

**Submission
No 155**

INQUIRY INTO NSW WORKERS COMPENSATION SCHEME

Organisation: FINEOS Corporation Limited

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Submission

To the

**Joint Select Committee on the NSW Workers
Compensation Scheme**

By



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1. Executive Summary

The purpose of the Joint Select Committee is to address the escalating scheme costs for NSW WorkCover. FINEOS concur with the findings that workers whose injuries are less serious should have greater incentives and support to Return to Work to avoid unnecessary costs incurred by WorkCover.

This submission proposes strategies and tools to implement improved duration management of claims and return claimants to health and work as soon as possible, thereby improving their quality of life.

In addition, we propose the benefits of a centralised system for claims management providing greater transparency, consistency and reporting, delivering improved scheme performance and viability.

2. Introduction

FINEOS is pleased to provide its input to the joint select committee review on the New South Wales Workers Compensation Scheme. It is noted that the Terms of reference is to inquire into and report on the New South Wales Workers Compensation Scheme, in particular:

- (a) the performance of the Scheme in the key objectives of promoting better health outcomes and return to work outcomes for injured workers,
- (b) the financial sustainability of the Scheme and its impact on the New South Wales economy, current and future jobs in New South Wales and the State's competitiveness, and
- (c) the functions and operations of the WorkCover Authority.

It is also noted that the submissions may cover all or only some of the points raised in the terms of reference.

Our submission focusses on new business initiatives and the enabling technology to support (a) above, and as a result of better health outcomes and return to work (duration management) outcomes for injured workers, which directly impacts (b) and suggests additional functions and operations of the WorkCover Authority so touches on (c)

FINEOS acknowledge from the issues paper the need for change as to not hinder productivity but should enhance the growth of jobs, that it must be affordable and competitive to comparable states in Australia, that the system needs to be efficient, effective and timely. FINEOS note that the system should adopt the most effective measures from around Australia and entitlements should be simple, transparent and easy to understand. Four Australian & New Zealand accident compensation schemes where FINEOS is used are referenced in this submission together with accident compensation clients in Canada and South Africa.

FINEOS concur with the issues paper that workers whose injuries are less serious should have greater incentives and support to Return to Work (RTW) while more seriously injured should receive improved weekly benefits and lump sum compensation entitlements and this is the main reason we write to you.

3. Observations

The heart of a claims business model is powered by high quality, modern and efficient claims applications, information technology services, and infrastructure.

NSW WorkCover is unique in Australia and New Zealand, whereby they are ultimately responsible for the funding position of the scheme, yet the scheme agents or insurers manage their claims and therefore the financial management of the scheme with scheme agents or insurers own disparate claims systems. Where legislative or claims improvement change is required, the seven scheme agents or insurers will each have to change their own systems at significant cost and time lag.

Worthy of note is the 2010/2011 WorkCover Annual Report published to the Minister on 31 October 2011 only included claims data up to 30/6/2010 with the preface “The most recent figures (2009/10 data) show...”. It is difficult for an organisation to analyse experience and make improvements to scheme design when the data is lagging so far behind. We believe that this issue is fundamental to scheme viability.

Statements made in October 2011 in the NSW WorkCover Annual Report 2010/2011 include:

“As at June 2011, the Scheme’s target premium collection rate (1.68 per cent of wages) is sufficient to cover the Scheme’s costs.” (Page 33)

“The Scheme has an accumulated deficit of \$2,363 million or a funding ratio of 85 percent as the WorkCover Board based on advise (sic) from the Scheme’s consulting actuaries have estimated without allowing for a risk margin that the Scheme will return to full funding by 30 June 2017.” (Page 149)

In the NSW Workers Compensation Scheme Issues Paper, it is now noted “The Independent Scheme actuary projects that an increase of 28% in premium rates would be required if no changes are made to the Scheme.”

The Hon. David Clarke noted “In recent weeks actuarial information has shown that the scheme has lost \$4 billion and that losses are increasing each week. The Government needs to act, and that is what the Government is doing”¹

¹ NSW State Government Hansard

<http://www.parliament.nsw.gov.au/prod/parliament/hansart.nsf/V3Key/LC20120502015>



FINEOS note the comments about the deterioration of the scheme from PricewaterhouseCoopers “*The large movements and (sometimes) changes from one valuation to the next indicate the difficulty of estimating the liabilities for a large and complex Scheme and the lagged affect as emerging trends are progressively identified.*” PricewaterhouseCoopers also noted “*There continues to be various examples of poor management of data by Agents. We recommend WorkCover continue with its CDR data quality program, but shift focus to also improving the quality of the transactional level data provided and controls by the Scheme Agents.*”²

FINEOS believe the model of agents reporting from their own systems to the NSW WorkCover Corporate Data Repository (CDR) to be unhelpful in regard to quality, granularity and timeliness for NSW WorkCover to monitor their business. Contemporary systems do not just capture hard data that is subject to the data transfer specifications detailed in the Claims Technical Manual issued by NSW WorkCover. A simple example is under the current system there is a liability indicator (e.g. Accepted, Pending, Denied). Contemporary systems capture information such as why a claim status change was made turning data into knowledge which enables regulators to make better policy decisions.

Scheme agents or insurers performance

A marked variety in agent performance exists in relation to both; claims liability relative performance and average duration of claims in relation to policy banding size.³

It is put forward that the joint select committee may look at, or asks NSW WorkCover to examine ways to reduce the variation in claims liability relative performance and average duration of claims amongst agents as this element alone could save many hundreds of millions of dollars for the scheme.

How to reduce the variation

The way to reduce the variation is to put uniform processes in place across scheme agents or insurers where the claims are likely to be costly or are costly. WorkSafe Victoria use FINEOS to manage High Value Work Practices which are a cohort of claims that are likely to

² PricewaterhouseCoopers Actuarial Pty Ltd
<http://www.workcover.nsw.gov.au/formspublications/publications/Documents/pwc-executive-summary-actuarial-valuation.pdf>

³ Scheme Agent Performance 2011 NSW WorkCover
<http://www.workcover.nsw.gov.au/formspublications/publications/Pages/schemeagentperformancereportjune2011.aspx>



be of significant cost to their scheme. FINEOS is a centralised solution deployed into each WorkSafe agent and processes designed by WorkSafe and its agents are used in a uniform manner. WorkSafe regulate and monitor the performance of agents in real time and can initiate and intervene where required.

It is not necessary to move to a single all-encompassing system in one step. A far more effective approach would be to use the current opportunity to improve scheme viability and concentrate on the high value work practices that will achieve significant claims costs savings. These practices could initially be rolled out to the agents by WorkCover without the need for them to replace existing infrastructure.

4. Benefits of a Central System

In 2002, McKinsey & Company was commissioned to review the operations of the Scheme and make recommendations for improving the Scheme's underwriting and insurance arrangements. The McKinsey report, "Partnerships for Recovery: Caring for Injured Workers and Restoring the Financial Stability to Workers' Compensation in NSW", released in September 2003, recommended significant changes that included WorkCover NSW design and implement a Scheme-wide IT solution: design a solution to support the improved Scheme structure, beginning with specific improvements in the quality and timeliness of data.

FINEOS believe the benefits from a central system include:

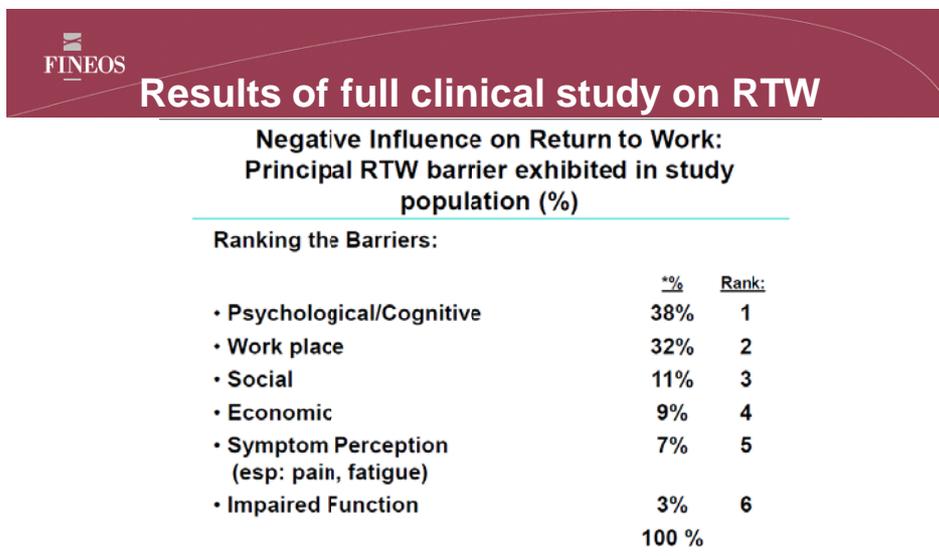
- Implementing initiatives that can be measured across the portfolio
- System agility, multiple systems make it nearly impossible to make timely refinements across the scheme for all agents.
- Agent compliance on initiatives to reduce claims cost
- Owning data means data "real time" and of higher quality
- Ability to continually analyse "up to the minute data" for trends and proactively implement change based on hypotheses and subsequently measure results and refine.
- Accurate and up to date reporting of scheme viability

FINEOS does not suggest total system replacement of insurers systems initially to address the scheme but an overarching duration management solution to drive improved outcomes.

5. Duration Management & Cost Containment

From a market perspective this is not at all about reducing claims costs. This is about reducing the significant and serious side effects on individuals from being injured and/or ill and unable to work. Extensive research has been undertaken by Sir Mansel Aylward CB in this area and he has proven that it is critical to the health and well-being of people to be involved in work where at all possible. Work provides the foundation for their family role, their social well-being and is the key to successfully returning a person to health.

The key to success in return to health is the avoidance of Psycho-Social issues and the understanding that long standing issues in the workplace may also be a barrier.



Source – Sir Mansel Aylward – FINEOS

This graphic, based upon a very large research project by Sir Mansel Aylward's team at Cardiff University, clearly shows that clinical impairments comprise just 10% of the overall barrier issues when considering return to health/work. Too often a client is left to work through the issues on their own during the waiting periods, setting in expectations, wellness beliefs and behavioural patterns that can lock in long term requirements for care.

There is a real opportunity to actively manage selected claims to improve outcomes. However, this is a departure from the normal passive (pay expenses as they occur) claims management approach to a fully proactive (define plans and implement services) claims



management process. Publicised research, feedback from insurers globally, combined with real evidence from our large claims management clients (TAC and ACC) shows that early intervention, expectation management, planning of medical and vocational services and return to work with claimants will return at least a 20% reduction in claims that have a potential duration of 6-24 months.

Solutions of this type normally include:

- Early Intervention – triage and segmentation
- Identification and status of barriers
- Intelligent intervention with proactive recovery and rehabilitation
- Best practices processes informed by performance and trend analysis.
- Service delivery model segment claims, structure teams to manage particular profiles of claims



6. Introducing FINEOS

FINEOS is a market leading provider of core software solutions for Insurance and Government Insurance. Our flagship product, FINEOS Claims, is the insurance industry's best-in-class solution for all General, Life, Disability and Government Insurance. Established in 1993, the company delivers innovative solutions to a global market and has customers, employees and established bases in North America, Europe, Africa and the Asia Pacific markets.

FINEOS's strategy in the Australian accident compensation industry is to provide solutions that enable the industry to proactively and efficiently manage claims durations and rehabilitation for outcomes around Return to Work (RTW) Return to Health (RTH) or quality of life for the seriously injured, by the delivery of timely, quality information which is processed for fast and effective decision making by the right person, for the right outcome.

Automation of straightforward claims and payments, and most importantly claims duration management and focus on RTW has yielded great results for our clients. Our clients have save hundreds of millions of dollars using these approaches.

FINEOS provide claims solutions to the following Government Insurers:

Accident Compensation Corporation New Zealand – claims management for the 24 hour no fault scheme for injuries including workers' compensation and transport accidents.

Transport Accident Commission Victoria – claims management for injuries arising from transport accidents.

WorkSafe Victoria – claims case management system for WorkSafe Agents (Allianz, CGU, Gallagher Bassett, QBE, Xchanging) together with WorkSafe themselves managing workers' compensation claims.

Lifetime Care and Support Authority (LTCSA) New South Wales - statutory body and part of the Compensation Authorities Staff Division (CASD) that provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales.

Saskatchewan Workers Compensation Board, Saskatchewan Canada – claims management for injuries arising from workers' compensation.

Manitoba Public Insurance, Manitoba Canada – claims management for injuries arising from transport accidents.

Road Accident Fund South Africa - claims management for injuries arising from transport accidents.



7. Best Practice Solutions for better RTW

FINEOS note the following solutions from the global workers' compensation solutions market for better claims management.

Reed MDGuidelines

In their submission to the Joint select committee, Reed Group Asia Pacific noted *“At the moment, all WorkCover NSW Insurance Agents deploy MDGuidelines, but without the requirement of WorkCover to utilise an evidence base to set return to work expectations”*⁴

FINEOS work globally with the Reed Group and FINEOS seamlessly integrates with Reed MDGuidelines for the purposes of improving claims management processes, using their evidenced based data and flagging to staff claims that claims are nearing or exceeding the norm for the medical condition(s) suffered.

Claim Analytics

Claim Analytics (www.claimanalytics.com) is a decision support tool for claim triage. Scores allow early identification of likelihood of return to work. Each claim receives the appropriate level and type of attention. Based on the score, the claim is assigned the appropriate claims management strategy to deliver the optimum outcome.

FINEOS can use Claim Analytics capability to score claims that map them to our low/medium/high model and we automatically implement appropriate claims management strategies to improve claims outcomes.

FINEOS recommends that the joint committee examine these tools to implement a fully operational pro-active claims management solution to be used by agents and NSW WorkCover and there are many benefits to be derived from this approach, including:

- Rapid and responsive interaction with claimants
- Better customer rehabilitation outcomes
- Lower cost of claims

⁴ Reed Group Asia Pacific Submission
[http://www.parliament.nsw.gov.au/Prod/parlment/committee.nsf/0/6ce4520456f24438ca2579fe00825488/\\$FILE/9_Reed%20Group%20Asia%20Pacific.pdf](http://www.parliament.nsw.gov.au/Prod/parlment/committee.nsf/0/6ce4520456f24438ca2579fe00825488/$FILE/9_Reed%20Group%20Asia%20Pacific.pdf)

8. Recommendations

FINEOS recommends the following approach to support a fully funded scheme:

- Implement a centralised system to deliver greater control of scheme cost and management
- Duration Management software should be deployed across all agents as a shared service in order to get better scheme outcomes.
- Standardised process should be used to manage high cost or potentially high cost claims.
- We propose that rehabilitation management software and internet functionality to prove the cost and outcome benefits derived from early intervention, expectation management, and rehab planning and tracking.
- The scheme should look to better use of guidelines and claim scoring to better manage claims.