Claims Leakage Studies

Does your organization need to complete a Claims Leakage Study?
Best-in-class insurance carriers and claim service providers regularly measure their performance through internal metrics and against industry standards and leading practices. Claims leadership drives organizational success through the utilization of key performance metrics that contrast the current state against critical goals. For claims organizations, there is no better way to define the current state of claims quality than through an objective and independent Leakage Study.

A Leakage Study enhances a claims quality assurance audit with a measurement of financial leakage over a large, random sample of files. The leakage identified in the Study is then extrapolated to provide an indication of the financial impact to the organization.

What is Claims Leakage?
- Claims leakage is defined as the difference between the actual claim payment made and the amount that should have been paid if all industry leading practices were applied.
- Leakage is caused by deviations from established industry or company standards and leading practices.
- Leakage is calculated against the probability that, if using leading practices with the same fact pattern, the result could have been avoided.
- Claims Leakage Capture is the process of measuring claims payments against established standards to identify opportunities for improvement.

The Analysis of Leakage is:
- A minimum estimate of overpayment that could have been mitigated through the use of leading practices.
- A benchmark payment amount that would have resolved the claim if handled more appropriately.
- The difference in the amount paid and what a quality, experienced claims handler would have paid with more complete information and the availability of additional key resources.
- Identification of claim adjudication and claim service standard that require enhancement, modification or implementation to prevent future financial exposure.

The Analysis of Leakage is not:
- Finding fault within existing claims operations.
- Addressing procedural errors that do not affect payments.
- A methodology used to evaluate claim values.
- A tool used to justify staffing increases.
Motivation

There are several primary drivers that would trigger a decision to undertake a Leakage Study:

Validation of existing results or metrics
- The need to confirm or counter the perception that something is wrong.
- For example, if metrics are being met consistently and at a high level, yet are inconsistent with other organizational financial data.

Adherence to leading practice as a competitive industry advantage
- To confirm compliance against known established industry leading claim practices and internal best practice programs that have been implemented.

During a time of organizational transition
- A lean activity or organizational transformation is taking place and there is a need to ensure performance is maintained or improved.

Change in leadership
- A leadership change is occurring, creating an ideal time to establish a performance baseline so incoming leadership understands the state of the organization.

Let's examine each motivation in more detail.

Validation of results
A Leakage Study can provide an independent view of the same population of claims and determine if the results are as originally reported. This perception or suspicion that existing results are not credible occurs when results don’t sync, for example:
- If metrics indicate a rise in a type of claim payment yet there are no other costs increasing.
- If an existing QA process is in place and results are consistently positive yet the claims experience is deteriorating.

Confirmation of leading practice adherence
A Leakage Study is a consistent and objective method to assure organizational compliance with leading practice claim management methodologies. The Study will determine if the expected claim practices are actually in place and being adhered to.
- The implementation of leading practice claim methodologies will deliver improvements in claim organization performance only if it is evident that there is transparent, consistent and rigorous testing in place.
- The insights from a detailed file analysis are an outcome that will measure adherence to leading practice, the financial impact when compliance is not in place and the training or performance management needs facing the claims organization.

Organizational transition
Leakage Studies are a method to keep an organization on track and monitor the performance during transitions. The results of a Leakage Study establish a benchmark from which the organization can subsequently measure performance during and after the transition timeframe.
- It is leading practice to embed quality assurance and financial Leakage metrics as part of the transformation project. The Study provides details and support for critical project success factors, and provides a financial impact analysis of the process the organization has implemented or transformed.
- A Leakage Study is the basis for many Lean and Six Sigma initiatives; demonstrating where the financial opportunity is, and allowing for measurement of change over time.

Change in leadership
New leaders often utilize a Leakage Study to determine the state of the organization. The ability to rely on an independent and objective evaluation of internal capabilities can provide insights that may have been neglected by prior leadership or not recognized by the existing management team. Hence it is one of the best times to use external consultants. The Leakage Study results provide the insights to move the team forward and establish new priorities.
The value and importance of an independent perspective

A Leakage Study can leverage external consultants to provide an independent perspective. The consultant:

- Ensures that industry trends are being measured
- Provides insights from outside of the organization
- Has skills that may not be otherwise available in the organization
- Is unbiased and ensures objectivity is maintained

Consultants are often a necessary resource to complete the Study. The consultant:

- Has experience structuring and leading studies
- Keeps the project plan on track for the Study
- Augments the skills and availability of internal resources
- Brings broad experience in industry practices and solutions development
- Provides external validation of internal claims quality assurance resources and processes
People, process and technology

Once the decision to complete a Leakage Study has been made, we need to consider how best to use people, process and technology to complete it efficiently.

People
Dedicated resources are critical to the success of the Study. Team members can include members of the business operations and QA groups, if one exists. A significant challenge is finding available resources to dedicate to a Leakage Study and still fulfill their existing job duties. It is important to define and clarify roles.
- The Project Sponsor is the person asking for the Study and is most interested in the results. Their support is critical to the Study’s success. The Project Manager plans and monitors the delivery of the Study.
- External consultants or an internal consultant team can be key levers to complete the Study. The team is more likely to be independent and ensure that the other project team members maintain their objectivity. As an additional resource they may have more ‘bandwidth’ available for the project.
- Team members representing the internal operations that is the subject of the Study provide credibility and, as part of the team, they are subject matter experts in the existing processes. Moreover, their participation can make the results more acceptable to the target business.
- Quality assurance teams can also be used as available resources. By design, they are supposed to be objective, and conducting Leakage Studies may already be part of their skill set.

Process
The execution of the Study should be carefully managed. The major parts of the project are:
- Scoping: The target area for review is defined by the project sponsor. The scoping phase also defines the project objectives, time frames, team members, and how the results of the Study will be presented. This phase should also consider establishment of a hypothesis or expectations of Study results.
- File selection: Based on the scope of the project and what is to be measured, a key success factor will be to ensure selection of the appropriate files. The Study files must be a randomly selected representative sample of the entire population. Actuarial services often assist with the selection process.
- Leakage questionnaire development: The questionnaire should reflect not just the current practices of the organization, but evaluate performance against industry leading practice. It should be vetted by the review team as well as other stakeholders to ensure it will provide an accurate evaluation of the target processes.
- Calibration workshop: The consistency required for the Study will come from calibration on the specific questionnaire used in the Study. Calibration ensures the same standards are applied consistently by all reviewers. It also provides for detailed discussions while building consensus on leading practices.
- Reviews: This is the bulk of the time for the Study, where the Study team reviews the selected files. Beyond the Calibration Workshop above, many organizations complete a re-review of a sample of the selected files to ensure calibration is maintained throughout the Study.
- Results and reporting: Interim findings should be regularly communicated to the project sponsor and key partners. The final report of the Study and the discussion of key findings is critical, and will ultimately determine what training or performance initiatives should be considered by the organization.

Technology
Your Study can be completed using spreadsheets, a database system like Access, or a specialized QA tool like Athenium’s TEAMThink. Critical success factors are:

Calibration support for both workshop and on-going use
Reduce variance between reviewers to an acceptable level. Calibration provides an assurance and credibility to the study to ensure the results are meaningful and objective.

Results reporting
Ensure the output of the Study is established so that all data elements needed for reporting are captured in the review process and available in reports.

Questionnaire development and validation
Very often a Leakage Study questionnaire probes with significantly more detail than the standard audit format. Development of the questionnaire needs to keep this in mind to capture the location and root cause of financial impacts.

Easy access to questionnaire and prefill of factual data elements
Extraction of data from a claims system or data warehouse will provide the detail for the claims population the Study represents. Prefilling data fields in the questionnaire ensures accuracy and efficiency.

If there is a QA tool is being considered, a Leakage Study is a good opportunity to put it to the test. The technology should enhance the process with methodology and features that facilitate the Study.
Results and conclusion

The outcomes of the Study will be drivers that represent information, behaviors and the financial impact on the claims and overall organization. A successful Leakage Study will support or provide necessary insights based on the scope of the project. Root cause claim activities or behaviors, the associated leakage from those behaviors, and specific reviewer comments captured during the Study, provide direction on where problems lie and possible remediation.

**Case study – composite claims leakage study**

A company with a QA program in place for several years was seeing excellent quality scores and leakage at 1-2%. A new Chief Claims Officer, hired from outside the company, found these results to be questionable.

EY was brought in to validate results and provide the new CCO with an independent benchmark:

- A project team was composed of reviewers from the line of business and the existing QA team. The consultant managed the process and provided industry expertise throughout the process.
- A Leakage Study was proposed over one line of business to validate results and determine if there was a need to continue over the remaining lines.
- A detailed and robust questionnaire was designed by the team.
- Significant calibration took place during the Study to ensure representatives of the business agreed with the reviews when presented.
- The results demonstrated a leakage finding of 11%, much higher than the prior figure of 2%. Key findings included:
  - A change in process was necessary to utilize a more detailed questionnaire focused on the company goals.
  - A remedial training was recommended for adjusters with 3-5 years’ experience.
  - A need for programs to address the areas that reflected the largest leakage opportunities.

The Study was considered such a success that the other lines of business also completed Leakage Studies.

**Leakage Studies do not just apply to claims. An Underwriting Leakage Study can find the financial impact on key issues such as Negotiation, Compliance and Technical capabilities.**

The leakage findings may establish the financial impact of an outdated or unsuccessful process or be used to establish or initiate new projects or programs directly related to improving results from the Study.

They may come in the form of:

- Training opportunities
- Process improvements or best practices enhancements
- Organization model changes

No matter what specific information Leakage Studies provide they are an excellent tool to establish claims behavioral and activity benchmarks for an organization. The next steps following the Study very often represent the challenging work to come to drive performance improvements, and potential severity mitigation opportunities. Regular measurement of future claim performance results against the benchmark Leakage Study will help ensure progress and the competitive edge that the claims organization must achieve in the ever-changing business environment.
Authors

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