



2016 CLM Annual Conference
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“Stratified General Liability Claims -"Fast Tracking" and Other Techniques”

I. Overview

Productivity Enhancement through Claims Management Efficiencies

The core operational goal of any business is profit. Profit, in its most basic definition, is revenue minus cost. Costs come in many guises.

Two significant business costs of interest are 1.) man-hours and 2.) claims and claims management activities.

The focus of this treatise and exercise will be to review “fast-tracking” technique and to

- illustrate those costs and the many management challenges posed (particularly) by the varying types of General Liability (GL – property damage) claims;
- explore Third Party Claims Administrator (TPA) and legal partner issues and techniques used to augment the process;
- review an example of a member company’s approach to efficiently processing a variety of GL claims

II. Costs

Man-hours/Labor

In the considerations here, man-hour or labor resource allocation must be addressed on multiple levels.

First there is the time that must be spent to address property damage at the customer level. While there are legal boundaries to formally adjusting claims, those boundaries are preceded by a domain in which a business may, and should, attempt to intercede and correct operational defects. In this instance the defect in question is customer property damage experienced during the course of providing a specific service. Business operations can easily commit unjustified resources and time to this end and, in addition, overstep the claims adjusting boundaries. Time and material expenditure in these

instances are self-evident, however the specter of “bad faith” allegations and resulting claims loom in the back ground when these boundaries are exceeded.

Secondly, there is a significant resource and time drain resulting from the proper documentation and follow-up required to self-manage property damage events outside a formal claims management process. Prudence business practice dictates that a formal process and an internal entity exist, designated to implement the process.

Claims and Claims Management

As mentioned above, there can be a significant amount of effort and cost associated with properly managing a property damage event. The following addresses convergent elements of the process, both generating costs that need to be controlled.

The first cost element is the classification of the event. Property damage events all differ in variables and magnitude. A stratified claims classification methodology must be developed to properly position these claims in a tier for subsequent attention by the TPA. Typically this methodology would include the following decision points (not all inclusive):

- Type of damage (physical, chemical, personal, etc.)
- Extent of damage (cost to correct)
- Correction options (non-monetary, monetary)
- Potential for future impact (health, litigation, etc.)

The classifications will run from minimal to serious in claims type. The investment of time and resources is commensurate with the stratification. Likewise, the management fees associated with the individual types of claims will reflect the severity.

The second cost element is the actual resources required to mitigate the damages associated with the claim. This can range from non-monetary remedies such as service discounts or coupons to corrections requiring significant financial outlay (repair, replacement).

Examples of these cost elements will be illustrated in the case study.

III. Partners and Specific Challenges

Industry

An inherent trait of the service industry (and most industries) is the commendable desire to make the consumer satisfied. Sometimes this desire can drive operators to address property damage resulting from their services in a manner that exceeds prescribed limitations. It is when these boundaries are overstepped that efficiency is compromised

and profitability negatively impacted. In addition, exceeding the boundaries may compound costs by incurring additional liability. The challenge to the industry is one of discipline. Operators must adhere to the property damage (GL Claims) protocols to the letter and avoid the temptation to obtain customer satisfaction on their own or with unacceptable measures in these instances.

Third Party Claims Administrator (TPA)

TPA services are in the business of processing claims. For most, the primary goal is to maximize the volume of claims being processed. Coupled with volume is their desire to establish profitable, yet fair, handling fees for the range of claims they will be asked to administer.

The challenge to the TPA is twofold. First they must work with the client to define the claims stratification process and classification definitions. Second they must develop (with the client) and implement (with the adjusters) claims handling instructions that clearly and concisely describe the claim types and required actions. Note: Payment and accounts payable coding must be honed with the client and carrier. These actions may also include the development and use of third party services vis-à-vis a vendor approval program.

Legal Counsel

The challenge to counsel lies primarily downstream in the process as always with disputed remedies offered, agreed to, or refused.

Counsel should be engaged at the inception of the program to address any legal issues that may arise around bad faith allegations.

III. Case Study

Driving factors

Stanley Steemer, a cleaning service company, experiences property damage claims during the course of business. Severity ranges from superficial physical damage (e.g. a scratch) to wholesale replacement of items in the home or workplace. Being a customer facing business, the operators in the field are trained and instructed to do all in their power (but within defined limits) to remedy any damage at the point of contact. Out of good faith, some operators take liberties and conduct mitigation actions beyond the operational boundaries set by management, potentially putting the company at risk.

Management Process Design and Rationale

In order to better control the property damage management process, the company engaged its TPA, to jointly develop a tiered or stratified process for addressing property damage events. The following is an excerpt from the claims handling instructions developed. This will be discussed in more detail in the open forum.

Stratification Definitions -

Traditional GL Claims

- “Traditional GL Claims” will be **defined** as any property damage claim (or potential property damage claim) that **the insured** admits responsibility for **AND:**
 - Valued >\$XXXX;These claims must be account coded - TradGL

Fast Track Claims

- TPA will be processing **“Fast Track” GL or Investigation** property damage claims, those are events that are of lesser significance and should not be labored on by operational personnel. These claims must be account coded - Fast Track
- “Fast Track” will be **defined** as any property damage claim (or potential property damage claim) that **the insured** admits responsibility for **AND:**
 - Valued >\$XXX, but <\$XXXX;
 - Cannot be remedied directly with the customer by a “Redo” of the job
 - Cannot be remedied directly with the customer by an immediate discounting of the job
 - Value is in dispute with the customer and requires a 3rd party estimate to proceed
 - These claims do **NOT** require any investigation. Claims are to be settled by offering valued amount. Take it or leave it approach with minimal negotiation
 - 3-6 calls at most on these claims
 - Approval needed from Insured to change the sub class code on these claim types

CGA Claims – Customer Goodwill Act

- “CGA Claims” Customer Goodwill Act will be **defined** as any property damage claim (or potential property damage claim) that **insured** admits responsibility for **AND:**
 - Reported by the customer via web **OR** use the custom CGA form and Email to TPA.
 - Valued \$XXX or less
 - Cannot be remedied directly with the customer by a “Redo” of the job
 - Cannot be remedied directly with the customer by an immediate discounting of the job
 - These claims do **NOT** require any investigation. Claims are to be settled by offering a gift certificate
 - 1-3 calls at most on these claims
 - Approval needed from Insured to change the sub class code on these claim types

III. Summary – Performance Review

While the process is fairly green, favorable measures are resulting.

At first glance, it appears that there is a significant increase in GL claims frequency, however many of the claims being additionally reported would have been dealt with outside the TPA environment. The occurrences existed but did not have the management visibility. The fact that these are receiving close scrutiny is seen as a positive attribute of the program.

Cost analysis is also promising. Fee and claims related costs look to be reduced or flat. An extrapolation of cost was required for those events that were not classified in the claims system, but incurred cost. This data will improve with maturity.

Lastly, an effort is being made to quantify the savings in man-hours at the operational level. Initial review indicates advantage coupling increased revenue and additional time available to them for use in growing core and ancillary the business.