



A Perfect Storm

Six Steps Top Claims Teams are Taking
to Navigate COVID-19 Turbulence in the
Workers Compensation Market

CLARA
analytics

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Contents

1. Cascading waves	3
2. Emerging disruptions	4
▪ A drop in traditional claims	4
▪ A rise in new types of claims	4
▪ Delayed access to health care	6
▪ A rise in fraud	7
▪ New claims triage challenges	7
▪ A surge in litigation	8
3. What claims teams are doing to address these challenges	9
▪ Prepare teams to handle an influx of COVID-19 claims	9
▪ Onboard new tools to increase productivity	9
▪ Augment in-house analytics with AI	9
▪ Expand provider networks	10
▪ Optimize legal panels	10
▪ Consider settling potentially expensive claims	10
4. Recovery	10

Cascading Waves

Two massive waves are crashing at once and creating profound shifts in the workers comp system. The first is the rapid rise of COVID-19, which is radically changing behavior, work patterns, and health care delivery. The pandemic is altering the flow and nature of claims across all insurance lines. For workers comp, it will generate new practices both within the claims operation and across the range of partners critical to delivering outcomes.

The other big wave cascading over the globe is economic—a rapid recession due in part to COVID-19 social distancing. This wave is more familiar than the first. We can look back to 2008 and prior recessions to anticipate what will

happen next. But its speed and global scope are unique. Goldman Sachs predicts GDP will drop 34% in Q2 — the steepest single quarter drop in US history.

Together these waves will drive changes to the workers comp system for years to come, reshuffle the insurance industry, and could potentially alter health care in the US. Canvassing perspectives from an array of experts, we've identified six critical changes now emerging.

Future-focused claims leaders are mastering these changes and setting themselves up for recovery, so they can be ready for the new normal.

Six Emerging Disruptions

A drop in traditional claims

Traditional workers comp claims drop in frequency during economic downturns, as hours worked and accidents decline. Workers comp claim frequency fell by 7.3% and 6.1% in 2008 and 2009 during a period when the GDP declined 4.2%. The drop this year appears to be steeper. Sedgwick, the country's largest administrator of claims, has seen the volume of new claims drop 40% in the US. Experts expect the declines to be concentrated in two areas:

A decrease in traditional workers

comp claims: The slope down is primarily due to fewer workers and fewer work hours and especially concentrated in the hardest hit service sector. Retail and

hospitality have been especially impacted. Volumes also drop as layoffs tend to disproportionately impact newer inexperienced workers who are less trained and experience more accidents..

A decrease in auto-related workers comp claims:

In some areas, there are fewer than 20% of the normal volume of cars and trucks on the road, which will lead to a drop in claims from on-the-job drivers of trucks, vans, and cars beyond those in critical industries and package delivery services. This is likely to be a shorter-term change, and will likely reverse as soon as social distancing restrictions are lifted.

A rise in new types of claims

A drop in traditional claims will come with a rise in new claim types. Here are three types of claims insurance carriers are starting to see:

New COVID-19 claims: As COVID-19 cases continue to rise, carriers are experiencing a rise in workers comp claims related to the virus. As of mid April, about 1,500 COVID-19 related claims had been filed in just California, according to the California Department of Industrial Relations.¹ The share of new COVID-19 related claims flowing into Clara

Analytics' cross-industry data lake jumped from 1% in March to 4% in April. "The large majority of these claims are from health care workers who interact with patients and first responders such as nurses and firefighters," says Dr. Ji Li, Clara Analytics Director of Data Science. Many states have issued directives to extend the presumption of compensability to essential workers critical to maintaining public health, safety, and our food supply. These announcements - as well as the growth of the virus itself - are driving the rise in claims. Table 1 below indicates

occupations with frequent face to face interactions with the public. Many of these are covered by state directives and are likely to account for a significant share of COVID-19 claims. Some occupations, such as delivery drivers and grocery clerks, are facing unfamiliar risks and may end up accounting for far more claims than they historically generate.

Increase in post-termination claims:

As waves of workers get furloughed, we can expect a wave of new claims, especially from deeply affected industries such as hospitality and retail. This is driven, in part, by situations where an employee has an injury and may not have filed a claim in a healthy economy but decides to do so in a downturn after seeing his or her bank

account run low. Experience from prior recessions indicate these situations skew toward cumulative trauma claims, which are more complex and costly to manage.

Increase in work-at-home claims:

Social distancing lowers the infection rate but also places a strain on the millions of workers who rely on office routine and the presence of colleagues for support. This shift is likely to drive a rise in claims related to mental stress, sleep deprivation and other conditions emerging from extended social isolation. Much greater use of makeshift home offices could also introduce repetitive strain injuries like carpal tunnel syndrome. Even defining a workplace injury incurred from home becomes difficult.

Rates of disease exposure and face to face interactions for 12 occupations

Occupation	Employment	Share frequently exposed to disease	Share with frequent face to face interactions
Registered nurses	2,951,960	93%	98%
Physician assistants	114,710	98%	98%
Firefighters	321,570	57%	96%
Police officers	661,330	59%	93%
Power plant operators	33,920	4%	93%
Transportation security screeners	42,250	56%	85%
Packers and package handlers	663,970	5%	85%
Pharmacy aides	36,970	83%	83%
Grocery store cashiers	910,400	28%	79%
Home health aides	797,670	64%	74%
Refuse and recyclable material collectors	118,520	63%	68%
Bus drivers, transit, and intercity	174,110	41%	65%
Telecomm line installers	118,200	71%	28%

Source: Brookings Institution, "How to Protect Essential Workers During COVID-19 Pandemic," Adie Tomer and Joseph W. Kane, Tuesday, March 31, 2020

Delayed access to health care

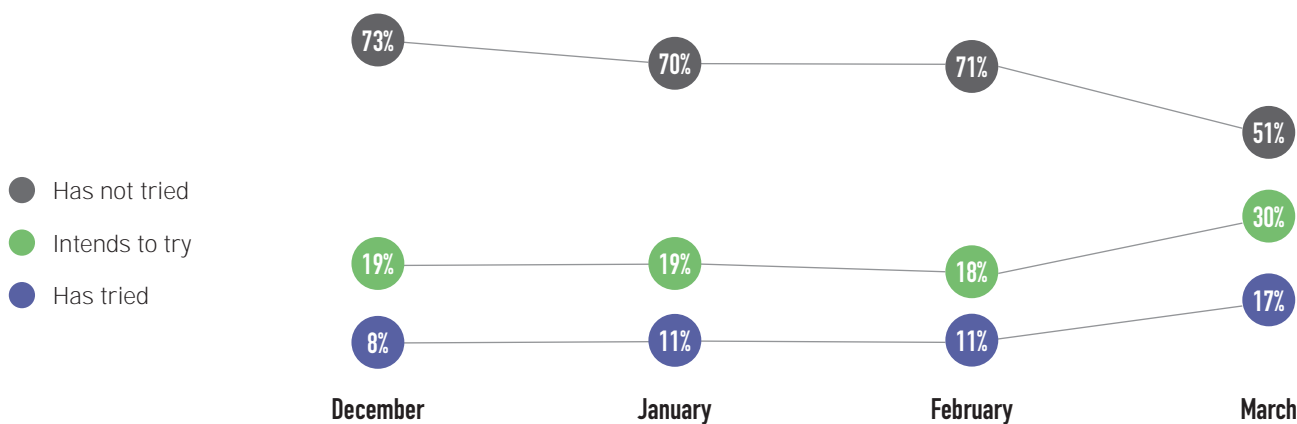
Health care providers are postponing non-urgent treatments to treat COVID-19 cases. As a result, access to care for routine treatment is becoming more challenging. Patients are moving farther down the list of potential providers to find one willing to see them, or simply delaying follow up visits. Delays will prolong disability durations and indemnity claims, according to Leonard Herk in an NCCI study entitled “Economic Impacts of Coronavirus on Workers Compensation.” What’s more, he notes, “a claimant cannot return to work after medical treatment if work is furloughed, which also increases indemnity severity for active workers compensation claims.”²

During this period, employees may be encouraged to try telemedicine or telerehab for the first time, or pursue alternative forms of treatment. Services like Right-time and One Call have seen a 2000%

increase in telemedicine activity in just the past few weeks.³ Quicker more ready access to physicians may drive better outcomes. “Innovations we have been fighting for over the last 20 years are suddenly possible in just the past few weeks,” says David Bacon, General Manager, People Risk Claims QBE Australia.

As COVID cases requiring hospitalization likely decline in the summer, access to non-COVID treatment is likely to open up again. But there will be a new curve that will need flattening. The crest of untreated injured workers will create “an onslaught of pent-up demand” that will stress the system in new ways, says Dave North, CEO of Sedgwick.⁴ Sedgwick and other advanced claims organizations are quickly adapting to navigate claimants through this transition - from expanding care networks to establishing new channels of care.

US Adults Experience with Telemedicine, Dec 2019 - March 2020
% of Respondents



Source: CivicScience as cited in company blog March 30, 2019
Note: n=28,607, ages 18

Rise in fraud

Experts predict a rise in fraud in the coming months, as COVID-19 opens up opportunities for new scams by the segment of attorneys and providers known to engage in workers comp fraud. We should see more claims that are challenging to define as legitimate or

number of fraudulent claims,” says Dennis Jay, who served as executive director of the Coalition Against Insurance Fraud from 1993 through 2019.⁵ “As workers comp claims soared in 2007-2009, many insurers, TPAs, state funds, and administrative courts didn’t have the means to

Advancements in AI now enable claims teams to see through hidden provider links, complex supply chains, and long lag times to identify fraud that previously went unnoticed.

fraudulent because they occurred in a distributed work environment where there are no witnesses to corroborate the injury. Medical providers not normally appearing in workers compensation, including respiratory radiologists and infectious disease experts, may be drawn into these claims to treat or provide expert opinion.

But beneath this level is more sophisticated fraud, which typically rises during a downturn. “During the Great Recession, many insurers and fraud bureaus were caught flat-footed by the scope and

adequately separate the legitimate claims from the suspected cons,” he says. “A lot of people who didn’t deserve the compensation got paid.”

One other challenge: investigation teams have reduced in-person inspections, limiting their ability to detect fraud. In response, carriers are expanding their digital detection practices and tools - by tightening algorithms that compare provider names, specialties, locations and billing practices to third party data sources to identify fraudulent practice patterns.

New claims triage challenges

The sudden shift in claim types, health care access, and fraud is disrupting well-established claims-handling patterns. COVID-19 claims, for example, will route differently based on the claimant’s loca-

tion, occupation, and manifestation of the virus and handling practices are evolving rapidly based on the flurry of states passing executive orders and legislation on a weekly basis.

Adding to the challenge is the need to coordinate remotely. Most claims teams are now fully distributed. Adjusters and examiners can't just walk down the hall to ask a question. Managers and claims leaders have set up new ways to keep teams updated and synced. Cloud-based applications are becoming even more critical. Some are using shared dashboards and data sets to keep disparate team members on track toward common goals.

Claims teams are also handling more emotionally fraught situations, where claimants may have been exposed to

COVID or recently laid off. Effectively handling a case with empathy and proactive communication becomes critical. Emotional intelligence can enable adjusters to avoid litigation and expanding claim costs.

All of this means that claims managers and adjusters need to be flexible, and be ready to adapt to meet changing needs. "It's critical teams plan ahead," says Dan Rufenacht, Vice President of Claims at QBE North America, who recommends claims teams closely monitor claims, ensure they are fully resourced, and keep an eye on customer experience and turn-around time.

A surge in litigation

Litigation is on pace to rise sharply in the coming months. A flurry of new litigation typically emerges with new legislation and COVID is bringing on a surge of legislative changes. Who and what situations are covered - and when - will need to be worked out through the court system. Similar to the rise in stress claims in the last recession, COVID-19-specialized attorneys and supporting medical providers

could emerge, creating a challenging litigation environment for carriers.

Beyond the COVID-19 wave, a second wave will emerge afterward as laid off workers see their savings run low and start to look for alternative sources of income. How layoffs are conducted will matter. "Companies that initiate layoffs with little forethought and guidance may see a rise in workers compensation claims and experience numerous other unintended consequences," says Kevin Combes, Aon's Director of US Casualty Claims, Global Risk Consulting. In the last recession, Aon saw post termination claims surge at companies that did not proactively manage the event. "Companies that develop thoughtful reduction-in-force strategies are likely to see fewer workers comp claims and lower overall expenses," says Combes.

If the past is any indication, an upswing in

Attorney involvement has a dramatic effect
on workers comp claims

2x

longer claim
duration

3x

more days of
lost work time

7x

more expensive
to resolve

litigation is likely to drive up the duration and cost of claims and put stress on carriers' workers comp combined ratios. To avoid this, some experts recommend settlement offers. "Consider making settlements on open cases despite the lack of hearings or IMEs," says Barry Thompson, President, Risk Acuity LLC.

"Parties may need cash. Negotiations may resolve informally."

A number of carriers have reported seeing cases move to settlement early, at or below reserve estimates. Thus the current economic climate may be creating a prime opportunity to resolve stubborn cases.

What leading claims teams are doing to address these challenges

Adversity creates an opportunity for great companies and teams to set themselves apart. Sophisticated claims operations are taking the opportunity to optimize their workflow and training practices. They are considering even bolder steps, including refashioning their technical platforms for a new decade. Here are 6 steps we see top teams taking, to prepare for both short term challenges and the longer term recovery:

Prepare teams to handle an influx of COVID-19 claims: While the total volume of claims has declined, there is still a need to develop new practices and policies to ensure new claim types are handled appropriately. Many teams are freeing up risk management, legal, and training expertise to iron out the right steps and prepare adjusters, especially given the dynamic nature of COVID-related claims. Reserving estimates need to be checked and adjusted more frequently, as analytics and actuarial teams update models and forecasts to account for a wave of unprecedented flux.

Onboard new tools to increase productivity: Top teams are also using the drop in traditional claims as an opportunity to evaluate and invest in new platforms and tools that extend the capability of their organizations, to be prepared for a resurgence when the economy recovers. Cloud applications enable disparate teams to coordinate. Shared dashboards foster teamwork.

Augment in-house analytics with AI: This is a challenging time to go-it-alone. Smart carriers and TPAs are looking for partners that can augment their in-house expertise with AI-as-a-service. This new approach enables them to unlock unstructured insights buried in scans, images, handwritten notes, combine them with structured data from a cross-industry data lake, and generate predictions based on a range of AI techniques. The result is more accurate forecasts overall, and the ability to generate predictions on unique emerging cases, such as COVID-19.

Expand provider networks: To keep open claims moving ahead, carriers are expanding and refining their Medical Provider Networks. One goal is to prepare for recovery. Another is to incorporate new specialists, such as pulmonologists and immunologists, who will treat emerging conditions like COVID-19. Clara enables claims teams to find and recommend optimal providers based on their location and prior outcomes for a specific injury type. Network managers can also use this approach to identify new providers to add to their network, covering new locations and specialties.

Optimize legal panels: Like providers, panel attorneys may also be busy focused on new litigation, and unable to tackle new cases that emerge, especially where new expertise is required. Given this logjam and the upcoming rise in litigation, carriers see it as the right time to identify new attorneys to add to panels. Thanks to AI, panel managers can identify the best attorneys in a jurisdiction and speciality, take into account the record of the opposing counsel, and then generate a

data-informed decision about whether to settle or aggressively pursue the case. Envisioned another way, applicant or plaintiff attorneys have become expert at screening cases to identify ones they are highly confident in a successful outcome. AI offers carriers and self-insured firms the ability to similarly qualify defense attorneys that are most likely to mitigate opposing counsel advantages or specialization.

Consider settling potentially expensive claims: For existing claims, some experts predict an increase in offers to settle, as cash flow becomes critical in a sudden downturn. Claimants may be open to creative settlements that generate income, especially in hard-hit industries like travel. Clara's claims module helps claims teams identify potentially expensive claims that should be evaluated for settlement. Moreover, Clara's MSA module helps quickly calculate the expected future medical costs associated with a claim and automatically generates the reporting needed to settle the claim.

As companies rapidly adjust to handle the present crisis, they should take time to imagine the future they want, and to start planning for it. It may arrive sooner than they think.

Recovery

While it's unclear how long the pandemic and recession will last, economists are now predicting an initial bounce back in late 2020, and full recovery in 2021. Leading organizations are preparing for that recovery now, seeing the opportunity to outpace their peers and expand their market share

in 2021. Allstate and Progressive were both started in the midst of the Great Depression and by the 1940s were among the largest players in insurance. Uber, Slack and WhatsApp were all launched during the last recession and now valued in the tens of billions of dollars. New companies



will emerge from this period and create explosive growth over the next ten years.

As companies rapidly adjust to handle the present crisis, they should take time to imagine the future they want, and to start planning for it. It may arrive sooner than they think.

About Clara

CLARA analytics improves claims outcomes in commercial insurance with easy-to-use AI-based products. CLARA's suite helps claims teams reduce various sources

of loss costs in claims handling by keeping claims on track throughout their life cycle. The suite uses the latest in AI and machine learning (ML) technology and can integrate easily into any workflow or infrastructure to rapidly start showing value. CLARA's customers include companies from the top 25 insurance carriers to small, self-insured organizations.

CLARA analytics was founded in 2015 and is headquartered in Silicon Valley in California.

For more information, visit:
www.claraanalytics.com

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Footnotes

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