



Case Study – Auditing Claims Leakage

Auditing claims leakage - the additional value of an external view.

For internally performed audits, whilst controls can be put in place to mitigate the risk of subjectivity, an external view can often deliver a significant return on investment.

Situation:

A claims operation performed regular leakage audits in-house. The operation had a leakage KPI, and for over two years, the audit results consistently produced a result that was inside the KPI.

The underwriting capacity provider wanted to sense check the audit process and results so commissioned an external leakage audit to compare results.

Action:

The SX3 team first sought to understand the historical leakage audit results, and the state of relationship between the claims operation and capacity provider. The relationship was good and there was no desire to cause unnecessary friction. However, SX3 noted that only hard leakage was being measured, the argument being that soft leakage was too subjective to measure.

SX3 worked with the claims operation and outlined how their process of assessing soft leakage reduces the level of subjectivity, though a use of codifications, benchmarks and weightings on values based on degrees of certainty. SX3 also showed how they quantified hard leakage and soft leakage separately, so the hard leakage result could still be reasonably compared to the in-house audit results. SX3 also performed a side by side comparison of the leakage definitions and cause codes between the in-house process and SX3's.

It was agreed by both the capacity provider and the claims operation that soft leakage should be included within the audit. To help with assurance and calibration, during the audit fieldwork SX3 performed a daily debrief with the claims operation reviewing the issues identified, checking understanding of process, and demonstrating the leakage assessment process.



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Outcome:

Hard leakage was identified in excess of the KPI and previous in-house audit results.

Soft leakage was found and quantified in addition to the hard leakage. The soft leakage results were reviewed with the claims operation and findings agreed. An action plan was developed to address the failings and has led to significant savings on the claims spend.

SX3 has been retained to perform regular leakage audits for the claims operation.

Related Reading:

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

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

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