

## **Claims Management Tracking Reports**

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## **Abstract**

*One of the principal risk management responsibilities for any college or university is to ensure sound claims management practices. If not managed well, an institution's claims can quickly become complex and overwhelming. Unfortunately, institutions often carry out this function without giving much thought to tracking their claims activity. Without good management reporting practices in place, it is easy for a risk management operation to allow its claims management responsibilities to get out of control and, consequently, become less responsive to the institution's need for effective loss recovery.*

*For those institutions that self-insure or retain large deductibles on their insurance coverages, it is also important to maintain close scrutiny over the amount of losses paid out in a given year and any outstanding reserves that are anticipated to be paid on pending claims. Along with a good tracking methodology for paid claims and pending reserves, it is vitally important to know whether the institution is maintaining an adequate fund to pay for its claims. Due to the unpredictable nature of losses, it is necessary for an institution to have a sound process for producing management reports to track the institution's claims activity, monitoring the financial impact to the institution, and ensuring the adequacy of its self-insured retention funds.*

## **Introduction of the Organization**

The University of Virginia, located in historic Charlottesville, Virginia, has the distinction among institutions of higher education of being founded by the nation's third President, Thomas Jefferson, in 1819. The University is a public institution with an operating budget of \$2.1 billion. Thanks in part to its devoted alumni and strong investment returns, the University maintains an endowment in excess of \$4.5 billion. It has maintained either the top or second spot among public higher education institutions since *U.S. News & World Report* began ranking public universities. Among all universities, public and private, the University of Virginia is ranked in the top 25.

The University offers fifty-one bachelor's degrees in forty-seven fields, eighty-three master's degrees in sixty-four fields, six educational specialist degrees, two first-professional degrees (law and medicine), and fifty-nine doctoral degrees in fifty-eight fields. During the 2006-2007 academic year, the University awarded 5,898 academic degrees: Bachelor's (3,367), Master's (1,634), Post-Masters(45), Doctorate (348), Law (365), and Medicine (139). The present number of full time faculty is about 2,140, with approximately 13,726 undergraduates and 6,532 graduate students.

Additionally, the University of Virginia Health System is a nationally renowned academic medical center, committed to providing outstanding patient care, educating tomorrow's health care leaders, and discovering new and better ways to treat diseases. The Medical Center has consistently been named one of the nation's Top 100 Hospitals, according to a study of 5,000 hospitals. The University's resources also include seventeen school and department libraries, with a circulation of nearly 5.1 million books, plus a wide range of computing services available to students and faculty. In athletics,

the University competes as an NCAA Division I school, with 25 intercollegiate varsity sports, more than 50 club sports, and an extensive intramural sports program.

### **Statement (restatement) of the Problem/Initiative**

The need to develop claims management tracking reports was an initiative that was instituted in order to be informed about the claims activity throughout the University. Prior to developing a monthly tracking report, it was not generally known how many general liability, automobile, crime, boiler & machinery, or property claims were incurred in a given fiscal year. More importantly, the financial cost of self-insured programs would not be known until it was reviewed at the end of the year, which meant there would be little, if any, warning of an impending deficit in the loss retention accounts.

It was decided, therefore, that we wanted to know how many claims were occurring throughout the University. We wanted to know what general categories they fell into, such as liability, property, boiler & machinery, automobile and other areas. We also wanted to get a handle on how long it was taking to settle losses that fell within our self-insured retention for property, boiler & machinery, and automobile physical damage. In addition, we wanted reports that would let us know what the financial impact has been for incurred losses, and we wanted to maintain accurate historical data to use in projecting future losses for funding purposes. Finally, we wanted to maintain a record of how well we were handling subrogation losses on behalf of the University, since it involved recovering damages incurred by the University from third parties who were at fault.

## **Design**

The methodology for achieving this goal was to develop various risk management reports, which would be produced on a monthly basis to track specific aspects of claims for the University. These management reports were designed by the University's risk management staff and have been a work in progress over several years. We did not hire outside consultants, so there was no cost to the University in developing these tracking reports. However, the University does maintain a risk management information system that maintains a database of information pertaining to its claims, which did require some expense when it was first implemented and for the upgrades since that time.

Essentially, the claims tracking reports were developed using Excel spreadsheets and by utilizing the information obtained from the University's risk management information system. It was determined that we needed to develop a *Claims Activity Report* which would show the number of new, closed, and pending claims. The claims numbers were grouped into five categories: automobile, liability, property, boiler & machinery, and other. This information would be shown on a chart by month throughout the fiscal year. Also, for comparative informational purposes, there would be information provided on previous fiscal years as well. Another report, the *Aged Property Claim Report*, was designed to track how long it was taking to settle losses that fell within the University's self-insured loss retention limit. Pending losses for property, boiler & machinery, and automobile physical damage were tracked monthly, showing how many outstanding claims fell within the following age categories: 0-3 months, 3-6 months, 6-12 months, 12-18 months, 18-24 months, and 24 months and older.

Another management report, the *SIR Fund Status Report*, was designed to monitor the adequacy of the self-insured retention (SIR) funds on a monthly basis, which is to ensure that adequate funds are being maintained to pay for the institution's incurred and anticipated losses. Each month this report shows the fund's beginning balance, the amount of paid claims, any credits, and the ending balance. In addition, it shows any outstanding reserves on pending claims, which provides a picture of how adequate the fund is when considering future anticipated loss payments. A *Subrogation Report* was designed to show, by fiscal year, the number of losses the University sustains from third parties. This report was developed to track the number of open subrogation property claims and their associated cost, and the number of closed subrogation claims and the amount of compensation recovered by the University.

A *Vehicle Physical Damage Loss History Report* was developed to track, by fiscal year, the total number and amount of losses paid out for damages to University vehicles. This report also shows the total amount of any anticipated payments that are pending on open claims. Additionally, for future loss projection purposes, this report also increases past fiscal years' losses for inflation so that the historical data is converted into current monetary values. This report also calculates a projected future annual loss estimate, which is automatically updated each month when new loss information is included in the report's calculations. Each month a *Self-Insured Loss History Report* is also prepared on property losses and boiler & machinery losses, and it provides the same information as depicted above for the vehicle physical damage report.

## **Implementation**

As mentioned previously, this has been a work in progress over the years. The basic design was developed several years ago and has been modified as ideas for improvement have been considered. Practically speaking, if an institution has its loss data available, these reports could be developed within a short period of time. It does require knowledge about an institution's loss information, calculating trends in its financial loss data, and using Excel spreadsheets. Once the reports are initially established, it is simply a matter of updating them each month with current loss information.

### **Benefits**

The benefits derived from implementing these reports will become obvious to an institution in short order. It gives the organization knowledge about the amount of claims activity arising from its operations. Management will know the types of claims that are occurring throughout the year as well as how many are still outstanding. It will clearly identify any backlog in claim handling, which could adversely affect an organization's cost of risk by not effectively managing its claims. For instance, when claims are not handled in a timely manner, claimants will often seek legal means to address their concerns, which will ultimately cost the institution more. Likewise, when faculty and staff do not have the equipment or facilities they require because of a loss, it could negatively affect their efforts to provide quality instruction, research, patient care, or public service on behalf of their institution.

These reports give an institution a clear picture of the volume of claims occurring at the institution, and can set the stage for a more in-depth analysis of claim frequency

and severity. The status report on the self-insurance funds will alert the organization to whether it has adequate funding to pay its claims, and it will let management know far in advance if a fund is in danger of being depleted. The subrogation reports let the institution know whether it is recovering its financial losses from third parties, or whether those recovery opportunities are being lost. Finally, the loss history reports are valuable for maintaining a history of the institution's losses, showing an institution's current loss reserves still to be paid, and for projecting future loss estimates and budgeting adequate self-insurance funds.

### **Retrospect**

It would have been nice if we had not needed to invent this process to monitor our institution's claims, but now that we have done so we are certainly willing to share it with other institutions and saving them the effort of developing this process. To conclude, the sooner that an institution becomes comfortable with maintaining claims management reports, the sooner it will have more confidence in self-insuring some of its risk. The institution will benefit in the long run from the savings it will earn by retaining some of its risk exposures, instead of depending upon the purchase of insurance to finance all of its risk. Since increasing its risk retention for property losses twelve years ago, the University of Virginia has saved \$1,576,200 (\$131,350 annually) in insurance costs, and it looks forward to continued savings in the future.