

The Cost of Late Claim Reporting

The Study

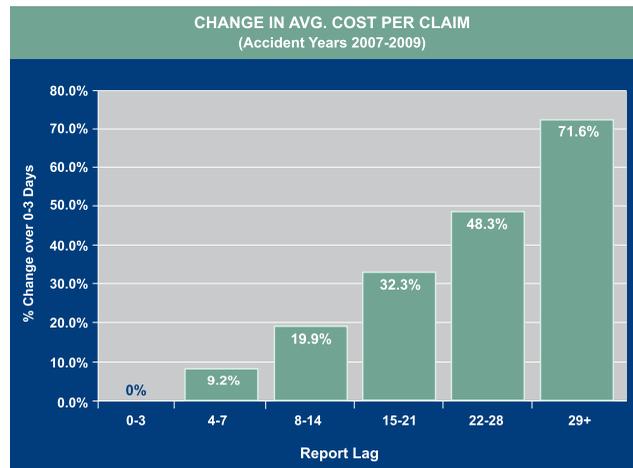
The prompt reporting of claims is one of the easiest ways to lower your total cost of risk; the sooner we learn about the claim the quicker we can engage in medical and disability management. What is the cost if a claim is reported late? It depends.

This is an update to an earlier study compiled by Liberty Mutual Risk Management Solutions that continues to demonstrate that, on average, the sooner the claim is reported, the lower its ultimate cost.

Results

The results of this study emphasize the importance of reporting claims as soon as possible. Using the 0-3 day period as the baseline, the cost of a late reported claim is 9% more if reported between 4-7 days, 20% more if reported between 1-2 weeks, 32% more if reported between 2-3 weeks, 48% more if reported between 3-4 weeks, and 72% more if reported at one month or later. The driving force behind the increased cost are late reported medical-only claims, or claims that have zero dollars of indemnity incurred losses.

Since our last study in 2007, Liberty Mutual experienced a significant improvement in first reporting efficiency among its policyholders; that is more claims were reported within 0-3 days. In 2007, 57% of all claims were reported within 0-3 days, which increased to 64% by 2009. Clearly, policyholders see the benefits associated with reporting claims as soon as possible—it lowers the total cost of risk.



Best Practices

Reporting claims sooner can represent significant savings to your organization. Below are some best practices to follow when it comes to reporting claims:

- Designate an individual to be responsible for reporting claims and enforce compliance.
- Educate employees about their responsibility to report injuries.
- Measure and monitor report timeliness.
- Report claims as they occur, 24 hours a day, 7 days a week.
- Centralize the reporting process (i.e. online).
- Target reporting 80% of claims within 3 days.

Methodology

This study focuses on the Workers Compensation line of business. Losses and claim counts were developed to their estimated ultimate values using standard actuarial methods and

adjusted for inflation and benefit level changes. Additionally, each claim was capped at \$250,000 to minimize the impact of outliers on the dataset. Data excludes claims that resulted in a fatality, as catastrophic claims are more likely to be reported immediately. Allocated loss adjustment expense (ALAE) was included in the total cost of claims. Data for this study was compiled from Liberty Mutual's large database of National Account size customers using a 3 year period from 2007 through 2009.

Conclusion

Late claim reporting can contribute to increased costs due to the following factors:

- Delayed access to medical attention.
- Delayed access to our Preferred Provider Organization.
- Potentially higher rate of litigation.
- Inability to maximize on injured worker's inclusion in Return-To-Work programs.

