A case for bundled claim management

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A decision concerning claim services can be a complex one for risk managers. The two key considerations – cost and quality of service – seem clear enough on the surface, but each is comprised of dozens of often difficult to quantify elements. An option that promises lower administrative costs, for example, may result in inferior outcomes, ultimately costing the company more.

The primary claim management decision risk managers face is whether to opt for bundled or unbundled claim services. The trend in recent years has been towards unbundled claim management — using a third party administrator (TPA). Proponents of unbundled services say they have more control over their claims and have long-term continuity in claim management if they tend to move their business from carrier to carrier with relative frequency. Advocates of bundled claims, however, caution that risk managers may be making decisions based on outmoded assumptions about control, and may be overlooking or undervaluing essential expertise and capabilities more readily available in bundled arrangements. They note that claim management needs and preferences vary widely, and that there is no "one size fits all" solution.

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What risk managers typically look for in claim management

Every large organization wants to reduce claim administration costs while improving outcomes. However, there is no one tried-and-true program for achieving those objectives. In deciding on the best option, risk managers need to take into account all the costs of risk relative to the company's size, industry group and mix of exposures. Additionally, the size and sophistication of the risk management department could affect its willingness and ability to manage a complex claim program and, consequently, on its choice of a claim management partner.

When evaluating claim service providers, whether on a bundled or an unbundled basis, criteria should include:

- Experience with the types of claims experienced by the organization;
- Quality of service, including timeliness, responsiveness and attention to the employer's needs;
- Professionalism of adjusters;
- Geographic scope, especially for organizations with international exposures;
- IT, reporting and analytical capabilities;
- Breadth and quality of ancillary services, such as managed care, call center and return-to-work services;
- Control over processes; and
- Outcomes.

Other factors influencing a decision may include whether both occupational and non-occupational claims need to be addressed, and whether risk engineering services need to be integrated with claim management.

In general, risk managers should look for a claim manager with expertise in the company's industry and with the type of claims that are most likely to occur, and which can provide the full range of services to manage complex claims throughout their life cycle. If the company is international in scope, the claim manager should be able to provide local expertise and high-quality service wherever a claim occurs. Whether an insurer or a TPA, the claim manager should have a reputation for flexibility and responsiveness, and should have a proven record of claimant satisfaction combined with superior outcomes. Of course, cost is an issue, but the cost of claim payments dwarfs the claim administration fee.

Assumptions about unbundling and carriers' response

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Many risk managers assume they will have more control, greater stability and equal—if not better—outcomes with unbundled claim management. As a result, they may not do a thorough side-by-side comparison of bundled versus unbundled programs. If they did, advocates of bundled services claim that some of the perceived advantages of unbundled services either disappear or are offset by other advantages of bundled services. As a result, many companies now using TPAs could find that bundled services better meet their specific needs.

Among the most frequently cited benefits of unbundled claim services are flexibility and control. Insurers concede that, in the past, this was a valid point. Some insurers, however, have worked hard to overcome rigidity and inertia in order to give risk managers control over claim processes. Before making a decision based on an assumption of superior flexibility and control with a TPA, insurers encourage risk managers to make an objective comparison.

Insurers tout their expertise within their target markets, as opposed to what they characterize as more generalized and less seasoned knowledge within the typical TPA. They also point to the depth and breadth of services they often have in-house such as litigation management, managed care, recovery and fraud prevention to name a few. With TPAs, services are often provided by subcontractors. Having greater control over services, and therefore more control over the claim life cycle, may account for the fact that, according to statistics compiled by Zurich, workers' compensation claims managed by insurers close sooner on average than those managed by a third party.

Other advantages of bundled programs often claimed by insurers include:

- Services such as risk engineering, benchmarking, trend analysis and increasingly the use of predictive modeling and other sophisticated analytical tools, all of which can enhance planning and improve outcomes;
- Coordination among underwriting, risk engineering and claims, which may lower premiums over time;

- Better data quality and more timely information;
- Globally coordinated claim management for multinational companies;
- Better negotiating clout and buying power (e.g., contractors and supplies following a hurricane);
- Alignment of interests in claim outcomes, with a focus on loss mitigation; and
- Potentially lower costs when all variables are accounted for and correctly priced.

In general, claim administration services should make the risk manager's job easier while lowering administrative costs and improving outcomes.

Risk managers also need to be aware of the nature of the relationship between TPAs and insurers, and how it impacts the management of difficult claims. TPAs operate within the authority granted by insurers, and do not have ultimate control or decision-making authority. The insurance company handles coverage questions and retains the right to take control of a claim if it believes it is not being properly managed. While these are not significant considerations for run-of-the-mill claims, they can be material concerns for companies experiencing a higher-than-average number of challenging claims. With a bundled program, the risk manager is dealing directly with the ultimate decision makers.

Making the right choice

Making the right decision for claim administration services is critical on a number of levels. Differences between bundled and unbundled programs, as well as among individual insurers and TPAs, can affect claim management administration costs (including soft costs) as well as loss costs. The right choice of claim management services will complement the risk management department resources and provide risk managers their desired level of control. A good claim administrator, whether an insurer or a TPA, will provide adequate and timely information for planning and sound decision making, and for reporting to senior management. In general, claim administration services should make the risk manager's job easier while lowering administrative costs and improving outcomes.

There is no one right solution for every company, and risk managers should fully evaluate all the viable alternatives before making critical claim management decisions. The default position for many risk managers, however, has been unbundled claim services. A thorough side-by-side comparison of the costs and benefits may reveal that unbundled is the correct choice for a particular company, but for many companies, bundled claim administration has clear advantages.

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