Rehabilitating the Victorian WorkCover Authority's claims management system (B)

During 2001, the Victorian WorkCover Authority (VWA) undertook a major program of reforms in order to reverse the scheme's deteriorating financial position and improve outcomes for injured workers. One of the first changes involved an organisational restructure which divided the VWA into two major business units: Rehabilitation and Compensation; and Health and Safety. The former was made up of six divisions:

- Premiums;
- Claims Services and Business Support;
- Rehabilitation and Medical Services;
- Common Law, Impairment and Dispute Management;
- Strategic and Economic Analysis; and
- System Performance Measurement.

Meanwhile, the latter unit (publicly launched as WorkSafe) consisted of nine divisions and programs:

- Construction Industry Program;
- Manufacturing and Agriculture Industry Program;
- Transport and Storage Industry Program;
- Public Sector and Community Services Division;
- Major Hazards Industry Program Division;

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- Legal Services and Investigations Division;
- Operations Support Division;
- Business Monitoring and Support Team; and
- Strategy and Programs Division.

Reclaiming claims management

In its assessment of the VWA's claims management system, McKinsey consultants concluded that the Authority had taken an arm's length approach more in keeping with an industry regulator than a contractor of services. To redress the existing situation, they recommended that the VWA:

- take a more active role in guiding how claims are managed;
- actively manage Agent performance; and
- implement a remuneration package that aligns remuneration with scheme outcomes and customer service.[1]

Proactive claim management

The new model aimed to make injury management more proactive. Employers and workers were encouraged to notify injuries earlier, including a new ability to notify by phone. Early notification enables earlier contact with the injured worker and overseas studies showed that late-notified claims tended to be more expensive.[2]

The new model aimed to intervene earlier, and more intensively, for claims with a high probability of incurring significant long-term costs.

A multi-disciplinary approach

Instead of operating stratified teams, as per current practice, agents would be required to create multi-disciplinary teams combining medical, technical and case management expertise. The consultants recommended that team contain the following roles:

> *Case Managers (CM)*: The CM would have the ultimate accountability for the management of each claim within their portfolio and is the primary contact point for both the employer and the worker. Each CM would be be responsible for a maximum of eighty (80) claim files in either the Multi-Disciplinary Management segment or the Long Term Management and Return to Work segment, but not both. For the purposes of calculating the maximum case load for a CM, a claim is defined as any claim:
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> - in respect of which a weekly compensation or medical and like expense payment has been made in the prior three (3) months; or
> - involving litigation relating to statutory benefits; or
> - involving unresolved common law, including serious injury applications but does not include:
> - claims for death benefits; or

[1] p.16.
[2] *Management of claims by the Victorian WorkCover Authority*, Victoria Auditor-General's Office, November 2001, p.46-47.

- claims for Impairment Benefits only.[3]

As a minimum, the CM must have two (2) years experience in claims management in a statutory benefits system.

Technical Managers (TM): The TM would provide analysis on all technical and legal issues relevant to case management. As a minimum, the TM must have:

- 3 years experience in workers' compensation claims management, having reached the level of Senior Claims Officer or equivalent; or
- 3 years experience as a law clerk or paralegal in the statutory personal injury field; or
- a Bachelor of Laws degree (LLB).[4]

There should be a mix of TMs with each qualification at each Agent. There must be one (1) full time TM for each six (6) Case Managers within each Agent.

Injury Management Advisers (IMA): The IMA would develop and promote injury management strategies and will provide coaching and advice to CMs regarding treatment and return to work issues enabling effective claims strategies to be implemented on all high risk claims. As a minimum, the IMA must:

- Hold qualifications in a medical, health or related area; or
- Have 2 years experience in workplace based rehabilitation.

The qualifications could include a degree or graduate diploma in medicine, health science, behavioural science, social work or rehabilitation counselling or eligibility for registration as a Division 1 nurse with the Nurses Board of Victoria. There must be one (1) full time IMA for each six (6) Case Managers within each Agent.[5]

Health Management Specialists (HMS): The HMS will provide expert opinion on injury management and return to work related issues and encourage providers to take accountability for diagnosis, opinions, treatments and costs. As a minimum, the HMS must be a qualified medical practitioner. There must be 0.2 EFT Health Management Specialists for each six (6) Case Managers within each Agent.[6]

Agents would also be required to appoint dedicated *Impairment Benefit Specialists (IBS)* who, in consultation with the Multi-Disciplinary Team, would provide assistance in determining whole person impairment assessments. Additionally, Agents would be required to appoint a full time *Senior Legal Manager (SLM)* with a minimum Bachelor of Laws degree (LLB) and at least five years experience in legal practice in the personal injury field.[7]

Allocating effort

Amongst McKinsey's suggestions was getting claims agents to restructure their operations. Part of this would involve agents adopting a new claims "triage" system where claims were divided into low risk, high risk or long-term/complex segments according to predictive risk

[3] *Request for Tender: Provision of Services by Authorised Agents*, Victorian WorkCover Authority December 2001, p.17.
[4] Ibid.
[5] Ibid.
[6] Ibid, p.18.
[7] Ibid, p.18.

assessments provided by the VWA. Claims managers would also flag claims with common law potential and direct them to the appropriate channels.

Under the new system, claims judged as *low risk* would be allocated to the Claims Processing segment for expedited processing. Agents would be expected to manage these claims as per the statutory requirements but would not be expected to undertake any additional active management, except to periodically monitor case progress and re-classify claims which failed to resolve within expected timeframes.

Claims assessed as *high risk* (i.e. those most likely to become long term claims) would be allocated to the Multi-Disciplinary Management segment for rapid, high-priority intervention and active management by agents. The assessment process was designed with the goal of targeting the 25 percent of claims per year with the highest risk of being long term.

Long-term or complex claims involved those claims where 52 weeks of weekly compensation had already been paid, claims where the worker was unable to return to work with the pre-injury employer or serious injury claims, such as quadriplegia or brain damage. Under the new system, these claims would be allocated to the Long Term Management and Return to Work segment for active management by different case managers. A number of these claims would be earmarked for job placement assistance programs.[8]

New remuneration arrangements

McKinsey's consultants worked with VWA to propose a simpler remuneration system which rewarded the kinds of behaviours the VWA wished to encourage while allowing sufficient flexibility to reflect shifting priorities. They also emphasised the importance of not cutting basic service fees, to ensure that agents did not reduce service or staffing levels. The new remuneration model included three main components. They were:

> *The annual service fee:* The main component (over 90 percent) of the service fee would be calculated as a percentage of the premium paid by the employers they manage. These fees would provide a reasonably stable base to cover the average agent's "reasonable" cost structure. This component of the package would be set by competitive tender and vary slightly between agents.[9]
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> *Lump sum payments*: Agents would be paid a lump sum bonus of 5 percent of any scheme actuarial release relating to their portfolio (for instance, a reduction in future liabilities as claims were closed). Releases would be assessed by the VWA's scheme actuary. The lump sum was intended to focus agents on sustainable long-term outcomes across all benefit types.
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> *Annual performance adjustments* (worth between +30.5 percent and –28 percent of the premium fee): This was assessed on an agent's performance over a mix of measures, primarily continuance rates, worker satisfaction, compliance with case-planning disciplines, and premium collection.[10] These measures were designed to maximise the incentive effect. The targets and measures would adjusted annually to align with changing scheme priorities

[8] ibid, p.17.
[9] *Claims Management by the Victorian WorkCover Authority*, Victoria Auditor-General's Office, June 2009, p.54-55; Boehm, L. 'Creating a More Service Focussed Industry – the role of an Incentive Model' Paper presented to the Heads of Workers 'Compensation Authorities Australia & New Zealand, December 2007, p.6.
[10] *Claims Management by the Victorian WorkCover Authority*, Victoria Auditor-General's Office, June 2009, p.57-58.

> and better co-ordinate agents to focus collectively to manage emerging risks or opportunities.[11]

A key objective of the model was to provide a deliberate and substantial increase in overall agent funding, in order to decrease claims officer portfolios.

Increased accountability and oversight

Under the proposed system, agents would have to make major adjustments to the way they conducted their business. Agents would be appointed on a fixed term basis and audited annually. Performance results were also to be published on an annual basis. Key indicators like customer service ratings and return to work rates would be given particular prominence and made available to employers and other agents. However, the VWA would also have to overhaul its own management practices and attitudes. For instance, VWA managers would meet with agents each month to discuss trends and new priorities.[12]

These and related recommendations were put to the Authority and accepted. In December 2001, the VWA commenced a tender process, inviting existing and new claims agents to apply. Unlike previous processes in which the services of all existing agents had been renewed, the Tender made clear that VWA might select a smaller group of agents.[13] The new arrangements were scheduled to come into effect in July 2002.

Change management

However, there were concerns within the VWA about the organisation's capacity to implement the changes it so urgently needed to make. In a report reviewing the proposed changes, the Victorian Auditor-General noted that:

> "Implementation of the new model constitutes a risk to [VWA]. The [VWA] needs to make and integrate a large number of changes, many substantial in nature, within a relatively tight timeframe."

[11] Boehm, L. 'Creating a More Service Focussed Industry – the role of an Incentive Model' Paper presented to the Heads of Workers 'Compensation Authorities Australia & New Zealand, December 2007, p.6.
[12] *Claims Management by the Victorian WorkCover Authority*, Victoria Auditor-General's Office, June 2009, p.60.
[13] *Request for Tender: Provision of Services by Authorised Agents*, Victorian WorkCover Authority December 2001, p.5.