How to Tell If you Need a Claims Audit

**Employers frequently wonder** if their workers’ compensation claims are being handled properly and/or correctly. While your third party administrator or workers’ compensation insurer will definitely reassure you that they are doing an excellent job of managing your work comp claims, there are several subtle and not-so subtle indicators that a claim file audit is needed.

**Signs A Claim File Audit Could Be Needed**

If you are noticing any of the following occurrences or developments, it is a sign a claim file audit could be needed. If you are noticing several of the following occurrences or developments, you definitely need to have an independent claim file auditor review your workers’ compensation files. Indicators that a claim audit is needed include:

* Your workers’ compensation premiums have been increasing faster than the premiums of other companies within your industry (your broker can provide you with this information)
* Your overall cost of work comp claims has been increasing faster as a percentage each year than the percentage increase in the cost of medical care
* The indemnity portion of your claim cost, as a percentage of the total claim cost, has been increasing (the cost of medical care has been increasing faster the cost of employee wages)
* The average life expectancy of your workers’ compensation claims has been increasing
* An increase in the frequency of complaint calls
* A lot of surprises are occurring on your workers’ compensation claims
* An increase in the number of hearings being requested by employee’s attorneys
* An increase in the number of inquiries received from the workers’ compensation board or industrial commission
* An increase in the percentage of employees who hire attorneys to represent them
* A decrease in the percentage of medical only claims with a corresponding increase in the percentage of indemnity claims
* Large reserve increases just prior to claim settlements
* Missed subrogation recoveries
* Missed second injury fund recoveries
* Settlements that differ significantly from the reserves on the claim files immediately prior to the settlement
* The average life expectancy of the claims has been increasing
* An unusual level of personnel turnover among the workers’ compensation adjusters handling your claims
* A shuffling of adjusters in and out of your claims program

**Periodic Claim File Quality Audit – aka Best Practices Audit**

A periodic claim file quality audit, also known as a Best Practices Audit, will tell you whether or not the claim adjusters are complying with the Best Practices they hold themselves accountable to. If the third party administrator or insurer allege they don’t have claim handling Best Practices (a rarity these days), a Best Practices audit can measure the quality of the claim handling against the insurance industry’s Best Practices for claim handling quality.

As an alternative to a Best Practices audit where all aspects of claims handling are reviewed, a specific focus claim audit can be provided by the independent claims auditor. With a specific focus audit, the claims auditor addresses one aspect of the claims handling, for examples: proper reserving, or proper subrogation handling.

The independent claim auditor provides an unbiased evaluation of the claim handling quality that the insurer or third party administrator cannot provide due to their own conflict of interest. The independent claim auditor also does not have any preconceived ideas about the claim handling quality that the employer might have. Hence, the independent claim auditor provides the most objective opinion of the claims handling quality.

For more information on how you can arrange a claim file audit for your company, please contact us.