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**PHILOSOPHY AND EXPECTATIONS OF THE
WORKERS' COMPENSATION CLAIMS ADMINISTRATION STANDARDS
(ADDENDUM A)
AND
WORKERS' COMPENSATION CLAIMS AUDIT PROCESS**

**WORKERS' COMPENSATION CLAIMS ADMINISTRATION STANDARDS
ADDENDUM A**

Purpose

The underlying philosophy or purpose for Addendum A (also referred to as the Standards) is to protect the assets and resources (i.e. reserves) of members in the payment of claims. Ultimately, the end result or purpose of the Standards is to keep the costs of claims down. Lower claim costs result in each member having adequate reserves to cover their self-insured retentions (SIRs), and in all members collectively (i.e. PRISM or the pool) to have an adequate reserve and low contributions/premiums for reinsurance to cover claim costs in excess of the SIRs. As members of PRISM, each member's adverse loss experience negatively impacts costs to other members (the pool) and vice versa. As members of PRISM, each member is to have an active role in controlling the costs of claims. Thus adherence to the Standards is a condition of the Memorandum of Understanding between EWC members.

Yet since PRISM is a pool, it offers coverage, not insurance. Thus the Standards serve not as an insuring document, but as a governing document. In other words, though adherence to the Standards is part of a member's "understanding" with other members, the Standards also serve as a foundation from which members derive expectations from each other in order to share in the protection of assets and resources.

As a governing document, and given the fact that the Standards provide a foundation or structure in the administration of claims for all members, the Standards also permit a degree of flexibility. There may be situations where claim facts or member circumstances warrant practices other than as outlined in the Standards. Such variations from the Standards are sometimes necessary; however, they should be on a claim-by-claim basis and noted in each individual claim file. Variations on a program-wide basis shall be reviewed by the Claims Review Committee.

Expectations

Addendum A is divided into claim handling categories and, where necessary, sub-categories providing detailed expectations for claims handling processes that fall within those broader categories. Claim handling categories include administrative, technical,

litigation, subrogation, and excess reporting. Sub-categories include such things as caseload requirements and expectations in regard to file review and documentation, communication, investigation, fiscal accuracy, benefit delivery, efforts to mitigate exposure, reserving and claim resolution. These categories and sub-categories are subject to change with each review and revision of the standards but, in general, are intended to be applicable areas of importance in administration of all workers' compensation claims.

WORKERS' COMPENSATION CLAIMS AUDIT PROCESS: Purpose

The purpose of the audit program is to ensure claims administration is consistent with the stated end-results of administration efficiencies and reduced claim costs. Each audit helps ensure that claim administrators are meeting the expected outcomes of the Standards.

Audit Frequency

In general, the audit requirements on the EWC Program include an audit of every member's claims administration every two years. Some exceptions to this include a requirement for an audit after one year of a change in TPAs or other circumstances that would warrant the Claims Review Committee ordering an off-cycle audit.

Audit Methodology

PRISM contracts with auditors. The auditors use the Standards as the basis for the audit, comparing actual performance to the Standards' expectations. Deviations in performance are noted by the auditor, and accounted for by the member.

Auditors are allowed a certain level of latitude in recommending best practices in claim administration. This means that certain auditor recommendations may not be found in the Standards. Auditors have been instructed to not score a member based upon these recommendations outside the Standards. However, if the auditor is able to connect – directly or indirectly – their recommendations to the Standards, then a score would be appropriate.

The audit process involves a physical or electronic review of a random selection of claim files. The number of files audited is determined by a formula based on the number of open claims. The audit focuses on claims administration by the TPA. If a TPA is handling claims for more than one member, a representative number of claims from each member will be selected. During the audit, the TPA will be kept informed of the audit findings and given an opportunity to respond to deficiencies as they are found. A wrap-up meeting will be conducted with the TPA, and the member will be invited to attend. Once this field work is completed, a formal audit report will be prepared.

The report will be sent simultaneously to PRISM, the member, and the TPA. The member will be asked to provide a response to the audit, addressing any areas of deficiency, auditor recommendations and outlining a plan for improvement. The member may delegate the task of responding to the TPA, may work in tandem with the TPA in providing

a response, may provide their own response or may have the TPA provide a response in addition to their own response. Ultimately it is the member's responsibility for efficient claim administration.

PRISM staff will compile the audit report and member response for presentation to the Claims Review Committee. Members are expected to meet the criterion identified in the Standards. The audit structure for rating the overall effectiveness of the TPA/self-administered is as follows:

- 90%-100%: Exceeds Expectations
- 80%-89%: Meets Expectations
- 70%-79%: Below Expectations
- 0%-69%: Unsatisfactory: Immediate Action Required

Please note that the PWC Program audits will reflect both the overall score (%) and the rating description.

If the audit report and member response are acceptable, no further action will be taken by the Claims Review Committee and the regular audit cycle will remain in effect.

If the audit results and/or member response are within the "Meets Expectations" or "Exceeds Expectations", no further action will likely be taken by the Claims Review Committee. Audit results "Below Expectations" or "Unsatisfactory: Immediate Action Required" and/or lack of a response from the member, or the response did not adequately address the areas of concern or outline a plan of action for addressing areas of deficiency, may result in further action including but not limited to:

- Directing staff to conduct standards training with the TPA or self-administered claims staff to ensure an understanding of claims handling expectations.
- Directing staff to work with the member/TPA to develop an improvement plan and/or conduct an informal interim audit to measure progress and give a chance for further improvement prior to the next formal audit.
- Ordering an off cycle formal audit in one year rather than the normal two years.
- Inviting the member to attend a Claims Review Committee meeting to discuss the audit results and suggestions for program improvement.
- Referring the matter to the Underwriting Committee to determine any impact the claim results may be having on the pool – this may also help focus efforts on specific claims driving program costs.
- Referring the matter to the Executive Committee for further direction in assisting the member.

Use of the Workers' Compensation Claims Administration Standards and the entire audit process is meant to be a tool for members and the pool to use to ensure the best possible claims service is being received and best possible claims outcomes are being achieved. The process is meant to be positive, not punitive and is meant to help members strengthen the performance of their individual programs which, in turn, will strengthen the performance of the EWC pool, overall.

AUTHORITY, OBLIGATION AND GOVERNANCE

Authority

Each member of the Excess Workers' Compensation Program has executed a Memorandum of Understanding which delineates the respective obligations and responsibilities of PRISM and each member. Specifically, Exhibit B, Underwriting and Claims Administration Standards, state the obligations of each member of the Program including that each member "shall be responsible for the investigation, settlement, defense and appeal of any claim made, suit brought or proceeding instituted against a member." Further, each member "shall use PRISM's Workers' Compensation Claims Administration Standards (Addendum A) and shall advise its claims administrator that these standards are utilized in PRISM's workers' compensation claims audits.

Member Obligation

Therefore, Addendum A is an authoritative document – part of a pooling governing document - where member compliance with which is intended to protect PRISM's assets and resources, such that all members have maximum excess coverage available at the lowest contribution/premium cost. In other words, Addendum A is intended and designed to protect member assets and resources in the payment of claims, not only incurred directly by the member's self-insured retention, but incurred by all members who share in workers' compensation risks. It is in the best interest of each member and all members collectively to ensure that claims administration practices are consistent and efficient. It is the intent of Addendum A to guide each member in maintaining these consistent and efficient claims administration practices.

The objective of Addendum A is to provide direction to the multiple Third Party Administrators (TPAs) and self-administered entities providing claims administration services to EWC members (which includes Primary Workers' Compensation (PWC) members, since they are all also EWC members). It is the member's obligation to share Addendum A with their TPA or in-house claims operation and ensure the standards are met.

Governance

Review: The Claims Review Committee (CRC) reviews Addendum A no less than every two years. Often the CRC reviews Addendum A more frequently because of changes in the law or applicable regulations, and/or to address statutory conflicts, and the impacts of case law upon claims administration and workers' compensation risk financing. Before a revision is finalized and implemented, it is reviewed by the Executive Committee, the

entire Excess Workers' Compensation (EWC) Program membership and approved by the Board of Directors.

Audit: To ensure that each member is utilizing efficient claims administration practices, each member's claims administration is audited. Addendum A is the basis for the claim audit scoring. TPAs and self-administered claims programs are evaluated primarily based on their performance in compliance with Addendum A, as demonstrated through the claim audits.