered on eliminating paper, so that when a claim was reported, "audits could be done electronically, customers could see their claims, filing and retrieval efforts were minimized, and letters and forms were automated," says Vincent Armentano, vice president of workers' compensation for Travelers.

In 1997, the provider reached phase two of the mission, which involved scanning all medical bills internally, eliminating manual keying, improving data input accuracy and turnaround time, Armentano says. "This provided instant access by adjusters and nurse case managers to medical notes online. Internet use also increased at this time. Then, we embraced predictive modeling," he states.

With a concept known as LPE (Loss Prevention and Engineering), Travelers replaced the manual review of "red flags." The concept then enabled Travelers to establish a nurse triage concept—using more than 40 data points to determine if a claim would benefit by the utilization of nurses. "Previously, we had a nurse review every major claim manually to determine if intervention was beneficial, and prior to that left it up to each claim professional," Armentano says.

In its quest to detect fraud in workers' comp claims, Travelers deploys more than 35 data points to determine if a claim should be investigated more intensively. "Previously, the referrals were left up to claim professionals with the assistance of 'red flags,' which were linear, single data-point identifications," Armentano explains.

All of these various investments are perceived as the means to one compelling end. That is, the ensurance of better claims outcomes triggered by quick intervention.

"The University of California (at Berkeley), which established a pool for workers' compensation claims, has been able to reduce loss-time on claims by 40% due to early intervention and putting people back to work quicker," says Randy Wheeler, CEO for Valley Oak Systems, San Ramon, Calif. "The university saved a quarter of a million dollars by getting nurse case managers involved at the outset."

costs rose 50% over the past three years, primarily due to a 125% increase in medical costs per workers' comp claim and a 25% increase in indemnity benefits—lump sum payments dispersed to workers who permanently leave work due to injury.

Containing these costs on the back end could be assisted by better discipline on the top line—such as new business opportunities and the implementation of more precise pricing trends.

Seattle-based Safeco Corp. is making efforts to improve the online efficiencies for agents who wish to market workers' comp and other lines for small businesses.

The provider currently offers an online sales process that enables agents to log on to [www.safecoplaza.com/esp](http://www.safecoplaza.com/esp), enter cus-

tom information, and instantly receive a final price they can bind and issue.

The technology automatically pre-fills common customer information fields, and adjusts questions according to data entered. As a result, agents spend less time on data entry.

The technology—combined with Safeco's plans to expand its workers' compensation accounts in many states—gives agents an opportunity to bolster their total small-business revenues, says Tom Troy, vice president of underwriting for small business insurance. Safeco writes workers' compensation policies in conjunction with other commercial products, offering the coverage in 41 states.

But, while developing more sophisticated Web-based, new-business selling

programs for workers' comp is a start, the onus will remain on insurers to invest in technology to enhance the claims effort. And even though technology can help drive new efficiencies for workers' comp, insurers insist that they can't get lulled into a false sense of security about technology's role in the overall process.

"With workers' comp, it's not only the technology that essential, but how it's used," says Travelers' Armentano.

"For instance, if Internet reporting is offered, but the amount and quality of data captured does not let you route the claim appropriately, it could actually cost more to process this coverage. If claim adjusters just used posted (Web-based) reserve-model estimates without utilizing their knowledge of the claim, the outcome could be worse." **INN**



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