



The Value of Time Model

Exploring ways to improve profitability
for a Third Party Administrator

Current Landscape:

Most claims TPA's including the big players, are paid on a "per claim" basis by the client. Some clients will also restrict the number of concurrent claims being handled or managed by any one claims adjuster or examiner.

Typical range is 140-180 concurrent files at a fee of \$x per claim file.

Time Equals Money:

Given the varying nature of claims, both by line or class of business (workers comp vs liability), the amount of time taken to settle and close each claim file has a wide range.

For the majority of worker's compensation claims where there isn't a significant amount of complexity, it can be a few months, but in more complex cases in liability claims, these can run on for years.

Efficiency in the claims handling process is clearly a game changer for each TPA to make a profit. As is the best in class risk management and claims processing IT infrastructures.

Technology to aid the claims settlement process:

Assuming the TPA has access to and is utilizing the best and latest technology platforms, this can aid the settlement process and help reduce the number of claims "open days" in litigation. That being said, the use of machine learning and artificial intelligence [AI] is still very limited in today's claims and risk management software platforms.

For example, understanding the underlying tenets of the claim as they relate to prior and historical claims in the same class, with similar quantum and veracity, requires deep learning technology, strong data science and analytics, mixed with a trained pair of human eyes, in order to take full advantage of these tools.

Machine learning and AI are also a key to tracking and tracing key claims data parameters for the claims handling function to be more efficient. This would include how potential fraud plays a role in claims avoidance.

Too many tools, lack of synchronization and poor interoperability:

As with many larger organizations, TPA's have historically grown both organically and by acquisition. In most cases growth in the IT infrastructure, has not kept up with the growth in the business activities.

So this means claims adjuster/examiners have at least two flat panel computer monitors on their desktops, due to the array of different and disparate technology platforms that they need to access, in order to deal with their daily claims settlement functions.

This means that interoperability efficiency is low, which also slows down the process for the claims adjuster/examiner.

Given these numerous systems "touch points" are not synchronized nor integrated, the claims function is negatively impacted and more time is wasted.

Supplier/Vendor and Expense Management:

Part of these functions relates to vendor and supplier management, such as lawyers, engineers, independent adjusters, assessors, etc. Reviewing, adjusting, approving and paying these expense invoices is also very time consuming and adds no value to the claims settlement process. In fact, it slows it down.

Vendor management in some cases is centralized, but in many TPA's the job of bill review is still left on the claims adjusters/examiners desktop. She or he has in some cases a fiduciary duty, but this can be met by using outside consultants and software applications designed to handle this far more efficiently.

The Value of Time Model:

Given we have a fixed income capability for each claims adjuster/examiner, as defined by the number of concurrent files being handled, multiplied by the fee on each file, this leaves little room for maneuver.

If we assume that each invoice can take upwards of 30 minutes to review, adjust and approve, before moving to the payment queue, this is a simple case of understanding the average hourly cost of a claims adjuster or examiner hovers around \$70,000 per annum (not including supervision, management, overheads etc), and they work an average of 1880 hours per year, not including any sickness or maternity/paternity leave, this runs at around \$38hr.

Sticking with worker's compensation claims which are typically low in complexity, we can create a model that demonstrates how very tight the profit margins of a third party claims administrator or TPA, are:

WC Claims Fee per file: \$1200 (2018 data)

Avg time to settle and close claims: 24 month or 2 years

Avg limit on concurrent files managed per adjuster/examiner: 150

Therefore:













150 x \$1200/2 = total earnings per claims adjuster per annum: \$90,000

As the claims adjuster/examiner is paid \$70,000, this leaves \$20,000 of gross margin, again, not accounting for supervision, senior management and other overhead costs such as IT, marketing, legal, etc, hitting the claims operating bottom line.

If we assume the management of vendor and supplier expenses costs 30 minutes per invoice, the calculation for a large TPA handling 750,000 vendor/supplier invoices per year, looks like this:

750,000 invoices / (2 invoices per hour * 1,880 hours per year) = 200 employees. (wherein 2 splits an hour into half and 1880 is the hours per year of a working claims adjuster/examiner) which drives around 200 full time employees equivalent in handling expenses invoices.

Model:

Before LSG's ELM	After LSG's ELM
 750,000 invoices	 750,000 invoices
 150 files per year per adjuster	 300 files per year per adjuster
 200 adjusters	 100 adjusters
 \$18M TPA revenue	 \$18M TPA revenue
 \$14M TPA salary costs	 \$7M TPA salary costs
 \$4M TPA profits	 \$11M TPA profits

The question remains, how can the ROI be measured?

The argument lends itself to seeking out solutions that do not add to the stack of applications already in the claims adjusters/examiners desktop. Some relief. At a lower price point and demonstrable in delivery of financial benefits.

Putting power back in the hands of the TPA procurement and supplier management teams, that will aid and assist the claims function.

This will unlock the key towards removing complexity and put “quality time” back into the claim adjusters/examiners work queue.

With this added quality time, adjuster/examiners can settle and close more claims quicker, and ultimately drive new revenues for the TPA.

The Bottom Line:

The bottom line is to utilize the best technologies, integrated into the existing IT infrastructures, in order to take expense management away from the claims adjusters/examiners desktop.

Allowing them to apply their expertise and experience in settling and closing more claims quicker. That will help the TPA to protect and grow margins and revenues.



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