



# Guidance Note - Leakage Audit FAQs

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## What is a claims leakage audit?

A claims leakage audit takes a large sample of settled claims to identify any instances where there is a difference between the actual payments made and the amount that should have been paid if all industry leading practices had been applied.

## How is leakage measured?

### Leakage rate

The leakage rate is the amount of leakage identified through specific reviews against the total claims spend on the sample of files reviewed.

Example:

<b>Number of files audited</b>		<b>200</b>
<b>Total claims spend of the 200 audited files</b>	Gross spend not allowing for recoveries	<b>£400,000</b>
<b>Total net leakage identified</b>	Total of hard and soft leakage after weighting applied	<b>£22,000</b>
<b>Leakage Rate</b>	$\frac{£22,000}{£400,000}$	<b>5.5%</b>

### Leakage frequency

This relates to the number of claims on which leakage had occurred – even if more than one instance of leakage has occurred on that claim. This is to ensure that leakage frequency cannot exceed 100% of the file sample. Example;

<b>Number of files in sample</b>	<b>177</b>
<b>Number of files with leakage</b>	<b>53</b>
<b>Leakage frequency = 53/177</b>	<b>29.94%</b>



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### What is the difference between hard and soft leakage?

Leakage can be categorised as either hard or soft leakage:

#### Hard leakage

Hard leakage relates to indemnity spend that should not have been incurred such as:

- Incorrect excess calculation
- Duplicate payments
- Failing to act on information received
- Delays in acting on information
- Failing to pursue a recovery on a non-fault claim

#### Soft leakage

Soft leakage relates to indemnity spend that could, in the auditors' opinion, have been avoided or reduced through better handling or decision making such as:

- Liability not being investigated properly
- Liability being conceded too easily
- Soft negotiations on quantum
- General Damages offers being made in excess of valuation bands without reasonable justification noted on the file
- Failing to pursue a recovery on a disputed liability claim

### Should soft leakage be included in the scope of an audit?

Yes. Soft leakage often outweighs hard leakage both in terms of volume and value. We regularly identify issues with a process – be that it is routinely not being followed closely enough or is inefficient – by including soft leakage within the scope of the audit. If the claims data supplied includes the handlers, it can even identify which handlers are not following the process correctly.

### Can soft leakage be accurately quantified?

Whilst soft leakage by its very nature is subjective, we can reduce the level of subjectivity through a number of ways –

- Using auditors with an in depth knowledge of the claims process reduces blunt application of audit rules.
- Ensure the audit team have a clear understanding of a client's claims processes and operating philosophy. This is achieved through engagement and dialogue with the client's management and handlers prior to the audit and ensures appropriate and balanced judgements are taken on claim outcomes.



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- Maintain an open dialogue between the client and the auditors before, during and after the audit, to ensure understanding and gain the confidence of all stakeholders in the audit results.
- Objective, not subjective assessments through codification of results identifying leakage by handling function, payment code, cause, and root cause.
- Apply a weighting to individual soft leakage amounts, reflecting the level of confidence the auditor has on that leakage amount.
- Have leakage results peer reviewed before publishing the results.

### How do you apply a weighting to soft leakage?

Where soft leakage has been identified on a claim, we also apply a confidence weighting. This will assist the auditor to qualify the extent to which they believe the leakage may have occurred, and the claims handler to not feel unreasonably judged.

#### Example:

A handler may have agreed physiotherapy at £70 a session when in usual circumstances £55 per session would be the maximum figure. Auditors may apply a high degree of confidence to the leakage at, say, 70%. So, if there were 6 sessions of physio, the leakage would be calculated as follows -

<b>Actual settlement</b>	6 x £70	<b>£420</b>
<b>Less Expected settlement</b>	6 x £55	<b>£330</b>
<b>Gross Soft Leakage</b>		<b>£90</b>
<b>Apply Weighting</b>	70%	
<b>Net Leakage</b>		<b>£63</b>

The total net leakage figure is the sum of the hard leakage plus the soft leakage figure **after** any weighting has been applied.