Auditing claims leakage – the added value of using experts who are independent.

'Knowing yourself is the beginning of wisdom' said Aristotle and, in my experience, this is as true of claims functions as it is for individuals. It can be very easy to miss the root cause of a problem when you are too close it.

A client wanted to establish the unbiased facts of a performance issue before proceeding with a legal action against a supplier. The client was a motor claims handling TPA that had recently implemented a new claims system. The implementation had been problematic, impacting the performance of the claims operation and leading to significant leakage. SX3 are recognised as specialists in this area of audit and were called upon to help.

We knew that to unpick the exceptional operational issues from the IT deployment from any underlying operational performance issues, investment in understanding the detail of the situation up front was critical. SX3's approach therefore was to;

- Deploy a team of seasoned, independent, professionals who readily understood the challenges of implementing a new claims system and the costs at stake
- Establish understanding of the impact of shifting from the legacy system to the new system in terms of functionality, timeline, and operating model
- Map out the claims handling practices and understand to what extent they had changed as part of the system change
- Agree with the client ahead of the audit, the process by which SX3 would statistically separate baseline leakage arising from the existing claims handling practices from any exceptional leakage.

SX3 included claims in the audit sample that were settled pre implementation, during and post implementation of the system to compare and contrast the handling in those periods and help identify the additional issues. The audit team also spoke daily with the claims team to hear their explanations on errors identified on the claims audited.

Prior to the audit, the client's perception was that the majority of leakage was arising as a result of problems with the system implementation. The result of SX3's review was that, whilst some examples of leakage could be directly attributed to the system implementation (mainly due to exceptional delays in handling), the vast majority of leakage actually arose through inefficient processes that had existed <u>prior</u> to the system implementation and continued to be practiced after the system implementation.

Had the client proceeded with their action against the claims system supplier, without seeking independent and expert advice, they could have exposed themselves to costly, unsuccessful litigation and potentially some brand damaging headlines.