

Harnessing the power of analytics

Mary Chmielowiec and Paul Marshall of PointRight show that with risk analytics, an ounce of prevention is worth a pound of cure



Risk analytics is revolutionising the processes and tools employed by insurers to more quickly and accurately market, price and underwrite their products. Additionally, these tools have the potential to enhance an insurer's ability to manage claims more effectively. With improved management, insurers can lower overall costs, reduce premiums, reduce claims, gain competitive advantage and, ultimately, increase their market share. Through advances in technology and data availability, many insurers are already benefiting from the use of data analytics and predictive modelling capabilities to better understand and identify risk.

What is risk analytics?

Risk analytics is a quantitative method of examining data for the purpose of drawing conclusions about the information. When coupled with predictive modelling, risk analytics has the potential to answer very important questions about risk. The critical ingredient is data, which must be gathered, scrubbed, aligned, indexed and benchmarked to be useful in building predictive models. Ultimately, the potential of data analytics is realised when the user gains rapid access to answers for important questions such as, "What is the likelihood that this incident will lead to a million-dollar settlement?"

To illustrate the value of risk analytics, consider a healthcare facility that experiences a patient fatality due to a fall. Too

often, if that claim is not handled properly, the facility can expect to payout the maximum allowed according to policy limits. However, if the claim is handled properly (for example, timely and proactively), the claim can be settled out of court for a fraction of that cost. Unfortunately, healthcare systems can generate upwards of 100 incidents per month, and available claims management resources do not extend beyond the constraints of full blown lawsuits. Consequently, incident reports pile up and obscure the real risks. With risk analytics, incidents can be rapidly and cost-effectively analysed. Then, "real" risk is identified sooner, triaged appropriately, and dealt with proactively.

Logistically, it is a simple process. The unique circumstances of each incident are captured. The situation is analysed in the context of like-facilities and resident health. This provides the immediate insight necessary to gain perspective and focus resources accordingly. Within the long-term care industry, public access to Online Survey, Certification and Reporting (OSCAR) data, Minimum Data Set (MDS) assessments and survey results provides for highly effective predictive modelling opportunities.

Advantages of analytics

While a few risk managers are truly gifted with a sixth sense for risk, most are not. With access to risk analytics, all claims managers can be equally and consistently equipped with the tools

and potential to greatly improve their performance. Risk analytics provides the critical information needed to move forward with confidence and target attention on the high-risk situations that will benefit most from a proactive stance. In addition to providing a virtual red, yellow or green flashing light on each incident, risk analytics can provide a number of other advantages:

1. Accelerate the acquisition of knowledge – "The quicker we can investigate, understand and evaluate the claim, the quicker we can reach our decision points. Does the claim have value? What is the potential value of this claim? Are we comfortable defending it at trial? Risk analytics helps us tailor the investigations because if we can identify problem areas, we can dig deeper and perform more pointed and specific investigations. Any time we have access to critical information about the facility, staffing levels, potential problem areas and so forth, early in the claim handling process, we improve our chances of being able to evaluate the claim accurately and resolve it in an optimal fashion," explains Paul Hamlin, founder and president of Hamlin and Burton Liability Management and expert in the field of claims management.
2. Place claims into proper context – Not all falls are created equal. The actual context of individual claims

may be quite different. For example, one facility's data may demonstrate that the fall was an anomaly that occurred despite having excellent protocols and risk-management practices, while the other facility's data may reveal a true risk management weakness. This knowledge advantage offers rapid discernment of the overall quality of care provided at one facility versus another and can chart the course for improved negotiations with plaintiffs and, ideally, lower overall settlements. "Risk analytics has allowed us to focus on critical claims by gaining rapid clinical and analytical insight to help us put claims into a broader context and obtain more favourable outcomes," notes Jonathan Swann, underwriter, CareSure Nursing Home Program at Lloyd's. At a minimum, the information guides claims professionals and gives them the wisdom to determine which claims to defend and which to settle, fast.

3. Lower claims administration costs – Claims managers who research files in the traditional approach will spend 25-50% more time completing the legwork necessary to obtain the data necessary to evaluate a claim. "Most data in the comprehensive risk analysis we could find out on our own, but it would take a tremendous amount of leg work and would be done slowly, expensively and inconsistently," says Paul Hamlin. If risk analytics can save an insurer just 5% of total claims management expense, that impact could easily be converted into a significant competitive advantage.
4. Detect fraud – Claims fraud is a multi-billion dollar problem, and healthcare fraud is the major contributor. While the reasons for this are many, the sad truth is that insurers can only investigate a small percentage of suspected cases due to limited resources. Consequently, it is critical to rapidly evaluate every file to identify the likelihood of fraud and then focus investigative resources accordingly. Failure to identify fraud raises claims cost, which increases premiums for all insured. For insurers, even a minor improvement in the ability to detect fraud can generate a significant return on investment.
5. Triage claims – By identifying underlying problems quicker, risk

“Risk analytics provide the insurer with rapid access to the information needed to manage incidents proactively”



analytics gives the insurer the clarity to identify real risk and fast-track the potentially large settlements at a much earlier stage in the process. These cases, which are more likely to evolve into large settlements, are instantly identified, designated a priority and handled appropriately.

As the application of risk analytics becomes more widespread in the claims handling arena, new uses of these tools are expected. One application currently being explored is with causation defence. To illustrate, assume a nursing home resident is afflicted with severe skin breakdown that leads to an amputation of a lower extremity. Such a case is likely to result in a lawsuit. To prepare for that possibility, the insurer can utilise predictive modelling to develop an effective defence strategy. By processing the detailed circumstances of the case through a sophisticated data analysis, the insurer can look at the medical condition of the resident and infer what probability existed that the resident would have experienced severe skin breakdown regardless of the facility's quality of care or resident specific care plan.

Proceed with caution

Any statically driven predictive modelling tool has limitations and the old adage, "garbage in, garbage out" will always apply. While risk analytics and predictive modelling have tremendous advantages to offer insurers and risk management organisations, the ultimate value is derived when the experts interpret the information correctly and make the right decisions. After all, there are many variables that go into each and every case that ultimately determine how it is settled. Once a case proceeds

to court, the deciding factor is the six or eight people in the jury box. Just how they will decide is extraordinarily unpredictable. "There are precious few variables that exist between the cases we win in trial and the ones we lose in trial," says Paul Hamlin.

Timing is everything

With the passage of time, the cost to settle any case may increase exponentially. Risk analytics and predictive modelling provide the insurer and the defence team with rapid access to the information needed to manage incidents proactively, triage claims effectively and settle claims before that critical window of opportunity closes. It is simply an industry best practice available for any insurer ready to harness the power of knowledge and technology and apply the old adage: "An ounce of prevention is worth a pound of cure".



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