



Case Study – Auditing Claims Leakage

Auditing Claims Leakage – quantifying the results of change to reveal the tweaks required.

Rolling audits uncover the progress and the unforeseen consequences of efforts to contain claims leakage – objectivity and experience is key. For Claims Managers, their independent auditors should have a strong background in working in similar environments to ensure a positive engagement from the audited function and credible leakage audit results.

Situation:

Our insurer client, a Gibraltar based motor insurer, uses a TPA to handle its claims on a delegated authority. Our client wanted to establish the accuracy, efficiency and cost effectiveness of the claims handling by the TPA by way of a rolling programme of leakage audits.

SX3 had performed a 200-file leakage review on the TPA 6 months previously, highlighting a leakage rate of 5.02% and frequency of 11.5% and had now been asked back to repeat the same audit process a second time.

Action:

Having already established an understanding of the claims handling approaches by the client and TPA, to prepare for the next audit, SX3 met with the TPA to identify any practice changes implemented or planned since the previous audit.

A similar number of files was randomly sampled, and the audit methodology applied was exactly the same as the first audit allowing our client to see a direct comparison in their trends.

A team of auditors, the same team used for the first audit and each with 20 years + claims management experience performed the audit, on site at the TPA's offices. At the end of each day, a mini debrief session was performed with the TPA management to check facts and validate opinions on that day's audit findings.

A recurring leakage problem on credit hire claims arising from a deliberate handling tactic by the TPA was identified that could not be resolved

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through the usual daily debrief. The issue related to the level of discretion allowed in the settlement amount to avoid litigation, the auditors accepting that some discretion was sensible, but believing that the level adopted by some handlers was too high.

Early on in the audit, SX3 arranged a meeting with the credit hire technical leads to discuss the rationale and highlight some of the early audit findings. From this discussion, it was agreed that some cases had allowed too much discretion and the SX3 leakage assessment method was agreed.

Outcome:

Although the £ leakage rate per claim had dropped between the two audits, the leakage frequency had increased by over 100%. This meant that whilst less was being leaked per claim, issues were arising on a far more frequent basis.

During the course of the audit, SX3 noted there had been a recent process change aimed at reducing litigation. While litigation rates (compared to previous audit) had diminished, this had been achieved to the detriment of higher pre litigation settlement costs.

Whilst there were a number of other minor findings across PI and credit hire claims, the change in process to avoid litigation carried the highest risk to the business and was the key audit finding.

SX3 discussed the findings with the client. It was established that the instructions to handlers to “avoid litigation” had been interpreted too strictly, leading to first offers for general damages being set too high, and then going even higher when the claimant solicitor routinely rejected the first offer.

The client accepted this feedback and refined their process to include guidance around ensuring that the level of the first offer still allowed handlers some headroom to settle at a reasonable sum following the inevitable push back that many first offers receive. This revised approach enabled a reduction leakage whilst also avoiding litigation.

Assessing leakage on subjective matters such as general damages valuations, discretionary decision making to avoid more costly litigation and liability assessments (i.e. “soft leakage”) are likely to be strongly contested by claims handlers if assessed without informed engagement of the audited team, practical benchmarks, or a thorough understanding of the strategies being employed by that claims team.



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SX3 always use experienced claims practitioners for leakage audits, and sensible weightings for soft leakage, to deliver a credible audit result that is accepted by both the teams audited and the audit managers.

Related Reading:

[Leakage Audit Guidelines and FAQs](#) – Adrian Gilbert

<https://sx3.co.uk/audit/> - SX3 Web Page on Audit Services

SX3 Case Studies – are published to help prospective clients understand how value opportunities for the use of our services may be found and to give an insight as to how SX3 works with clients. All projects are unique and have more detail than can be expressed here.