

The Rising Cost of Claims – Why You Should Care

**By: Fred Westbrook, SCLA, President
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As an insurance professional, you have a responsibility to the company you represent and the customers you serve to save money where you can and increase your recovery rates of return. Why? By recovering more & reducing business expenditures we can keep the costs of doing business down, thus constraining overheads passed on to our customers in the form of lower insurance premiums. In turn, this leads to higher customer satisfaction and policyholder retention - a true Win-Win situation for the insurance industry and our customers.

Rising Claims Costs – Another Warning

Just recently, the Insurance Information Institute warned the American public that insurance premiums were on the rise, yet again. Their study anticipates a six percent rise in auto insurance premiums bringing the national average to \$895 per year - a \$51 increase.

“Rising claims costs continue to fuel increases in auto insurance nationally,” said Robert Hartwig, senior vice president and chief economist of the I.I.I. “It costs more to repair cars, particularly following accidents involving sports utility vehicles. This year insurers will pay between \$15 and \$20 billion in medical claims. Higher costs for hospitalization and pharmaceuticals, and state regulations that permit abuse of medical treatments and associated legal costs are also to blame,” he said.¹

Why should Insurance Professionals care?

Higher premiums mean more money for our company, right? Yes they do, but at what cost? Does this rise in the cost of doing business lead to customer dissatisfaction and ultimately to their departure for a competitive insurance carrier? Is there a better way?

At Verbatim Claim Services (VCS), we believe so.

Industry expert Bill Stewart of Claims Training Services notes, “Subrogation helps to create an equitable rate structure. It reduces first party losses and ultimately first party premiums. It has been estimated that auto collision premiums would increase by 31% if there were no subrogation. Conversely, subrogation increases third party losses and liability premiums. In the final analysis, the party responsible for creating loss pays for it.”²

Subrogation recoveries are bottom line profits.

A 25% increase in annual recoveries could result in an additional \$180,000 per recovery specialist!

Increased Recoveries = Increased Profits

Each dollar that is recovered decreases losses. Underwriting and loss adjustment expense is incurred whether or not there is a recovery. Subrogation recoveries are bottom line profit. They can be the difference between profit and loss.

So, as insurance professionals you have a responsibility to the company you represent and the customers (policyholders) you serve to save money where you can and increase your recovery rates of return. Carriers benefit by lowering or maintaining costs of doing business while recovering losses through subrogation or arbitration. Likewise, your customers benefit when the service provider reclaims those losses and stymies the rising costs of insurance policies - A True Win-Win.

On average, of losses paid over the past ten years, 14.5% was recovered on auto collision, 3.5% on fire and allied lines and 2.6% on workers compensation.

The average physical damage claim for most carriers is in excess of \$2,000. Take an average claims professional handling 30 automotive cases per month - this is \$60,000 in possible awards outstanding each month. If they have a success rate of 50%, there is \$30,000 a month that goes un-recovered. If you increase the success rate to 75%, a difference of \$15,000 per month, that tallies up to **\$180,000 per year in additional funds recovered** - from a single representative!

Is your company recovering all that is possible? Is there more "recovery gold" out there for you to discover? Do you need help mining it?

Reducing Costs Increasing Rates of Return

We at VCS agree with Mr. Hartwig and Mr. Stewart in that loss costs continue to rise and as Insurance Professionals, we can help mitigate the increase in cost through increased recovery. Recovering spent dollars translates to profit dollars. One need not be an expert mathematician to understand how valuable effective recovery programs are to our industry.

How do you recover more? At Verbatim Claim Services, Inc. (VCS) we think the answer is by working smarter and faster. As we stated in "Developing a Winning Subrogation Case"³, first we suggest Recovery Specialists should be recognized and compensated as the Professionals they are; recovery goals in terms of volume and dollars recovered should be set high, yet achievable with extra effort. In addition, we believe in offering incentives that reward Recovery Specialists for outstanding results in exceeding those goals.

Key Steps to Higher Recovery Rates and Reducing Costs

- Consider using incentives to encourage higher closure rates and award amounts.
- Purchase software tools that save time and generate professional output.
- Outsource backlogged files before they become stale.
- Close total loss claims as fast as possible to mitigate rental costs and negative salvage returns.

We suggest prompt handling of case files helps speed the recovery process. VCS advocates reasonable workloads. Recognizing that there is often a backlog in closing cases in most offices, this means Recovery Gold is sitting in a file cabinet- not in the bank account earning money. To remedy this situation, adding staff or outsourcing the overload can return dividends. Additionally, we suggest the use of timesaving software that produces well-organized statements and professional accident diagrams. Experience has shown that hand drawing an accident diagram takes up to four times the amount of time than using a software application. These tools typically save time, generate fewer case errors, and are more convincing than are hand drawings during times of adjudication. The result is professional output that will accelerate the claims process and help win more cases when adjudication is necessary.

To amplify this point, we offer the following quote from a satisfied client:

"As a result of good investigations and documentation by our Claim Representatives plus the presentation of our contentions by the folks at VCS, we won or settled 74% of the claims VCS filed for us." David Lang, Manager Shelter Insurance Company.

VCS added professional diagrams to about 1/3 of the cases referenced by Mr. Lang. Our contentions were clear and the documentation made it easy for the arbitration panelist to rule in our favor. We have no way to know but had we not taken the extra steps, I estimate our recovery ratio would have been in the neighborhood of 50% to 62%.

Another suggestion is in the control of cost related to total losses. Instruct the appraiser to notify the claim representative immediately when a vehicle is determined to be a total loss. The

industry has many tools for valuating the loss. Promptly make the settlement offer and move the salvage to stop incidental charges as well as cut off rental car benefits. When you deliver the settlement check, make sure it is in exchange for the title, odometer statement and bill of sale. Sell the salvage as quickly as possible. We see far too many cases with negative salvage returns and car rental bills in the 20 + day range. To recover, we have the burden of proof as to damages, and on total losses, we are usually restricted to the ACV of the vehicle less the salvage return.

A Winning Situation

Subrogation is a profit center – it is also a means to greater customer satisfaction by recovering deductibles and by decreasing the percentage insurance carriers have to increase insurance premiums to cover expenses. VCS has dedicated and educated professional resources and welcomes the opportunity to apply all of our proven recovery techniques to increase your subrogation recoveries. And finally, please remember that quickly resolving total loss cases will lower costs to save your company and your customers money.

About Fred Westbrook

T. Fred Westbrook, SCLA, has over 38 years of claim and managerial experience with a major carrier; 22 of those years were directly involved with supervision and management of subrogation recovery offices. As a Territorial Recovery Manager, Fred gained first hand experience in the consolidation and centralization of recovery offices. He was the carrier's Claim Department Representative to the DISA, ASC X12 EDI Standards Organization, serving on the X12N Insurance Subcommittee for Property & Casualty Subrogation.

Fred is currently the president of Verbatim Claim Services. He has written and taught "Recovery Awareness" educational seminars and continues to remain current on legal changes that impact recovery through his membership in the National Association of Subrogation Professionals (NASP), the Society of Claim Law Associates (SCLA) and as an associate member of the American Bar Association (ABA).

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¹ "I.I.I. Reports Auto Rates on the Rise; Medical Costs, Repair Costs, Jury Awards, Fraud, Highlight Gains" published in the Insurance Journal dated August 25, 2003.

² Excerpts from "There's Gold in Subro Hills: A Guide to the Mining of Subrogation Recoveries" Claims, May, 1993 by William C. Stewart, Jr., CPCU, AIC, RPA, President Claims Training Services, Jackson, NJ.

³ "Developing a Winning Subrogation Case" by Fred T. Westbrook, SCLA, President Verbatim Claim Services, Inc. www.verbatimclaimservices.com/details.