Low Interest Rates Call for Tighter Workers' Compensation Claim Administration

Robert Malooly, CEO, Claim-Maps

I am pleased to offer the following guest blog by Robert J. Malooly. Bob has an impressive workers' compensation resume, which includes being the chair of the Illinois Industrial Commission and the former head of the Washington State workers' compensation system.

He has been a colleague of mine for nearly 20 years and there are few others who have the knowledge, vision and balance necessary to solve systematic workers' compensation problems, including workers' compensation claim administration– Annmarie

By Robert J. Malooly, CEO, Claim-Maps

Prior to the dramatic financial upheavals of 2008, many insurance companies managed to make a substantial amount of money on their workers' comp investments. Using premiums invested at a high return, was created a revenue stream that was used as a cushion to offset losses created by the economy, underwriting errors and other impediments to profitability. The longer claims dragged on, the more funds had to be held for extended periods of time to honor claims and protect against revenue shortfalls.

But the recession of 2008 put an end to the higher interest rates – and the cushion they helped generate. Although the economy has made progress towards recovery, the possibility remains that low interest rates may be with us for a long time.

The Federal Open Market Committee confirmed on the Federal Reserve System Board of Governors website that it will likely be appropriate to maintain the 0 to .25 percent target range for the federal funds rate for a considerable time. In a recent article for *Business Insider*, Greg Valliere, chief political strategist at Potomac Research, agrees, "The smart money says – again – that rates will surge next year; the smart money has said that for the past several years, and we still don't buy it."

Because low interest rates are putting pressure on workers' comp insurance investments, this is likely a period when the gap between better and poor performing insurers will become wider. Muddling through isn't a viable strategy with 2 and 3 percent interest rates. And since rates are forecast to remain low (or at best tick up mildly), insurers face huge pressure to find new solutions to ensure a successful bottom line.

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The answer is to administer claims far more precisely and reliably so premiums can be priced appropriately. To avoid negative numbers on the bottom line, it is vital that insurers undertake a major tune-up of their claims operations. Smart underwriters will be taking a careful look at the quality and consistency of their claim management processes.

The major question is, "Where to begin?" Sources across the Internet have varied opinions as to what constitutes best practices for managing workers' comp claims. But all agree that well-documented internal policies and a culture of safety and awareness that prevents injuries are fundamental.

According to Hartford Financial Services Group, once an incident occurs, prompt reporting is an extremely important tool to control claim costs. The 2004 study indicates that, "The earlier a business reports workers' compensation injuries, the lower the claim costs are likely to be." According to their survey of more than 41,000 lost-time workers' compensation claims, even a week's delay can increase claim costs by 10 percent. Claims filed a month or more after an injury cost an average of 48 percent more to settle than those reported the first week. Education and good communication about reporting procedures among all parties are essential to speed up the reporting process.

Along with a review of fundamental best practices, advances in technology may soon prove to be helpful in handling claims. An article in *Insurance Journal* entitled, "10 Challenges Ahead for the Workers' Compensation Industry," notes that the industry is lagging behind in technology. The growing use in the health care industry of patient communication portals and mobile claims applications to file reports online are examples cited in the article.

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Peter Thiel, co-founder of PayPal and Palantier, suggests the future may be found in "complementarity" relationships between machines and humans. In his book *Zero to One,* he states, "Better technology …won't replace professionals. It will allow them to do even more."

The quality of the human element in the workers' comp arena is already extremely high. Claim adjusters, because of their long experience, almost develop a "sixth sense" for claims. It can stem from something as simple as the vocal inflections in a phone conversation with the injured worker. How do they say, “Yes, I’m willing to go back to work”? Are they filled with enthusiasm or does their tone indicate the opposite of the statement? Only a human claims adjuster can identify the difference. And it’s very difficult (if not impossible) to quantify.

Working against the adjuster, however, is the sheer volume of paperwork, choices and decisions to be made. They are faced with slogging through piles of paper files or enduring endless searches across multiple aging computer systems to follow the trail of a long-tailed claim.

Apply Thiel’s logic to workers’ compensation claims. Applications under development today may enable adjusters to see patterns quicker and allow them to process claims faster and more accurately.

Combining the best practices of the past with the talent of today’s adjusters and the technology of tomorrow may be the new formula that provides improved outcomes for both injured workers and their employers.

Robert J. Malooly is CEO of Claim-Maps an Olympia, Washington-based organization dedicated to making adjusters heroes, giving injured workers the best possible outcome and providing cost savings to self-insured organizations.

What do you think will improve claims administration?

*To read more about the effect interest rates have had on workers’ comp, check out my blog by clicking **here**.*