

IDEAS!

SPECIAL CLAIMS INVESTIGATIONS (“CIS/SIU”) PARTNERING...PART TWO



A PARTNERING MODEL FOR

- ...SMALL TO MEDIUM SIZED INSURERS
- ...SELF INSURERS, THIRD PARTY ADMINISTRATORS, AND MANAGING GENERAL AGENCIES
- ...LARGE INSURERS DEVELOPING THEIR CIS/SIU INTERNAL UNITS WHO NEED ADDED HUMAN RESOURCE SUPPORT
- ...CERTAIN SPECIALTIES OR THIRD PARTY OBJECTIVE EXPERT OPINION NEEDED IN LARGE CIS/SIU UNITS
- ...DELIVERS A CONTROL CULTURE FOR QUESTIONABLE AND CERTAIN COMPLEX CLAIMS AT NO SACRIFICE TO CUSTOMER SERVICE STANDARDS

PART ONE SUMMARY

In PART ONE, the various models which have been utilized by best practices companies to deliver “special investigation” and “special investigation” management expertise to insurers, self insurers, third party administrators and managing general agencies on questionable and certain complex claims (e.g. fire, injury) were explored.

The first conclusion from our experience and studies of best practices companies is that “special investigation” and “special investigation” management expertise is needed by all insurers large or small, self insurers, third party administrators and managing general agencies on questionable and certain complex claims.

The only real question is how to deliver such specialized services, not if such services are required.

It was also concluded from our best practices claims experience and studies that two models, the Internal CIS/SIU Unit and the External CIS/SIU Partnering Model were the models that companies are finding to be the most effective in attaining the following corporate goals while still maintaining desired customer service standards:

1. to build more of a control culture in the company for questionable claims in order to deter those who may make the insurer a target for opportunistic and premeditated claims
2. to better identify, investigate and control individual “questionable” claims which may be “opportunistic” or “premeditated”, and

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3. to better identify, investigate and control certain more complex claims (e.g. fire, injury claims) to determine liability allocation for the cause of damages, contributory negligence and subrogation opportunities

The common threads in both of these models which have lead to the best file results and the establishment of a reasonable questionable/complex claims control culture at no sacrifice to customer service standards are:

1. The skill sets of the leader of the unit, and
2. The skill sets of the special investigators

These skill sets were outlined in detail in PART ONE of this Issue.

It was also recognized that although the success of these units rests "mostly" on people and leadership, by no means are best practices policies, processes, standards and questionable/complex claim technology applications with embedded business rules and protocols unimportant in controlling questionable/complex claims. They are very important. They just are not as important as having the "right people" and the "right leadership"... the leader, the claims representatives and the special investigators all highly trained working as a team at the outset to create the appropriate documented processes and technology with business rules and protocols as tools. And then these tools may be utilized to segment and handle questionable and complex claims with the help of investigative and other specialists.

So, what type of analysis should be undertaken by insurers of all sizes, self insurers, third party administrators and managing general agencies to determine which of the two models is the most appropriate for their specific needs?

QUESTIONABLE CLAIMS MODEL CHOICE ANALYSIS – INTERNAL CIS/SIU UNIT OR PARTNERING EXTERNAL CIS/SIU UNIT OR BOTH

Two Key Questions

Question One – Are there a sufficient number and dollar value of questionable claims in a particular geographic area the company services, and will these claims continue to exist by type and dollar value over the years to justify the considerable investment in an internal unit of specialist investigators by claims type, as well as an experienced leader, on full time employment basis?

Question Two – If the answer to Question One is "yes", can the company attract and retain an experienced leader and special investigators with the best practices skill sets described in PART ONE of this Issue and maintain these high standards over time?

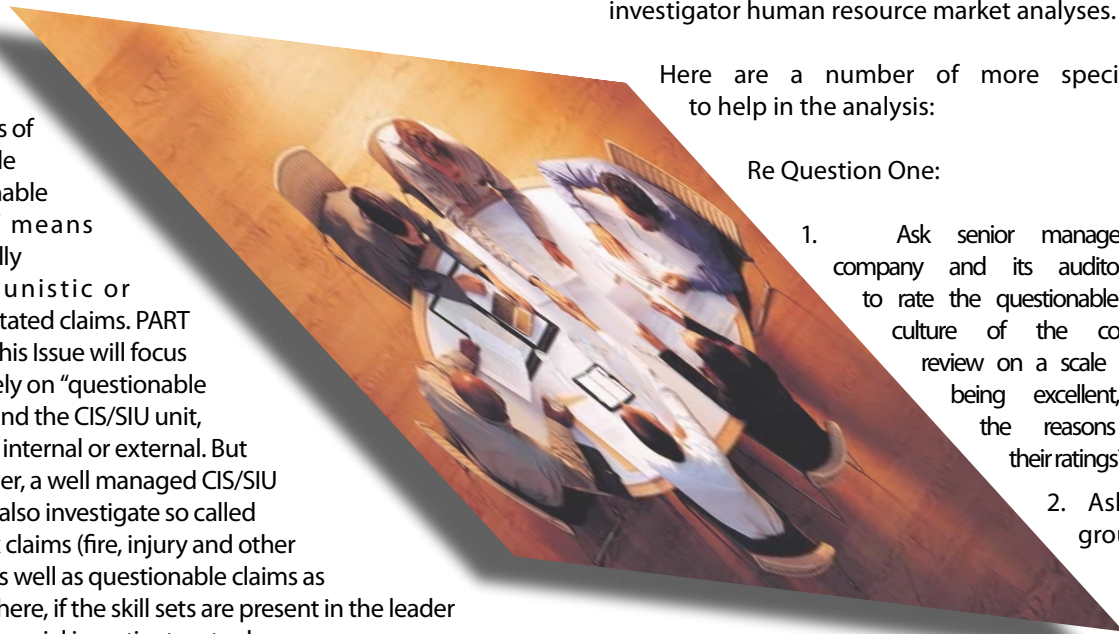
These are easy questions to ask and difficult questions to answer with any degree of accuracy without more in depth claims profile (number, type, dollar value, location), cost benefit and special investigator human resource market analyses.

For the purposes of this article "questionable claims" means potentially opportunistic or premeditated claims. PART TWO of this Issue will focus exclusively on "questionable claims" and the CIS/SIU unit, whether internal or external. But remember, a well managed CIS/SIU unit can also investigate so called complex claims (fire, injury and other claims) as well as questionable claims as defined here, if the skill sets are present in the leader and the special investigators to do so.

Here are a number of more specific questions to help in the analysis:

Re Question One:

1. Ask senior management of the company and its auditor/risk manager to rate the questionable claims control culture of the company under review on a scale of 1 to 10, 10 being excellent, and obtain the reasons to support their ratings?
2. Ask a sample group of claims



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representatives of the company to rate the questionable claims control culture of the company under review on a scale of 1 to 10, 10 being excellent, obtain the reasons to support their ratings, and if their ratings are low, obtain their specific views on how to make them better?

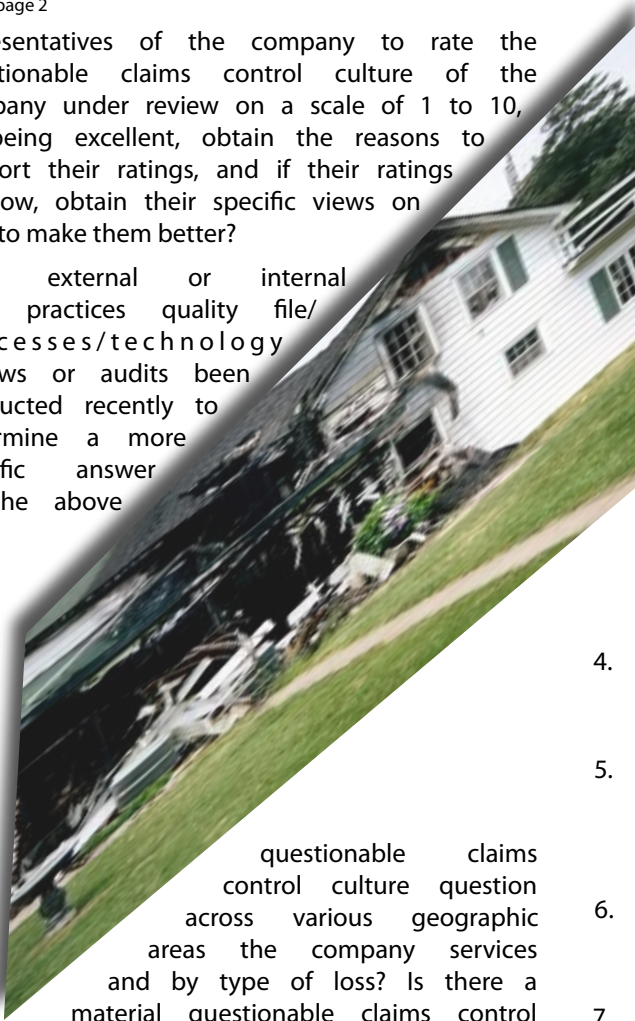
3. Have external or internal best practices quality file/processes/technology reviews or audits been conducted recently to determine a more specific answer to the above

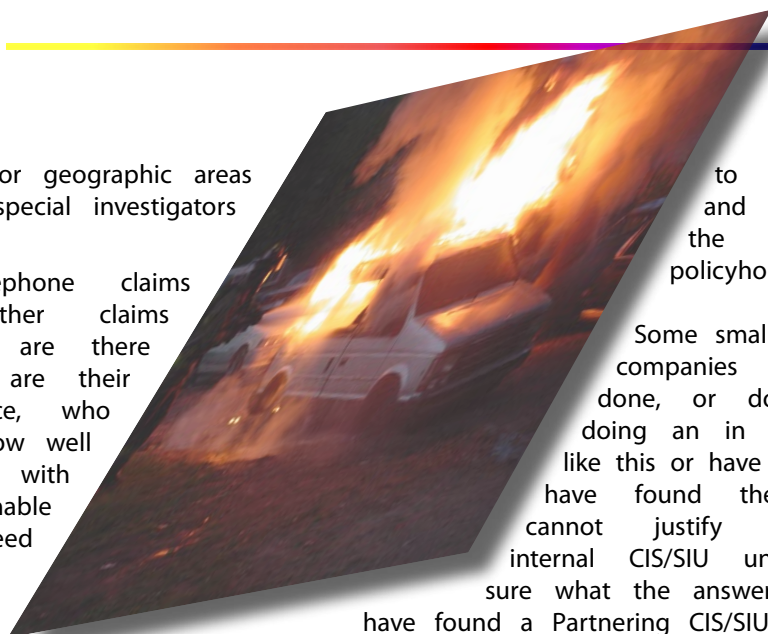
questionable claims control culture question across various geographic areas the company services and by type of loss? Is there a material questionable claims control culture issue, or a moderate, or minor issue, or none at all?

- a. What is the estimated annual number and dollar value of questionable claims that should have been investigated further but were not by each claim type across various geographic areas as identified in these quality reviews or audits?
- b. What is the estimated annual number and dollar value of questionable claims that have proven after investigation to be not payable in whole or in part by each claim type across various geographic areas as identified in these quality reviews or audits?
 - i. How do these numbers and dollar values compare with the generally accepted industry estimates that at least 10% of claims fall into the opportunistic or premeditated categories? If they fall well short,

there probably is an issue to be addressed.

- ii. Have these claims required specialized investigation and handling expertise by independent adjusters or other investigators not employed by the company and what was the cost of such services on these claims?
 - iii. If independent adjusters are utilized to any significant extent in the entire claims process in respect of any specific type of claim (e.g. auto accident benefits), do the quality reviews or audits find that 10% of the claims they handle by number and dollar value are either opportunistic or premeditated?
4. What is the number and dollar value of all claims by each type annually across various geographic areas the company services?
 5. How many questionable claims of each type and dollar value is it reasonable to expect an investigation specialist to investigate and complete in a month or annually on average?
 6. What is the expected estimated annual savings by a special investigator on claims that should not have been paid?
 7. Do sufficient numbers and dollar values of questionable claims exist to justify a special investigator for each claim type in each geographic area the company services?
 8. Does the frequency of claims by type of loss that require special investigation vary widely month-to-month or year-to-year across various geographic areas the company services?
 9. Do best practices questionable claim policies, processes, standards, identification criteria documentation exist in the company for each type of claim?
 10. What questionable claim identification technology or manual processes are being utilized and are they being utilized at the very front end of the claims process as well as throughout the process?
 11. Do the above technology and processes have embedded business rules and protocols for claims representatives to follow and to what extent are there exceptions that need to be addressed?





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12. How many claims offices or geographic areas need to be serviced by special investigators and where are they?
13. How many field, telephone claims representatives, and other claims representatives, appraisers are there in the company, what are their specialties and experience, who do they report to and how well do they communicate with one another on questionable claims files when they need to?
14. What are the pending levels of these claims representatives and how much of the investigative function is going to be performed by claims representatives as opposed to special investigators?
15. How experienced are the claims representatives in special investigation and use of experts to answer factual or expert opinion questions the claims representatives cannot answer?
16. What day-to day training either formally or working with the claims representatives on files is expected from the CIS/SIU leader or special investigators?
17. What will be the estimated annual budget for the Internal CIS/SIU unit, including salaries, benefits, equipment, auto, office space and so on?
18. Based on the above budget and a realistic estimate of the potential savings, will there be a projected return on investment in each year over the years equal to at least 3 or 4 times the CIS/SIU unit budget in addition to some deterrent dollar value by having the CIS/SIU unit in existence? The company's growth and strategic plan should be factored in over the next several years.
19. Can a reasonable questionable claims control culture be effected at no sacrifice to customer service standards under either model?

to the company and serve by far the majority of policyholders.

Some small to mid sized companies who haven't done, or don't plan on doing an in depth analysis like this or have done one and have found their operations cannot justify a dedicated internal CIS/SIU unit, or aren't sure what the answer is for them, have found a Partnering CIS/SIU Model to be a more suitable business solution. Then they can assess their needs over time with actual results on some of the outstanding questions taking one step at a time without committing to expanding the claims department.

Re Question Two for those companies that have answered "yes" to Question One:

Can the company attract and retain an experienced leader and special investigators with the best practices skill sets described in PART ONE of this Issue and maintain these high standards over time?

This is the key question and even more important than Question One because it probably is easier to identify the need than to fill it with the right people who are very much in demand in the marketplace. Really the only way to find out the real answer to this question is to try to hire the experienced leader with proven excellent skill sets and results.

If the leader can be attracted and retained with the skill sets identified it is very likely that experienced special investigators with the desired skills sets will be attracted to the CIS/SIU unit because of the leader and the companies demonstrated commitment to the internal CIS/SIU unit. On the other hand if the leader does not have these skill sets it's likely the unit never will achieve the best practices goals above.

If the latter is the case, even large companies will be better served by the Partnering model in whole or in part.

Best practices claims departments understand the role their CIS/SIU leader will play directly

Applying the answers to the above questions to the claims business of insurers/self insurers/third party administrators/managing general agencies will give some initial guidance on whether the analysis will support a conclusion that if the "right people" including the CIS/SIU Leader were available, a dedicated internal CIS/SIU unit can or cannot be justified and will or will not be of significant benefit

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and indirectly in the training process for claims representatives by improving some of the core adjusting skill sets of claims handling staff such as interviewing techniques, statement taking, evidence preservation and subrogation opportunity recognition to name a few. They also understand that the leader must be able to effectively integrate the CIS/SIU role with the front line claims reps without adversely affecting their productivity and the company's customer satisfaction standards. These are two key aspects of the establishment of the questionable claim control culture and not many CIS/SIU leaders can perform these functions well.

PARTNERING WITH LARGE COMPANY INTERNAL CIS/SIU UNITS

Best practices large Internal CIS/SIU units lead by strong leaders can see the advantages of partnering with External CIS/SIU units in some areas and circumstances:

1. To manage overage in special investigation claims volume – internal CIS/SIU units do not want to staff for the peak claims frequencies
2. Where the internal unit does not have certain specialist skill sets
3. Where the internal unit is a developing unit that needs human resource support
4. To access a broader market intelligence base of premeditated or opportunistic claimants or schemes in a geographic region
5. To manage dislocations and vacations
6. For specialized training needs
7. For an independent expert opinion for arbitration or court
8. To test annual investigator productivity levels or similar type of claim attributed investigation expenses – one of the disadvantages internal service units of any kind have to overcome is the lack of “market” discipline on their productivity and per investigation claim costs. External units are under relatively more productivity and expense management scrutiny by customers unless internal units are required to bill their internal customers for their services
9. To continuously learn

SMALL TO MEDIUM SIZED COMPANIES – DEVELOPING A QUESTIONABLE CLAIM PROGRAM PARTNERING WITH AN EXTERNAL CIS/SIU UNIT

These companies have determined for many different reasons that the Partnering Model will work best for them in delivering best practices “special investigation” and “special investigation” management expertise on questionable claims.

Who are the people on the team, and what are the basic processes to get the Program started?

The Team:

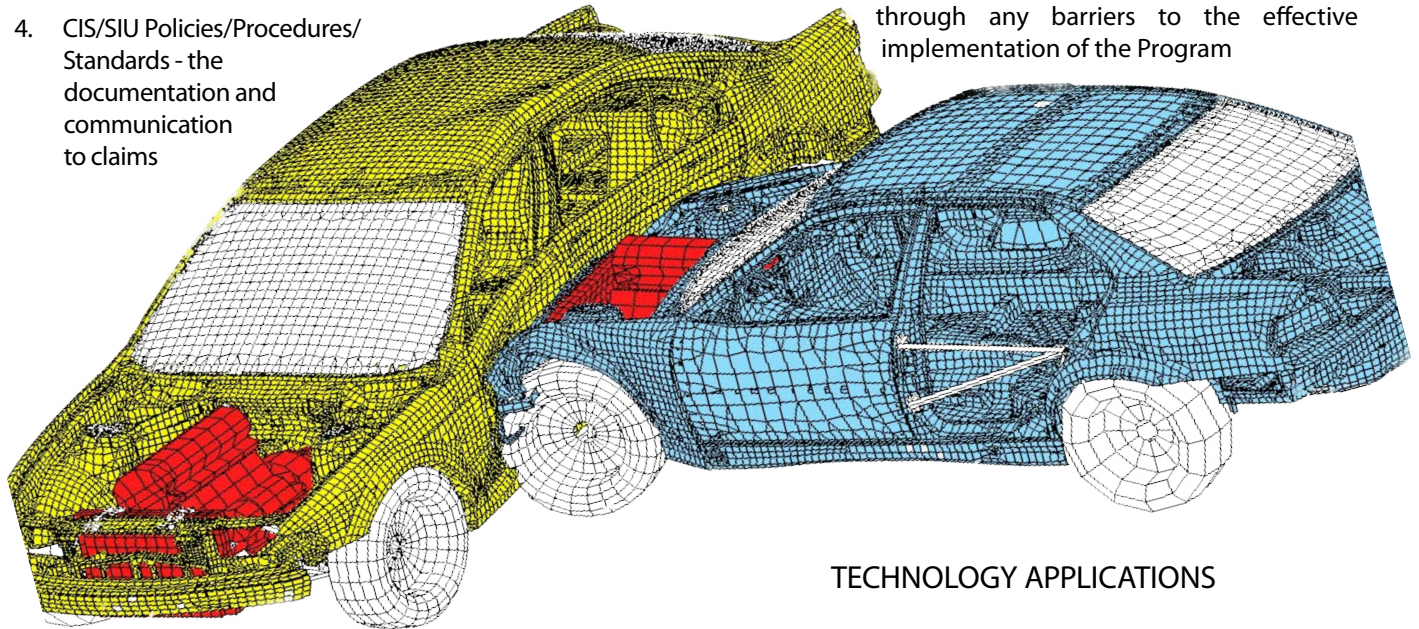
1. An Internal Manager – a non SIU specialist accountable for the planning, organizing and performance managing of the CIS/SIU Program/ Supplier Contract for the AB/BI, auto and property units as one of his/her many responsibilities. Recognizes the need but does not have the technical, SIU leadership or investigative experience to be the CIS/SIU leader.
2. All Claim Reps – technical and customer service skill sets, open minded, continuous learners (formally and through file discussion feedback), like working as team members, with pending levels that don't disable their effectiveness
3. The External Leader - External CIS/SIU Contracted Leader with the skills sets described in PART ONE of this Issue
4. The External Special Investigators - External CIS/SIU Contracted Investigators with the skills sets described in PART ONE of this Issue

The Processes:

1. Quality Audit Review – Conduct this with the leader of the External CIS/SIU unit on the team. The Review will diagnose and quantify the gaps by type of loss and location as measured against best practices CIS/SIU policies, procedures and standards, including technology and training needs
2. Quality Audit Review Feedback - Feedback to the claims representatives on the audit results in a training environment by the External CIS/SIU leader so they will know, understand,

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- believe and act on the needed changes - they should help build the changes - if they do not, some will not buy-in and this will make implementation of the Program very difficult
3. Prioritization And Action Plan - Prioritization of needs as identified in the quality audit and the development of a time-lined action plan to implement the changes
4. CIS/SIU Policies/Procedures/Standards - the documentation and communication to claims
7. Rewarding Teamwork - establish ways to reward claims representatives and special investigators for excellent team results in accordance with customer service standards
8. Monthly Feedback Meetings - Monthly meeting between the Internal Leader/Manager accountable and the External CIS/SIU leader accountable for certain services to work through any barriers to the effective implementation of the Program



TECHNOLOGY APPLICATIONS

representatives by the External CIS/SIU leader of best practices CIS/SIU policies, procedures, standards, technology and training requirements

5. Training - Training of claims reps at training sessions by the External CIS/SIU leader using actual insurer claims files, and reinforcement day-to-day through the CIS/SIU External Leader working with the claims representatives
6. Supplier Contract - A annually renewable Supplier Contract with the outside CIS/SIU supplier with provisions including description of services, standards of service (including fair claims handling), desired outcomes, results measurement, reporting requirements, confidentiality, fee structure, and privacy obligations.

Very little has been said about this important topic in this piece as we have been focusing mostly on the human side. Again, outside or inside questionable claim identification technology integrated with claims systems, or stand alone systems, or both, with embedded business rules and protocols are being used very effectively to detect some types of questionable claims activities, or questionable claims location concentrations, or involved claimant concentrations or supplier concentrations at the front end and throughout the claims process.

These detection tools can be extremely useful but it's the people who are responsible to take this information and deal with it effectively who are the key to an effective Program and the questionable claims control culture. Both working together are obviously the ideal solution.

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TSI's Claims Investigation Support Unit ("CIS")

Investigation

Lee Thistle: Former Peel Regional Police officer, having reached the rank of Detective. Recognized as a pioneer in fraud prevention in the insurance industry. While with the ICPB, awarded the Doug Hiron Memorial Award, in recognition for excellence in insurance fraud investigation. Established and managed two successful internal insurer SIU's. Leads TSI's CIS unit. Specializes in large loss fires and is a Certified Fraud Examiner and Certified Fire and Explosion Investigator. Accepted as an expert in court.

Stan Swann: 23 years with the Royal Canadian Mounted Police, focusing on commercial crime. Managed Zurich Canada's Investigative Services Unit. Specializes in fidelity, property and municipal liability claims. Holds CIP designation, Certified Fraud Examiner and a Canadian Certified Fire Investigator, Level C.

Rick Hawkyard: 14 years with Metropolitan Toronto Police, worked in the Criminal Investigation Bureau; was a forensic photographer; and a Special Accident Investigator. Investigated in excess of 4000 collisions, hundreds of those involving fatalities. Special Investigator and Senior Claims Specialist with a large insurer, is a Certified Fraud Examiner and Certified Fire and Explosion Investigator.

Scott Griffin: 20 years of experience as an Insurance Fraud Investigator. He is also a surveillance expert.

Collision Reconstruction/Investigation

Level IV Collision Reconstructionists

Rob Seaton: Lead reconstructionist. 23 years as a police officer specializing in collision investigation and reconstruction. Sergeant in charge of the OPP's reconstruction program. Taught collision reconstruction at the Ontario Provincial Police Academy.

Consultant to the Provincial SIU on collisions involving Police vehicles. Accepted as an expert in court.

Gary Carty: 21 years experience as a police collision investigator and reconstructionist. Investigated more than 1500 collisions. Responsible for the investigation and reconstruction of more than 100 fatal and life threatening collisions. Accepted as an expert in court.

Ian Woodworth: 16 years experience as a collision investigator and reconstructionist. Investigated and reconstructed hundreds of collisions, including over a hundred collisions involving fatalities. Accepted as an expert in court.

Engineering

Dan Mills: Investigated more than 200 collisions and conducted more than 60 crash tests as Lead Collision Investigator for Transport Canada's Vehicle Safety Research Centre (Determines the effectiveness of Canadian Motor Vehicle Safety Standards). A graduate of Ryerson University, Dan teaches Collision Reconstruction to VSRC and police investigators.

Level III Collision Analysts

Ian Harrison: 28 years with Toronto Police Service. Investigated over 2,500 collisions. Investigated hundreds of traffic collisions involving serious injury or fatality.

Mechanical

Doug Lamb: A licensed appraiser and Class A Mechanic with 35 years in the automotive industry. An expert in brake system examinations, he is accepted as an expert witness by the Ontario Motor Vehicle Industry Counsel.

Who Is TSI?

In 1999, Jim Jasper, Mark Edwards and Lee Thistle, leaders in Canada in the Property & Casualty and Life & Health insurance industries in the creation of best claims practices, fraud control and legal management programs, came together to form TSI Solutions Inc.

TSI helps private and public insurers implement solutions to improve overall performance and efficiency and in particular, reduce unnecessary claims loss and expense leakage.

One of our primary objectives is to strengthen fraud recognition and investigation programs of insurers. Our investigative team includes CFEs, Certified Fire and Explosion Investigators and Level III and Level IV Collision Analysts and Reconstructionists.

We serve our customers not only through providing claims investigation support, but also through our various training programs and our claims best practices tool, "TSI Claims Scorecard 1000". This tool objectively and systemically identifies and prioritizes improvement opportunities and benchmarks claims and management practices against outside standards.

Lee Thistle, C.O.O. Recognized as a pioneer and leader in fraud prevention and investigation in Canada, with more than 30 years' experience. Established two effective SIU's at 2 major P&C carriers. Leads TSI's Claims Investigation Support ("CIS") unit.

Mark Edwards, President. 30 years experience in the Life & Health and P&C industry as VP, General Counsel & Corporate Secretary, VP Claims, a Director of various companies and as a Consultant. A change and performance management leader in best practices claims and legal management.

Jim Jasper, Chairman & Treasurer. 35 years in the P&C industry in the US and Canada. A change management specialist with more than 125 General Management Consulting projects to the P&C industry.



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