

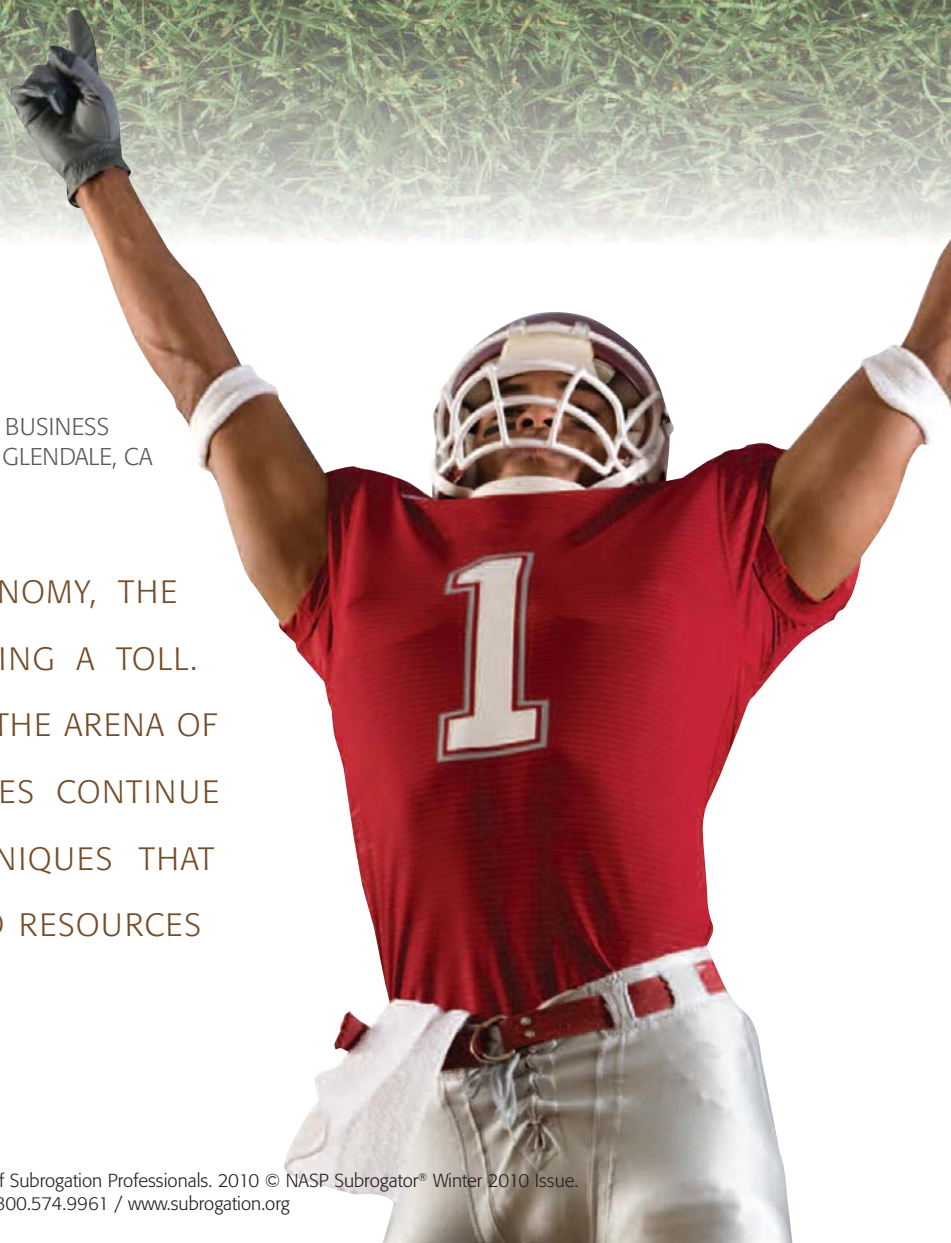
*Maximizing Your Subrogation*

# BOTTOM LINE

*In Tough Economic Times*

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IN ALL ASPECTS OF THE ECONOMY, THE LINGERING RECESSION IS TAKING A TOLL. THIS IS PARTICULARLY TRUE IN THE ARENA OF INSURANCE, WHERE COMPANIES CONTINUE WITH BELT-TIGHTENING TECHNIQUES THAT HAVE LEFT THEM WITH LIMITED RESOURCES TO ADDRESS DAILY NEEDS.



**F**ront-line adjusters and subrogation collectors are receiving more claims per day resulting in higher pending inventory.

Exacerbating this challenge are the ongoing mergers, acquisitions, downsizing and consolidation that have dramatically changed the face of business in America. While this permits companies to tout the economic upside to shareholders, there are many economic downsides for those who do not properly meet the challenges presented by this dynamic. Nowhere is this more evident than in subrogation, where increased demands can decrease results. Equally as challenged are claims departments, across all lines of insurance, where claims are often closed with missed subrogation opportunities.

As a former claims executive for multiple Top 10 P&C insurers, I am certainly no stranger to these challenges, as it was not uncommon to find missed opportunities on 15% or more of closed claims. Regardless of carrier, or even industry for that matter, it seems that time, staff and money are enough to hamstring any organization.

But, there is a solution that combines utilizing the strengths of your greatest assets; your people, with those

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who have expertise in areas where carriers typically struggle.

According to the 2008 NASP Auto Benchmarking study, 78% of subrogation claims are insured and 22% are uninsured. Insurers have proven to be relatively effective in pursuing and collecting on claims where there is insurance, especially if the claimant carrier is a member of Arbitration

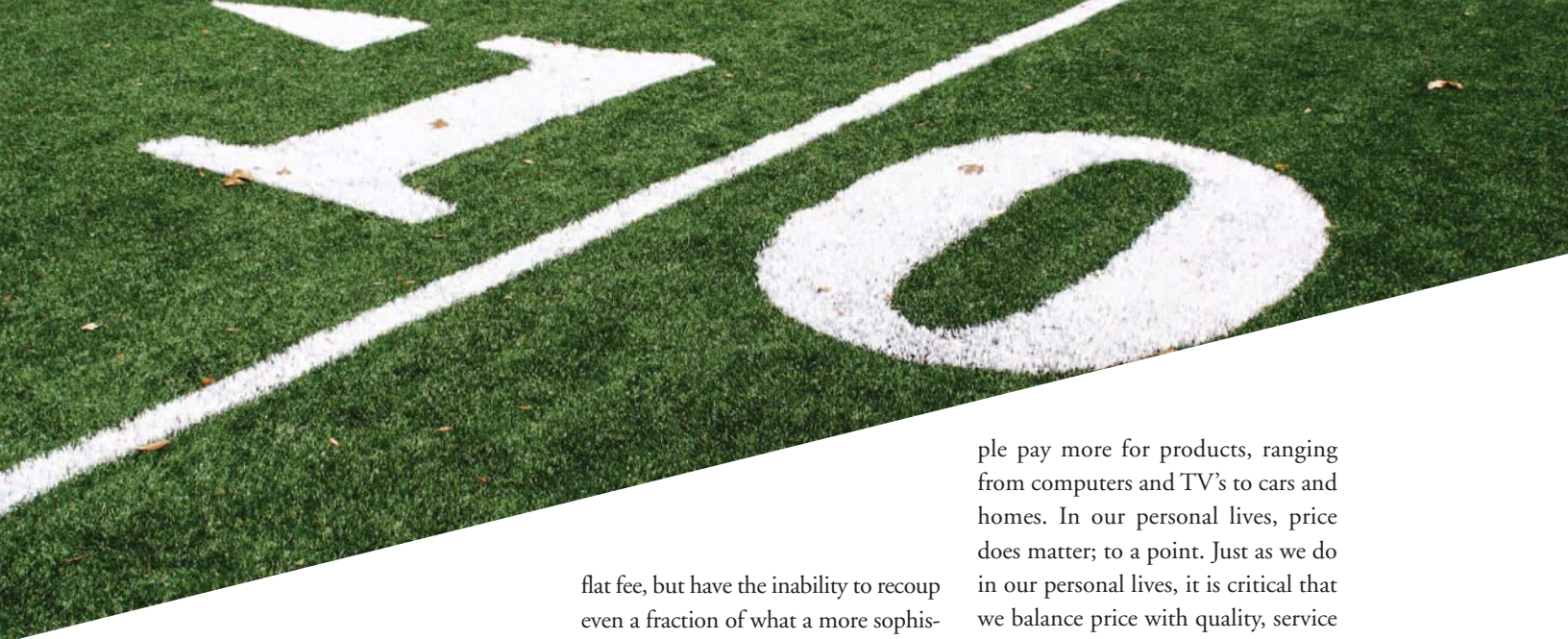
Forums. These are claims that are well within the wheelhouse of many insurers, and claims upon which carriers can likely leverage economies of scale to do quite well on.

This brings about the rest of the mix, including not only uninsured claimants, but carriers who are not members of inter-company arbitration, claims involving conversion, endorse-

ment fraud and double-dipping as well as foreign debtors and manufacturers of faulty products. These types of cases take a lot of time, a lot of effort and most of all extensive collection knowledge.

Of all claims that are uninsured, the 2008 NASP Auto Benchmarking study found that among large companies, as many as 82% may be closed with no recovery. This is a lot of money being left on the table. Making matters worse, are claims with subrogation potential that aren't identified by adjusters and referred to subrogation. While serving in a prior capacity as Auditing Director for a large P&C carrier, leakage was often identified using a unique combination of analytics, resulting in a substantial lift to the bot-





tom-line recoveries. For this one carrier, annual increases were measured in the millions; think of the potential across multiple carriers!

The good news is that much of these “missed” opportunities can be recouped with a workflow analysis and subsequent process improvements. By focusing your internal staff on the most collectible types of claims, it will be possible to not only increase recoveries, but to also increase productivity by focusing on claims that have a higher recovery probability with less complexity.

By outsourcing the difficult claims, you will immediately gain a competitive edge in the marketplace, as your net back to the bottom line will increase. Net back is a simple concept of placing less emphasis on fees associated with collections and more on bottom-line returns.

One of the pitfalls of outsourcing is that cost often becomes the end-all and be-all, when it should just be one factor. Much of this can be traced to the RFP, or Request for Proposal, concept where vendors bid against one another for business.

While I don't want to detract from the RFP process, it is critical to consider everything that is contained in a proposal. It is quite simple for an unsophisticated company to state that they will provide subrogation services for a

flat fee, but have the inability to recoup even a fraction of what a more sophisticated and knowledgeable company can do for just a few dollars more.

Much of this mindset comes from the many voices of the consumer studies that show consumers focus mainly on price when considering an insurance carrier. Again, it can be argued that this is short-sighted on the part of the consumer who may be forsaking quality, timeliness and certain benefits to save a few bucks. That said, businesses should have a more strategic outlook than, Joe, the auto insurance consumer who, at the end of the day, often buys the Sony instead of the Vizio.

I often pose a question to business leaders as something to consider. What if the vendor at 25% had the ability to bring in twice the annual recoveries of the vendor at 20%? There are a variety of reasons that peo-

ple pay more for products, ranging from computers and TV's to cars and homes. In our personal lives, price does matter; to a point. Just as we do in our personal lives, it is critical that we balance price with quality, service and outcome.

When selecting a vendor, it is important to get an understanding of what they can bring to the table. Do they have an established history? Have their tactics resulted in litigation, in particular class action litigation, which ultimately costs the carriers a premium far greater than the low contingency fee that they initially thought they were getting?

Just as you are vetting a vendor, they will be doing the same of you; this will be especially true as the economy improves and more business opportunities for vendors arise, both domestically and internationally.

A good recommendation is to meet with multiple vendors and gain an understanding of what they have to offer. Most importantly, do they have executive and front-line knowledge of

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the insurance industry? Do they have staff who walked in your shoes, or the shoes of your adjusters? This type of knowledge will substantially improve your bottom-line returns.

The reality is that subrogation is a unique type of collection and the steps taken to maximize this type of recovery often differ greatly from hospital or credit card collections. With higher average balances, subrogation has



become intriguing to many in the field of debt collection, making it all the more critical that your vendor have not only extensive industry knowledge, but industry experience, as well.

To further maximize results, look at the timeliness of your referrals. The quicker a claim is referred for recovery, the higher the probability. According to the 2008 NASP Auto Benchmark-

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ing Study, carriers wait an average of 62.9 days to refer a claim to their outside vendor. Some carriers wait 90, 120 or even 180 days. By doing this, they are limiting the likelihood of seeing any recovery at all.

By promptly outsourcing the very claims that will get the least attention in house, carriers will see a dramatic improvement in both rate of recovery and bottom-line money. With debtors moving an average of every nine months, timeliness of referrals means higher bottom-line returns. The reality is that collections are like concrete; the longer they sit the harder they get.

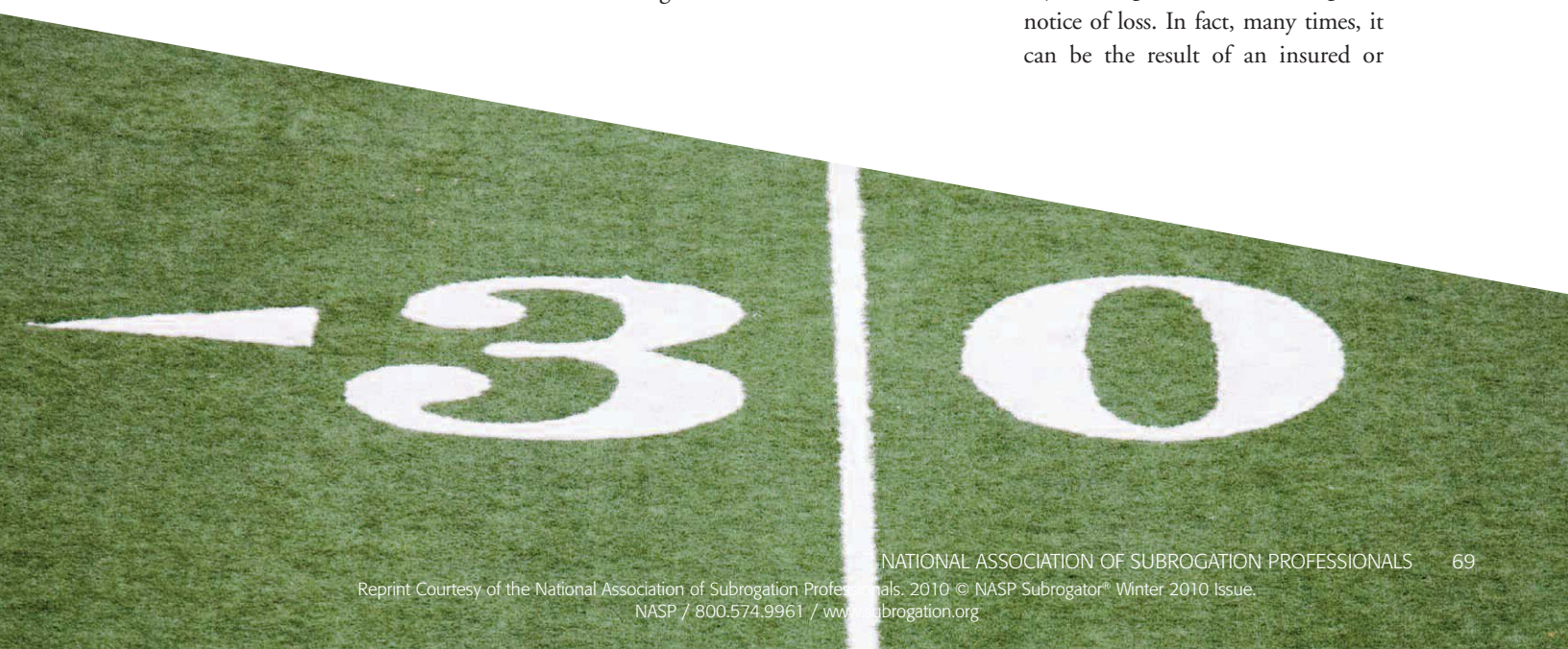
Other considerations are the flexibility of vendors work on creative pricing solutions. Perhaps benchmarking current results and offering a hybrid fee based upon commissions and increased profitability would be beneficial, as everyone would have some skin in the game.

The reality for carriers in today's tough economic times is that there is

money being left on the table. This is a universal issue that touches everyone in the industry to some degree. My experience in closed-file reviews is that it can be as little as 5% of collision dollars and as much as 35% of collision dollars; often missed due to poor investigations and settlement negotiations.

This poses a challenge for claims executives who may view the finding of missed opportunities as a negative aspect of their existing processes. Nothing could be further from the truth; as it is one ubiquitous aspect of claims handling that exists in every carrier. Rather than looking at missed subrogation from a negative vantage point, simply understand that this money was found as the result of a partnership designed to maximize bottom lines, which makes all involved look good.

The truth is that most missed subrogation opportunities are not the result of anything that the claims executives have done, but rather front-line adjusters, agents or those taking first notice of loss. In fact, many times, it can be the result of an insured or



claimant who fails to provide critical information. There are many things that can go wrong during the life of the claim, and often partnering with experts in the field of predictive analytics can find these missed opportunities with tools not even available to the insurance industry.

Just as there are missed opportunities within the claims organization, equal opportunity exists in the world of debt collection. Just as all carriers are not created equal, neither are debt collection agencies. Any company is only as good as its weakest link. This is precisely why a robust second, third or even fourth look at files should be implemented to further bolster a carrier's bottom line.

While much of this enhanced recovery optimization process has been overlooked within the insurance industry, the success of this process is evident in other industries. Arguably, the pinnacle of maximizing ones bottom line lies with telecommunication companies, such as AT&T or Verizon, who employ multiple collection agencies and benchmark results on a daily basis.

In addition to this level of competition, other industries employ mechanisms to ensure success, such as allowing collection agencies to only hold files for six, nine or twelve months and then mandate that everything be transferred to the next agency. By forcing accountability, vendors must step up to the plate with high-caliber staff and state-of-the-art technology result-



ing in improvements, which can be measured with the implementation of meaningful metrics.

To truly achieve subrogation optimization, carriers should continually focus on process improvement. The subrogation process should be viewed as part of the end to end process, and opportunities to maximize results should always be sought with those who perform beyond expectations rewarded.

Case in point is a large public utility in California who put out a bid for RFP and awarded the contract to three vendors. Over the past three years, the average rate of return was 8%, with the two vendors who had submitted the lowest bids at less than a 4% recovery rate, while the vendor with the highest bid was at 18%. At the time of renewal, this utility realized which vendors were maximizing their recoveries and actually increased the contingency

rate as a result of their gaining a better understanding of the net back concept.

To achieve true success in the process of maximizing recoveries, it is critical that the focus be on blocking and tackling. Just as a football team succeeds with a variety of plays, positions, coaches and mentors, carriers must do the same. There is a reason that professional sports teams pay premiums for playmakers, which inevitably increase revenues. Just as a professional sports team needs a playmaker, so does an insurance company, as it is this type of talent that can be the difference between posting a profit or a loss. By focusing on what it takes to form a winning team, insurers are bound to succeed in the long run, giving them a competitive edge when it comes to pricing and gaining market share.

