

# Montlake's Experience Proves There's Still No 'Free Lunch'

By Brian S. Moskal

Using a hand-me-down claims administration system proved very costly for Montlake Holdings LLC. But after Montlake selected an ASP application, it has been rewarded with cost-savings and efficiencies.

Most everyone is familiar with the old adage that says, 'What you get for free is usually worth every cent of it.'

Well, Montlake Holdings LLC now knows this lesson in spades — with one catch — there is a happy ending.

When the Bellevue, Washington-based Montlake began as a start-up in 1999, the workers' compensation underwriter and claims manager had access to a zero-cost, proprietary claims administration system operated by a now defunct investment partner.

"Free is good but that's about the only thing that was good about the system. It was just a receptacle for data. All it did was store information," says Carrie Angle, Vice President of Information Technology for Montlake.

"The system didn't have anything automated. It couldn't print checks, or create form letters for correspondence and we had to institute a series of business processes just to catch data-entry errors that occurred 50% of the time," Angle explains. "I spent a lot of time sending out weekly reports to our (former) partner pointing out all of the errors."

The AS 400-based proprietary system used outdated technology. "It had modifications that were unique to our partner but they didn't work for us," Angle says. The application lacked automated interfaces with bill-review companies, banks or fraud-review bureaus. Moreover it couldn't perform EDI functions with business partners.

Montlake used the "free" information technology system for about three years — all the while looking for a replacement. When it became clear that Montlake's partner was going out of business, Montlake accelerated the search for a new system.

Fortunately, Montlake went live with an ASP version of a new claims management software solution — just two days before its partner closed down and pulled the plug on the "free" system. Developed by Valley Oak Systems Inc. of Alamo, Calif., the system commenced operations on June 18, 2002.

How close to disaster did Montlake tread? "It wouldn't have been a catastrophe because we had the data but we would have had to really scramble. It was a good thing that we had just converted to the new system," Angle says. Montlake selected Valley Oak's system in March 2002 and by June Valley Oak had converted 5,000 claims. The conversion time took one month.

## Significant Upgrade

For Montlake, Valley Oak's system is more user-friendly because it is a Windows-based client server that can be accessed via the Internet using Citrix Systems Inc.'s NFuse Classic. "It's easy to navigate and training time for users is dramatically reduced because the system is very intuitive and makes sense," says Angle.

Montlake chose the ASP version because it allows an underwriting specialist with a \$100-million-dollar book of business in gross written premiums to use the same state-of-the-art technology enjoyed by the well-heeled heavyweights of the insurance industry.

"The ASP version was perfect for us because it is scaleable and we avoided the initial outlay for a server, software, firewall and the access system for remotely located staff members," says Angle. "That's all very expensive and we weren't prepared to do that," she adds. Montlake did pay some upfront conversion fees.

The Valley Oak System uses the latest technology to increase productivity, automate administrative tasks, and achieve an end-to-end automated claims process that saves time, money and information technology department resources.

Unlike the old system that didn't track or store changes in a claims history, the Valley Oak ASP is transactional and keeps a record of all changes that occur during a claim's life span. The system creates an audit trail and all changes in a claim's reserve levels can be seen.

With Montlake's previous system, if a reserve request exceeded the authority of the claims handler, they couldn't process the claim. Now a diary is sent to their supervisor to approve multiple claims at a time so that claims handlers now don't have to ask approval from their supervisors for each claim.

The inherent business rules of the system can be controlled and customized by Montlake and that helps manage workflow. The rules can be set up to notify users when a risk reaches a critical point or when an incident requires a decision from a supervisor.

In the past, Montlake lacked the technology to access the right information at the right time. As a result claims managers were not always aware of problem areas and supervisors were forced to "fly blind" when managing their departments. Valley Oak's risk management reporting system identifies areas that require remediation. The system offers more than 80 risk management reports that can help reduce uncertainty and expense.

The system also produces automated form letters that help to fulfill the myriad of state-reporting requirements.

# Montlake's Selection Process

Before Montlake Holdings LLC began its search for a new claims management system, it created an Excel spreadsheet listing of major mandatory requirements.

"That's a big plus because workers compensation is heavily regulated and there are all kinds of forms to fill out and they vary depending on what state the claim is made in," points out Angle. The application automatically fills out the claimant's name and number and inserts the examiner's signature in the document. The information can be stored and viewed without making a hard copy.

Another important feature is check printing. "We can issue laser-printed checks complete with the bank's magnetic micro-line preprinted and an explanation of benefits (EOB) printed right on the check stub," Angle notes.

With the old system, "We preprinted the checks on stock and then we had to match the corresponding EOB with each check," states Angle. "That was very time consuming because the EOB's were stacked about one-foot high and a clerical assistant had to match them with the proper check one at a time. It took all day and half of the next day to get the checks sent out and the situation worsened as we grew and had more claims," explains Angle.

The Valley Oak System can process 200 to 400 checks in about one hour vs. the old system that took more than a day to process 100 checks.

Prior to the Valley Oak ASP, Montlake couldn't electronically exchange data with any business partner. "Now we can export files to banks for positive pay (in which Montlake sends the bank a list of checks and the bank verifies which check have cleared as a fraud prevention measure) and to the Insurance Services Office (ISO) Index Bureau to check for claimant fraud," adds Angle. In the past the adjuster had to manually send out claims to the ISO.

## Cost Efficiencies

The new system has created "substantial" cost efficiencies for Montlake. The "free"

system required a staff of 40 internal and third party administrator (TPA) users. Today just 11 Montlake employees and 11 TPA employees are required to use the Valley Oak System.

"We've been able to reduce internal staff and third-party administrators by 50% even while our business has grown," stresses Angle. Today there is one senior claims' examiner and one assistant who together handle the workload of six Montlake employees required for the "free" system.

The Valley Oak software also allows all users — including third-party administrators — to build uniform templates for claims processing. "That's really necessary when you are using TPAs because they report to people outside your organization and handle different claims for many different client companies. This way we can make sure they are doing it our way and it is uniform," adds Angle.

Today, Montlake pays claims faster than ever — typically within two weeks. The quality of claims management has improved because of the automated business rules. "The rules help examiners keep track of people working for them and the system makes the supervisors job much easier than before," adds Angle.

The list included preprinted bank magnetic micro-lines, an explanation of benefits on each check, the ability to track notes and documents, and a diary function to automate work flows. It also was essential for the new system have four levels of payment security, the ability to produce form letters, multi-state jurisdictions, and of course the ability to handle claims submitted by longshoremen and maritime workers.

Before all was said and done, Montlake reviewed 20 information technology systems. Vendor's systems were eliminated if the software couldn't process workers' compensation claims, if they operated on mainframes, or if they couldn't handle multiple-state jurisdictions.

The formal system review process lasted five months — from October 2001 to March 2002 — when Montlake decided on the Valley Oak System ASP version.

"It came down to three software companies and Valley Oak's system was the most user friendly and had the most bells and whistles," says Carrie Angle, vice president of information technology for Montlake Holdings LLC, Bellevue, Wash. "I wanted to get the system that made the most sense for the claims department and price was not much of an issue," adds Angle.

Valley Oak Systems Inc. is a nine-year-old, privately-held corporation based in Alamo, Calif. It designs claims management software systems for multiple lines insurance carriers and general underwriters and was listed by Inc. Magazine in 2002 as the 398th fastest-growing private company in the United States with a growth rate of 600% in five years.

"What we had before was "free" but it cost us a lot in terms of our time, extra staff and all the hours that we spent pointing out and fixing errors," says Angle. "Had we continued to use that old system, we would have had to double our staff to handle the number of claims we have today (6,500). Instead we have been able to reduce our staff by half."

Montlake's two-person IT department is still just two people. "We didn't want a system in-house that required all kinds of baby-sitting," says Angle. Montlake pays a fixed monthly fee for the ASP version and is committed to a five-year contract. The fee is based on the number of users and there are no maintenance or system upgrading fees.

What's the biggest difference between the old system and the new system? "When I call Valley Oak for support, I actually get it. Before I got nothing. With the old system, they forgot we were even here and if the old system was going down for maintenance, I wouldn't know until the last minute," says Angle. ■

Reprinted with permission from Thomson Media  
One State Street Plaza • 26th Fl. • New York, NY 10004 • (800) 367-3989