



SOCIETY OF ACTUARIES

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# The Missing 1 Percent

by Jim Del Vecchio



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I have wandered the insurance claims landscape --- for lo --- many years now. I have litigated, negotiated, adjusted and adjudicated in some form or another in every branch of the insurance claims tree. During my oversight of various claims operations, I never ceased to be amazed when a processor or adjuster would walk into my office carrying a check that a provider or a policyholder had returned, claiming that they had already been paid. My jaw would always drop, my mouth hanging open, agog with skeptical wonder, sometimes with worse!

In one memorable instance, after picking myself up off the floor (the check was particularly large), I started asking the obvious question, “How can this be?” After all, we had system edits, process audits, supervisory controls, repricing software (in the case of medical claims) all of whose function was to prevent the very thing that happened from happening.

These events launched me on a quest, a sojourn, a lifelong journey to understand the source, the nature and the degree of payment error that seems to inhere in insurance claims payments—Long-Term Care (LTC) claims in particular. And, I wanted to find the Holy Grail of claims processing: The Perfect System. My quest has become even more urgent as my business has taken me into the world of LTC Insurance. For me, this was undiscovered country where my impression was that nothing is solidified, codified or routinized ... very little of it anyway.

Unfortunately, I have yet to find the Grail. In fact, my never-ending quest, a byproduct of which has been a detailed exploration of claim payment error, has compelled me to certain conclusions, most of which an LTC claims person is likely to find disheartening. (Fear not, however.) I want to describe my journey to these conclusions so that you will see I am not pulling rabbits out of hats. And hopefully, these conclusions will resonate with you and perhaps cause you to do something about it.

**Conclusion Number One:** It’s all about the data. Consider that when an LTC adjuster or processor sits down to resolve a claim, its resolution depends

on correctly answering several questions: Is there an insuring obligation of some sort in force? Is there a person who is entitled to a benefit pursuant to its terms? Who is it? What is the nature of the service or loss being paid for (put differently, what is the benefit)? Who is the person or entity entitled to the actual payment? Why? How much? When and how must the payment be paid? What is the immediate effect of the payment on the insuring contract? What is the future effect?

At the most basic level, the answers to all of the foregoing are data driven. Sometimes the data is written down on paper; more commonly it is stored in a machine. Sometimes data must be calculated or derived, but it’s all data one in the same. Let’s recap a few of the foregoing questions but note the common data processing systems associated with them to make the point more meaningful:

Is there an insuring obligation and is it in force?  
.... policy and/or underwriting.

Who is entitled to the benefit?  
.... enrollment/eligibility.

Who is entitled to the payment?  
.... provider/payee file.

How much should be paid?  
... claims/adjudication.

So here’s an LTC adjuster looking at a claim or a bill calculating its ultimate resolution. All he or she has to go on is the information that exists at that moment and all that information is driven by the accumulation of data. It’s all about the data. Q.E.D.

**Conclusion Number Two:** The data will not be perfect; no way, no how. Why? Because the data originates out there in the real world and the real world is driven by people, and people simply cannot sit still. They are born, they die, they get hired, they quit, they marry, they divorce, they buy a policy, they cancel a policy, they change their coverage,

they forget to pay their premium, they get promoted, they join a network, they change doctors, doctors change labs, and on and on and on. The insurance claims data universe is, in short, chronically dynamic. It simply never comes to rest. Ever. Period.

Even more so in the world of LTC insurance—where new insuring products are constantly emerging—claims forms are not standardized, nor are treatment procedures, networks, billing practices and on and on and on. So when the LTC adjuster hits “enter” and the claims processing system starts ... well ... processing, the data universe that existed when the bill was submitted is not the same one that existed at the moment the electrons whirl.

Another element of the constant state of change engendered by us mortals is that the raw data that finds its way into a machine at some point or another had to be entered by a human, and therefore will never be perfect. I know of one Being that could do it perfectly, but as far as I know that Being is not working in data entry.

Lastly, recall from above that data originates in various IT systems. Here’s the point: none of these systems were ever designed to articulate with each other in real time. The correct data that an LTC adjuster needs may in fact be loaded up somewhere; it’s just that it’s not always available in the claims system at the precise moment that it’s needed.

Based upon the foregoing, I assert that the data will never be perfect because it *cannot* be. Q.E.D.

And that gets us to **Conclusion Number Three:** Claims processing exhibits sensitive dependence on initial conditions, LTC claims processing in particular. Sensitive dependence is a concept that arose during the development of chaos theory. At a very high level, sensitive dependence simply means that if things aren’t just so at the beginning, the deviation from the path a system is designed to follow grows greater over time. A classic example comes from the putting greens of golf. The farther away the ball is from the hole, the more accurate the stroke must be. A millimeter’s deviation from the correct stroke produces a huge deviation near the hole (in my case, *really* huge). Putting is a process that exhibits sensitive dependence on initial conditions. So does claims processing. Consider all the things we talked about that virtually by themselves deviate from their intended path. Any, and sometimes

all of these things, bear upon a correct resolution of a claim. If there is the slightest deviation from correctness, the likelihood of complete accuracy in the outcome decreases over time. Insurance claims processing exhibits sensitive dependence on initial conditions. Q.E.D.

The inescapable **Conclusion Number Four:** LTC claims processing is going to contain some degree of payment error. (I hear the gnashing of teeth already). Fear not, however. The same chaos theory that compels the existence of payment error also prescribes its limits. Without boring you with the math (most of which I don’t understand, and I have tried, *really* I tried) the mathematical margin for error hovers at about 1.5 percent. That’s not bad. Flipped around, the claims process is correct 98.5 percent of the time. Let’s keep the math simple and say the error rate is 1 percent. After all, there is a margin for error in our margin for error, so call it 1 percent. That means that for every \$100 million in paid claims annually (peanuts in the world of LTC), someone is leaving over a million dollars lying around out there and I don’t know anyone who can knowingly walk away from that kind of money in this day and age.

My personal opinion is that the percentage of error in the world of LTC claims is higher. So what’s a claims processor to do? Find it, of course! There are lots of ways and means. Manual audits, software products, and so forth, but consider the following: The same chaos that generated the error still exists in the search for it. Therefore, the search must account for the chaos. If so, a proper search must feature certain things:

**Retrospectivity:** What happened in the past is going to happen in the future unless some force causes events to change. Therefore, the biggest clue to identifying sources of error lies in the errors that a claims operation has already encountered. There are many sources of such information. The audit function and the customer service function are frequently very good places to start.

**Comprehensiveness Number One:** A search must account for all the originating data sources. After all, that is where the deviations from the correct path originate. I’ll put it this way: claims systems issues are the tip of the iceberg; the troubles lay in the ice below the surface.

**Sensitive dependence is a concept that arose during the development of chaos theory. At a very high level, sensitive dependence simply means that if things aren’t just so at the beginning, the deviation from the path a system is designed to follow grows greater over time.**

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**Comprehensiveness Number Two:** A search must examine *all* claims and their related calculations. I have personally written analytics that excluded claims payments of zero only to have the results turn out that elements of the calculation that led to that amount were themselves incorrect and the erosion of a policy maximum was missed.

**Automation Number One:** Humans will never operate as rapidly and efficiently as computers when it comes to the millions of records that need to be examined. Let the computers do the work.

**Automation Number Two:** Claims data universes are like fingerprints and snowflakes—no two are alike. The automation must be designed to fit the claims universe, not the other way around.

**Validation:** Humans are much better judges of right and wrong than computers. Validate the output.

Claim payment errors fall into two classes: underpayments and overpayments. Acknowledge and fix the former. Do not be afraid to pursue the latter.

I am coming to the conclusion that the Holy Grail of claims processing does not exist. Well, let me say I'm 99 percent certain. If you agree, then some form of retrospective data analysis is the only avenue available to find and account for the missing 1 percent. One last point of science: the principle of entropy holds that the universe moves from a state of order to a state of chaos as time goes on. Delay therefore suggests to me that the missing 1 percent will not shrink but rather will grow. You'd better get after it! ■

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