Sedgwick Claims Management Services - Former Director of Claims at InsureTech MGA

Interview conducted on November 08, 2022

Topics
Insurance Claims, Efficiency, Vendor Network, Customer Service, Auto Insurance, Technology, Adjusters

Summary
A former Director of Claims at InsureTech MGA provided valuable insights to a Tegus Client on evaluating TPAs, including the importance of understanding a TPA's core strength, vendor network, and ability to handle different lines of business. They also discussed the top four factors to consider when evaluating TPAs, as well as the challenges of a new entrant breaking into the TPA space. The expert also provided information on common clauses in contracts for vendor services, how TPAs make money, and the archetype of an MGA or carrier that would go with a TPA versus just claims operation in-house. Finally, the expert provided ideal cycle times for auto claims and emphasized the importance of efficiency and having a vendor network and call center to improve service.

Expert Details
Former Director of Claims at InsureTech MGA. The expert is responsible for the overall management of current claims inventory, managing performance, and efficiency of vendors including TPA's, FNOL Call Center, and claims system.

Former Head of Claims at Newfront Insurance, leaving April 2020. Expert was responsible for developing the claims workflow for all lines of business, building relationships with clients, brokers, and insurance underwriters. Expert created the claims process as well as the escalation paths for all lines of business and loss types. Additional duties included recruiting, hiring, training, and developing teams in multiple locations and across multiple organizations.

Former Claims Lead at Uber (UBER), leaving in June of 2019. Expert has 25 years of experience in the insurance/claims industry. Responsible for loss, claims, monitoring claim handling, and managing the CPA's and insurance companies that managed the claims. The expert worked closely with the community ops team that contracted the drivers by aggregating metrics and providing feedback.

Q: Do you have experience in hiring Claims TPAs to process personal or commercial auto claims for your company?
A: Yes, I can help with this project. My 30 plus years of experience in P&C Insurance includes personal and commercial lines. I have worked for carriers, TPA's, and MGA's. Also, I have vetted, hired, and managed TPA's most recently in 2021.

Tegus Client
Hello, thank you so much for taking the time to speak with me today. I am conducting some research on the insurance claims space. So maybe we can start with just some sort of understanding of your experience working with TPAs. If you can provide just a few words on your current and prior experience in working with TPAs and hiring them and firing them, et cetera.

Former Director of Claims at InsureTech MGA
Yes. My first experience with a TPA was in the late '90s when I left a job with a large carrier, I went to work for McLarens who at the time was handling some also private commercial companies and mostly in the

midsize market. So that was my first experience there, and I realized that it was very different from the carrier and the broker side.

So I did go back to Farmers. They made me an offer, and I was very pleased to accept it. So then years go by, worked for Aon for a couple of years. And then received a call from a friend who was heading up a team at Sedgwick. Sedgwick is one of the largest TPAs out there. They have been very active in the acquisition market over the last several years.

So the challenge for them is that they've become so big. It's almost that they've lost touch with some of their customers. In fact, if a customer made a conscious decision to go with a smaller TPA so they could have more control, they could have more feedback and more interpersonal reaction and more personal interaction.

As I said, they made a conscious decision not to join Sedgwick. But when Sedgwick acquired that other company, they're forced to work with a larger company now. So that caused their retention and renewal contracts to slide. But their advantage is they're one of the only games in town. Several other TPAs now are trying to catch up.

And it's very competitive or it's difficult to be competitive when you're held to a certain price points where Sedgwick can beat them just based on their market share and that they can cut their prices whenever they need to. After Sedgwick, I joined Uber, and we worked with James River TPA or Falls Lake Insurance company.

And we have challenges with them because the volume was such that they were unprepared. And what I mean by that is the adjustors at various states because we're a nationwide company or a nationwide operation, adjustors would have to be licensed in the state in which they were adjusting claims. Currently, there are 38 states that require licenses.

Many of them, except for California, have reciprocal privileges. So if you are licensed in one state rather than going and taking an exam, going through the process, you merely just request a license, pay the fee and because you already licensed in a reciprocal state, then they will grant you a license.

So that was a challenge with that TPA is that they were just cut behind the wave of volume and never caught up. Most currently with Go Insurance, we worked with several TPAs, David Morrison Associates is one out here. They're a little bit smaller, another one, ICA, Insurance Claims Associates, they're based in Texas. They have limited scope in some of their more Southern and Midwestern states.

And at the time, we needed a heavy presence in California and Arizona. And I think that the nuances of those markets compared to Texas was a challenge for them. And again, they never got caught up. So we chose to build our own TPA inside of Go. And then, of course, venture cap dries up, InsureTech market is crashing.

So I've just changed companies. So I'll be joining another MGA, Bridger, as their Senior VP of Claims. I'm looking forward to starting that new role and the part that has me excited is specifically to what we're talking about right now, I'm looking at building up a TPA that is currently understaffed.

However, the use of vendors and especially the appropriate vendors will be beneficial to our operation, and that's my intent. And I think it really goes back to the services they provide, their operational territory and the prices. They've got to be competitive with your full-time employee cost.

Tegus Client

So you mentioned services that provide operational capabilities and their cost. Maybe we can start with that. I'm assuming those are sort of the three evaluation criteria you would use to decide any TPA. What kind of services they're providing, what operational capabilities they have and what kind is their cost? Before I go any deeper into all three of these, is there any other sort of criteria you would use to evaluate which TPA you would partner with?

Former Director of Claims at InsureTech MGA

I will ask for some performance metrics, cycle time, average closed as far as claims. And then on the personal side, what turnover they have had recently as far as their management team, what turnover they've had on their adjustor ranks? And that's where the personal relationship really comes into play.

There's a bit of marketing upfront before you even engage in the conversation of potentially partnering together. So you want to get a feel for who the people are, especially those individuals who will be working closely working on your program. So for example, if there's a TPA that may be marketing me, I want to know in addition to the person that I'm speaking with now that's basically a salesperson.

I want to meet the Operational Lead. I want to meet their Claims Manager or Director or VP. I want to know who is the person that I can talk to, if I have a problem, let's face it, if I have a problem at 6:00 on a Sunday morning where I have an extremely serious claim, I may need to get a hold of somebody now. I understand those are very, very infrequent.

However, there is a potential need for that. So I want to know who the person is, if they're going to be responsive, who their backup is in the event that, that person takes some time off or isn't available? So I think those are the additional criteria that I would look for when looking at partner or, that, the TPA.

Tegus Client

Let's go one by one into this. So when you mentioned you'd look at the kinds of services they provide, what specifically are you trying to say, which services? Don't they all provide the exact same service?

Former Director of Claims at InsureTech MGA

Most of them do, but the TPA business years ago started, I think, as claims overflow for the workers' comp line of business. Workers' compensation is highly regulated, very structured. There's not a lot of negotiating because if you think about it this way, a 30-year-old male construction worker who's right hand dominant and then has an injury to the dominant hand, that person, based on their salary, is going to receive a certain amount of money and there's no negotiation.

Now compare that to a liability claim, whether it's an injury claim, auto claim results in an injury, there is a lot of negotiation that goes on back and forth. And you have to understand where you are in the process of the claim and if it's even appropriate to talk about settlement at those early conversations. So the services and maybe I should say where is their core strength rather than the services.

It's true that most provide similar services but are they more comfortable with a certain line of business than another, for example, workers' comp versus auto or commercial property and the different lines of business. So I would want to learn more about them and their core strength, where their comfort level is within that market.

And then I will go back into the individual and their team. But yes, in addition to their core services or lines of business and claims that they handle, I want to know about their vendor network. On the auto side, do they have a repair shop network that they can work with, that will be flexible and work with them? Do they have a rental car account set up with Budget, Enterprise, Avis, what have you?

Do they have a subrogation division, where if we pay a claim, can they go after the responsible party and recover money back for us? On-site investigation, whether it's a slip and fall where somebody claims that they fell at a grocery store or on somebody's home. And we could send somebody that's in that area to go and take pictures of the location of the accident.

Perhaps interview people and just observe the scene throughout a couple of days around the time that this thing would have happened even if it was one week or two ago. Obviously, you want to make that happen quicker, so those are some of the ancillary services that some TPAs have. Some have it in-house, some contract with vendors.

Tegus Client

And when you look at partnering with TPAs, do they need to be multiline to be a TPA that you would typically partner with? Or typically, when you would partner with them, they would be for a specific line. The area that we are specifically looking at is personal and commercial auto because they're typically the kind of claims that can be desk adjusted, you may need a 1099 workforce to go out and look at cars sometimes.

But on average, a number of these claims can be fully adjudicated virtually. And so the question is, does the TPA when a carrier contracts with a TPA, you are looking at them to have multiple lines? Or do single-line TPA typically also offer their services and do they get the contract?

Former Director of Claims at InsureTech MGA

That's a good question and it really depends on what line of business you're selling. So in other words, as an MGA or as a broker, carrier, what have you, if I'm concentrating on commercial auto, for example, I want to know what kind of experience this TPA has in that commercial auto?

Now commercial auto and personal auto are similar. Obviously, there's a potential for higher severity claims, therefore, higher payouts on some claims, especially because of the deep pockets thought of people when they are injured by a company, they feel that they can get more money by filling the claim benefits with an individual or personal auto policy.

So a multiline TPA would be beneficial if your sales and your anticipated market is to multiple lines of business. But almost every TPA out there is very competent when it comes to handling the basics workers' comp, auto and liability, and obviously, workers' comp is commercial, but the difference between personal and commercial related to auto claims is not that broad.

I mean if you can handle commercial auto claims, there's a pretty good chance that you can handle personal lines auto claims, too, especially there is a key if the customer company, let's say, if I'm looking for a TPA, what I want to do is I want to have my client service instructions or my claims handling guidelines. And this is a document that could be several pages long.

It gives examples, it links to letters and correspondence in a way that the customer wants to be portrayed by the TPA. So I think back to your specific question about if I'm looking for multiline TPAs, that's always preferred if you think that you're going to sell more than one line of business. And the final comment I will make on that is most TPAs will be able to handle auto, liability and workers' comp.

Tegus Client

I want to go back to some of the evaluation criteria, so your services make sense. What do you mean by operational capabilities?

Former Director of Claims at InsureTech MGA

Are they any good? Do they perform well?

Tegus Client

And how do you mean then like cycle time or Net Promoter Score? What are you looking for?

Former Director of Claims at InsureTech MGA

Yes. Cycle time, for me, cycle time is number one. Reserve accuracy is number two. Reserve amount to paid is another one. And then the one that we don't like to talk about very often, because hopefully, it won't happen is Department of Insurance complaints by state or the state in which they operate.

Before the Go Insurance, most of the insurance complaints that I've worked on or that I have worked with other people, those complaints have not been justified. If you think about the relationship between the insurance adjustor and the claimant, whether it's a third party or a first-party insured is very arterial.

I think most people when they make an insurance claim, they think automatically that the adjustor is there to give them as little money as possible. When the adjustors mindset should be, is there coverage? Do we own money? How much do I have to pay? And can I close this quickly? So the mindset is very different from reality and that people, they do think that this adjustor is going to pay me as little as possible.

So that's why I get into the Department of Insurance complaints. Many times, people will feel that they were not treated right, so they will file a complaint, then the TPA and the client or the customer has to prepare a response. And most of those times, the responses are found to be not justified. So those are the top four that I would look at cycle time, of course, reserve accuracy, total paid and then what kind of complaints are we getting, not only Department of Insurance complaints, but how many of these calls get escalated to the claims manager or claims executives?

Tegus Client

And let's talk about cost. So how do TPAs typically charge? We heard in different ways, but what's been sort of your top two ways in which they've typically charged their fees? And what's more preferred from the carrier side or the MGA side?

Former Director of Claims at InsureTech MGA

The two main ways that customers are charged by TPAs are either time and expense. So a certain dollar amount per adjustor, and then times how much time that they spend on that. I think nowadays with most claims being virtually reviewed at the desk level that a flat fee is probably more preferred for me.

I would look at the business overall and would probably lean towards a flat fee. And what that usually entails is depending on the type of claim, whether it's an injury claim, whether it's a property damage claim, a liability disputes, you would charge a certain dollar amount. And there are times where those amounts are split into two. So in other words, when the claim is set up, the TPA bills the carrier for half or the customer for half of that claim. And then once the claim is closed, then the TPA would receive the other half.

Tegus Client

What about percentage of GWP, is that another common scenario?

Former Director of Claims at InsureTech MGA

Yes. In fact, that's something that it's becoming more popular because that kind of drives the TPA to have, if I can say, skin in the game. They have a piece of the action, if my TPA is performing well, then my customers are happy and the likelihood of them renewing the policy is higher.

The challenge, I think, with that written premium is that sometimes the higher written premium goes to a higher risk driver. So is the higher written premium because of growing business or higher rates. I think we're coming to a part of where premiums may be on the increase just because of frequency and severity, I think, are coming up. I mean, with distracted driving, with cell phones, with other electronic devices within the area or vision of the driver, even other passengers in the car, playing music, looking at videos, there's a distracted driving. It's causing an increase in frequency.

It's getting back to normal now, but end of 2020 and through most of 2021, there were fewer cars on the road, so people would drive faster because they can. What that led to, in my opinion, is an increase in severity or the dollar amounts per claim is higher. Now I think that's going to probably equalize or settle out, and we'll have to see.

But yes, that written premium is very touchy. You've got to have your data solid. You've got to have it just completely on point. And then work closely with your actuaries and underwriters to see where that growth in premium is and if that's going to translate to more claims, higher severity or less claims.

Tegus Client

I want to go into the area of understanding how a new entrant would enter this space. Many of the things that you've talked about is the way decision makers are going to make decisions, this is a risk-averse industry. They're going to look at past historical data. They're going to see proof of the fact that they have done this in the past and have knowledge about this.

How can a new TPA break into this space? Especially as you worked at many different sort of technology advanced companies. What is the opportunity? Is there an opportunity for a new player that's sort of very digital first, digitally savvy has a lot of automation that has customer experiences on the front end and is just digitally much better but is young and weaker, so how does a company like that break in?

Former Director of Claims at InsureTech MGA

With a lot of money. It's going to be intense capital upfront because the marketing budget alone, getting to know people, building those relationships is going to cost. Even if it's not the traditional marketing where you're buying dinner or going to conferences or going to conventions, you're still having to pay somebody during that time where you're in the initial part of the sales process.

So that's going to take some time. But I think this part of the business is ripe for some new entrants. People understand Sedgwick, York, David Morrison or some of the regional ones. McLarens, of course, more on the commercial side. But I think there could be potential for new entrants into the TPA space. But it's going to be a long uphill road at first. And then once you get the business or I should say, as you're getting that business, the part that you just mentioned that driven by technology, improving the experience, having that volume just handled quickly.

The biggest challenge that I've experienced on the customer side of the TPA is their sense of urgency and their sense of individual responsibility. An employee or an adjustor at a TPA can always say, oh, sorry, it was after 4:00 or after 5:00, and I'm off. And I've got the weekend off or I'm on vacation. So it's that personal level of responsibilities.

And I think that, that is lacking with some TPAs, especially as they get larger. If a new entry into those space can automate that front-end, the FNOL process, get a response back to the claimant immediately we were playing with this at Uber, and we got very close. Even at a couple of other, the more tech-forward companies I have worked at, were how great would it be to, on that first notice of loss, there is your the tow truck, boom. Click this button, and we have a network of tow truck drivers or a roadside assistance that can come and take the car.

Not only that, but as your car is being towed, we will call an Uber for you to come and pick you up if you need a ride. If you don't have a friend or family member that can pick you up, then at the same time, the tow truck is going to the location of the accident, you're also sending a rideshare vehicle.

Of course, I have a preference for Uber, but I think that would be ideal. Then the second step of that and this is the most time critical is getting that initial estimate of the vehicle to the adjustor's desk because that way, you know if the car is going to be a total loss or not because if it is not repairable, then that's a whole another operating path.

Tegus Client

Okay, coming back to this cost side of things as a percentage of premium, you mentioned and we've also seen it as well increases in severity, increases in labor, vehicles, parts increases because of the types of materials that are being used, et cetera, and less repairable vehicles. Carriers are then subsequently raising premiums.

When that comes to the TPA side of it, do they absorb any of that cost or have to reduce their percentage of premium? Or does the TPA end up just making more profit because the carrier or whatever raise their premium? So they're making the same percentage, but premiums going up, but their costs haven't necessarily gone up.

Former Director of Claims at InsureTech MGA

Yes, that's a risk of a direct written premium or the percentage of premium that the TPA is engaging in. In other words, if the business slides or if the rates get reduced, then that TPA is going to receive less revenue, of course. And then the flip side is true also that even if the rates are going up, whether that's through regulatory price increases or by expansion of business or by increased renewals.

Then the TPA could benefit from that. It really depends on how the contract is written, of course. I mean, then you could say that about any business. But it does go down to how the contract is written? And then are there any performance guarantees in there? Are there any KPIs that need to be tracked? And there could be a reconciliation after a certain quarter or six months. So it really depends on how that contract is set up in the first place.

Tegus Client

Just real quick hitting on that in regards to the contract, other types of vendor services, you think of like towing or things like that. The person providing that service, the vendor I've seen in some contracts before where they might have CPI index things or something like that where it protects both sides of the party. Are those common things that would be written in contracts where the standard is like 7% to 10% of premium. But in these situations, this can be negotiated up or down or adjusted based on inflation or whatever it may be?

Former Director of Claims at InsureTech MGA

I don't know if it would be adjusted by inflation, I mean, although that's certainly possible, but I think it's more that at the end of a certain period of time, then those rates are adjusted. The one thing that I think might be beneficial. I used this when I was working at Zurich, and we were basically creating a vendor network for workers' comp cost containment.

But I think that, that framework can work well for the part of the industry that we're talking about right now. And that is you private label certain things, tow truck, for example, you make a deal with a tow truck, there's not many national networks of tow truck. Obviously, you've got AAA, of course, is one, and they can pretty much truck whatever they want.

But for example, you would work out a build or you work out a rate of, let's just say, $100 for a tow and you may go back and charge either $5 more or $5 less, which as a TPA, you would charge more or less depending on the contract and your relationship with the vendor network and the customer, of course.

But what we would do at Zurich is we would put together a network of cost containment products and services. And depending on what they were and depending on the contracts that we had with our customers, we would private label those and charge more or less depending on what we needed at the time. So I think that back to your point about that, as a customer of a TPA, I would prefer that.

That way, I have a one-stop shop. I go to the key contact that I have with that TPA and I can go to one person for all of my needs, whether it's tow trucks, whether it's body shops, whether it's rental cars, site investigations, those kinds of things. The only problem is that I see, now is that Sedgwick was doing that, but then they got a bit lazy. They got a bit big and their sense of urgency was slipping as well as some of their performance.

Tegus Client

So yes, you're IAAI's tow truck providers or whatever it may be. You are adding on a markup.

Former Director of Claims at InsureTech MGA

Yes, it depends. Maybe you want to charge less. I mean, I don't know why you would, but I could see a situation where you're willing to charge either market rate or a little bit less than that. The other thing, the other component along those lines is your storage and your salvage. Copart, IAAI, those are really the leaders in the field right now, but your salvage proceeds can really help out if you can get that turnover quickly.

I think I've just read somewhere that say that there is likely to be a softening of the used car market here coming up within the next year. So if that's the case, then salvage rates are going to start declining. So that's another factor that folks need to consider because where in the past, if you didn't settle a total loss quickly, you run another valuation of this car three to five months later, and that could go up 10%, 15%, 20%.

So I think whoever your auto auctions are, whoever you work with for the auto auctions, for salvage proceeds and for storage. So storage and towing is another thing to consider on the TPA side because if you can turn those over, then you're paying less on storage, you're paying less on rental car and that goes right through your cycle time, too. So there's a lot of interconnection depending on what's happening.

Tegus Client

Got it. One of my biggest questions when it comes to TPAs is you hear carriers want to shell the work out, but they don't want to pay for it or they want to pay as little as they can. TPA want to make money. How do they make money? Because I mean, if you think about the insurance industry LAE ranging from 10% to 12%, which, of course, includes some other ancillary costs that maybe TPAs don't have. But if you're really making 7%, 8% on premium, like it seems like razor-thin margins. How do these TPAs make money at its worth?

Former Director of Claims at InsureTech MGA

Well, it starts with hiring. And the adjustor ranks are very thin right now. And especially now with the move back to a more traditional office in the office job rather than remote jobs, that's going to even heighten the challenge. So how they make money is just on that is on their efficiency. You've got to be efficient. Let's go back to the flat fee, for example, so you get half when you open and half when you close, well, obviously, you want to close that thing as quickly as possible. Time and expenses, kind of you kick the can down the road a little bit until you can build a certain amount.

That's why that kind of is losing some friction. I mean my first TPA job was time and expense, and I would send a bill once a month to our clients. But I like either the flat fee or the percentage of premium, currently. And specifically back to your question about how they make money, it's their efficiency. It's their efficiency of their adjustors. And that is a challenge.

I mean, the turnover ranks on some of these TPAs is just incredible. And I don't see that slowing down anytime soon. I think it's going to take maybe some more continued layoffs in other industries and people are going to look for work. I mean if you think about it this way, whenever there's an economic downturn, I think the volume of claims will go up because people are always looking to get that additional money.

Where if the times are good, $1,000 settlement of an insurance claim is pretty good. But if you need that $1,200 or whatever a couple of hundred dollars more, then you're willing to wait a little longer to negotiate more. So the final thing on that point is that I think the age of the adjustors, I mean we're looking straight up at, what they call it, a brain drain or kind of a vacuum of knowledge and experience.

Because for the last 20 years, who would think that they would want to be a claims adjustor. They would want to be an app developer or a software engineer, or a financial investment counselor or something along those lines. So I think recruiting, getting people more aware of the career opportunities within claims specifically adjusting. That's really where it goes to how they make money.

You've got to hire the right people, you've got to treat them well and give them the support they need. The worst thing that happens is adjustors normally can handle anywhere between, depending on the type of claim, 75 to 80, maybe 120. But what happens is when somebody quits or leaves, then there's 100 claims that need to be reassigned.

If you don't have a full strength bench to bring somebody up, then you've got 10, 20, 30 claims for the remaining staff. And it's a challenge. I mean I've been dealing with this since the mid-90s where your best adjustors are often those that are most overworked because, number one, you know they can handle it, and number two, they won't quit.

Tegus Client

Last question just kind of on the employee stuff and efficiency. You mentioned the turnover rate being high. What are you currently seeing for that right now?

Former Director of Claims at InsureTech MGA

I wouldn't have any numbers. It's just really a feeling for me. I'll give you an example of the company that I left. We had staffed up to 11. So we had two managers and nine investors. We had a dream team. We had people with total loss experience. We had people with injury experience.

We had a subrogation person. We had a fraud person. We had a great team. And the founders didn't fully understand all of the intricacies that go into handling the claim. They wanted to see results immediately, and that doesn't happen. I mean, so they thought they could make changes that would have better results than the leadership. One person was left out of those 11 in less than a year. Now that's extreme. But even if you cut that by half, that's a 40% turnover.

I think what happens also the one thing about turnover is, let's say, that I'm an adjustor with Sedgwick. And you're their customer, you own a commercial fleet and you're happy with the way that I handle your claims. You're not, however, happy with the amount of money that you're spending with Sedgwick, so you want to move to XYZ TPA.

And you tell XYZ, I will come to XYZ. However, you've got to hire someone to run the claims team. That happens also on the broker side, too. But it does happen on the claims side, but because they're not revenue generating, many times it doesn't get the notice or high-profile visibility that a salesperson would, but that contributes to turnover, too, where they're handling the same customer but with the different company or a different TPA?

Tegus Client
So let's pick on that topic a little bit. So thinking back at how would a new company enter this space, it almost sounds like this is a very common thing, as you said, in the insurance space, even an MGA wants to launch a new business, they just hire underwriters who bring business with them. Is it sort of similar to think that the way a new TPA could get started is by starting up with seasoned claim adjustors who just have deep relationships in the industry who would bring with them?

Former Director of Claims at InsureTech MGA
Yes.

Tegus Client
On that question, what's typically the archetype of an MGA or a carrier that would go with a TPA versus just claims operation in-house? Is it like a certain like formula representation of a kind of company that typically would partner with TPA rather than do things in-house? So is there a certain kind of MGA or carrier that typically partners with a TPA rather than doing things in-house? Or is it very subjective that every sort of MGA and carrier just makes their own determination whether they want to use a TPA or just have a claims function in-house?

Former Director of Claims at InsureTech MGA
Yes, it's the latter. It's depending on what they want to do. Do they want to have it in-house or do they want to use a vendor? Or do they want to grow their own? Now the challenge with that is that especially in California where employees have certain rights and it's so difficult to fire a low performer that in this type of employment environment, you may want to go with a vendor and let that TPA, whoever we're talking about.

And then in that case, you let the TPA handle all the HR problems and hiring and recruiting and firing and that kind of thing. The one thing that I noticed to that point is and I feel very fortunate to have been on both sides of the equation. I've had to be out there as a claims person selling a new customer and have also been in the seat where the customer is saying, we're leaving, we're going to a different company.

And I think the main reason that an MGA or carrier would build an in-house claims team is because no other adjustor will provide the type of service that an employee of the carrier or the MGA, somebody who has equity in the company or some type of performance bonus schedule. So they know that their income is directly related to their performance.

Some larger carriers may want to incur that extra expense or increase their salary, their overall salary is higher. I learned that at Uber specifically and although Newfront with the pandemic, we didn't get to sort of build that team out and then they ended up changing their model and acquiring another company.

But I think that the top-performing adjustors will be an employee of either the MGA or the carrier and somebody who has an equity position in the company regardless of how small it is, just some type of incentive to see that company do well and perform well. And then ultimately, you can cash out on that equity.

Tegus Client
Yes, that's one of the things where you've got a stake in the game that you'll do just a better job in providing

a better quality of service.

Former Director of Claims at InsureTech MGA

Yes. And it's going to be challenging. The one thing that's going to sound a bit rough, but I think it could happen, is that all of these layoffs, I mean, you might get somebody that needs a job. And if their salary is decent, and then somebody may give insurance claims a chance. I know I'm certainly banking on that. So that I can staff up appropriately.

But again, it's the pay of an adjustor is all over the place, and it's really, of course, like most positions, is dependent upon experience, but on my staff, for example, the company I just left was we had some people that we were paying $45,000 a year. We had others that we're paying $90,000 a year. Now of course, the $90,000 is somebody with probably four or five years' experience and the $45,000 a year is somebody who just got their license, probably less than 12 months' experience.

And it's also remote so they don't have to incur commuting expenses. So the salary is all over the place, and it's going to be very interesting to see what happens this next year with the change in office environments. And whether people are moving back to the office or continue to be remote. The job that I'm starting this week is an in-office job, but I'm very fortunate that it's close.

So I mean, if it takes me 10 minutes to get to work, that will be a lot. So I think that could be another thing. I think that as this change in office environment is underway. I think that TPAs, MGAs, carriers, what have you, would get back to where it was back in the early '90s where you were recruiting more in your area.

I mean one of the things that we looked at was, when we hired back then, was this person within 30-minute drive of the office? Because then you know that the chance of them calling sick or the chance of them having car trouble was less than somebody who maybe had an hour to commute. But I mean, I keep thinking about the original point of the call, and I think there is room for new TPAs and new entrants into this market, but it's like everything, there's time and money.

Tegus Client

So if you think about this new TPA, what's the bare minimum staff that this TPA would need to have for them to look legitimate to carrier of the size that you're going to, for you, to outsource your claims operations to them? What's like the bare minimum staff and specific rules here?

Former Director of Claims at InsureTech MGA

I want to have five to seven with one leader, a manager that handles the more severe and more complicated claims. You have two people for intake and then you have three or four adjustors that can handle the day-to-day operations. Now as I mentioned a few minutes ago, the claim volume or inventory depending on the terminology that's being used and that's basically the number of open claims on the adjustor's desk.

Once you get up above 150 open claims, then you should be worried about turnover. 100 claims is busy, 120 claims is about the high end of it. And that also depends on the support staff that you have. Do you have somebody performing subrogation research? Do you have somebody getting the documents together? Whether it's a picture or a police report or some other documents, investigative materials? Are you handling that case? If it goes into litigation, are you then managing the defense attorneys? Do you have be present at a settlement conference or other type of litigation hearing?

But I would say if it's a smaller target, if your customer is a small business, maybe midsized, I would say you would have to have at least six or seven to start. And again, the breakdown now would be is one leader, one either senior claim manager or something along those lines, you would have one or two intake.

And those intake people would also handle some other administrative tasks like making sure that the claims and the policy documents are in the right place, making sure that they're labeled correctly with the claim number and then they're placed in the file appropriately. And then again, three to five to manage the day-to-day claims. And that's looking at probably 600 or 700 claims open at any one time.

Tegus Client

And then when you talk about litigation because this has come up often, could the TPA not outsource the sort of litigation-related claims to some other party? Or must they take that on in-house?

Former Director of Claims at InsureTech MGA

No, they absolutely can do it. And unless you want to hire a lawyer, you're going to need a defense attorney. When either ADRs or alternative dispute resolution methods or a civil lawsuit comes along and, of course, to prepare an answer and protect the insured, you will need a lawyer.

And then usually, that senior person in that one division can manage those lawyers. The challenge that I've come across many times is just because somebody has a law degree does not necessarily give them a greater understanding of the open claim. And I would always instruct my adjustors like just because this person is a lawyer does not mean that they're smarter than you with respect to this particular claim.

In other words, you should know more about this claim than this lawyer will ever know because like you have more claims, this lawyer also has more cases. So you would have to manage this attorney how you would manage any other vendor. But again, especially folks with less experience, get a bit intimidated when they're talking to a lawyer and then it gets into a court setting and then they get a little nervous.

So last thing is that there are a few companies out there that are handling that FNOL process, their intake. And the one thing I want to mention, too, is on that intake process, whether it's in-house or ventured out, it's that early identification of what type of claim it is because if it's a glass claim, I'm driving down the road and a truck kicked up a rock.

I didn't get an ID on the truck. I don't know who it is. Well, there's really no point in assigning that to an adjustor when you could assign it, for example, to like Safelite glass or some other type of vendor that can go directly to that. So that's one area where you could save on headcount as a TPA also.

Tegus Client

Lastly, what are sort of idol metrics, idol cycle times? Like what's the ideal cycle time you'd like to hear when you sort of speak to the TPA on average with an auto claim? And what would be a bad cycle time?

Former Director of Claims at InsureTech MGA

Well, let's start with just the material damage part, like a total loss. Total loss has got to be under 30 days. I mean if it goes to 45 days, that's only because you have a dispute as to the valuation of the vehicle, but it's got to be under 30 days. That's for a total loss. If it's repairable, you want to have that thing figured out within seven days max.

If it takes 10 days, somebody was on vacation or something. But I think, let's say, eight days, just to be safe, eight days for a collision claim or a property damage claim and then 30 days max, now that's ideal, that's seven or eight days of cycle time for a property damage or collision claim and that's either third party or first party.

And the total loss, again, first party or a third party, a total loss got to be under 30 days because a couple of things. Number one, the most rental reimbursement or loss of use that's maxes out at the daily rate times 30 days. So you want to get that done. The other thing is that if you're not settling those claims quickly, storage rates on your salvage lots continue to increase. The storage is not for free, unless you can work something out with Copart, for example.

But it's still going to cost you in the end where they'll probably make a deduction from the salvage proceeds of the total loss car. Those are the easy ones to identify. On an injury claim, whether it's first party or third party, injury claims are all over the place, and it's really case by case. The statute of limitations in most states is two years now. So that just gives you an indication that you should be able to settle those within two years.

And if they're represented by an attorney, then that extends out even more because the attorney is not interested in settling the claim until the medical bills reach a certain dollar amount so that they know that they'll earn enough on there to cover their expenses, too. So the material damages, they're easy to identify cycle time, I would say, again, seven, eight days on the collision and straight up.

And then total loss, you need to have that done within 30 days. Injury claims are really all over the place. So it's difficult to put a time frame on there. But 90 days seems not normal because treatment is mostly chiropractic, physical therapy, and there's usually 12 to 24 visits and it set twice a week, then we're looking at 12 weeks or three or four months.

Tegus Client

And so is it a common precedent or is this a thing that's possible where the TPA says, hey, we'll handle all the simpler claims. We'll accept all the claims, we'll triage the claims, we'll handle the simpler games. But the more complex ones like injury, we'll request you the carrier to take over and handle those in-house? Does that happen where sort of fast track claims happen outside the organization but complex claims happen in-house?

Former Director of Claims at InsureTech MGA

Yes, I've seen that happen before, but usually, it's at the carriers discretion. So in other words, the carrier will say, I'm looking for somebody that can handle a fast-track claims. We'll handle any litigated or injury claims or high severity claims where the exposure is greater than, let's say, $25,000 or whatever, pick a dollar amount.

So if they can say if the initial estimated reserve is $25,000, then we will take anything over that or it should probably be more like $15,000 because in California, for example, $15,000 is the limit of a single liability injury plan. But yes, especially, and to your point, I think that's what I mentioned earlier about Safelite and the glass claims, a solo car spinout where somebody hits a guardrail and their car needs to be towed.

Well, why tow it through a salvage yard or a tow yard when you can tow it directly to a body shop. And that's where that vendor network comes in. I think if you could get that vendor network, then those fast track claims you could see some profit on those things. It's all about efficiency.

Of course, the challenge, too, is especially with auto claims, you may need some 24-hour coverage or at least a call center. And that's a challenge because there's so many intricacies of the specific venues. For example, you can't have somebody, well, that happens all the time, but if you have somebody in Texas or Louisiana and they're trying to talk to somebody and they recognize, well, you don't sound like me or what do you mean you don't know the city I'm in? Where are you guys calling me from?

So that's a challenge that comes up, too, I think call centers are a great addition to this kind of business, especially when you're looking to improve service. The upfront training and explaining of how things should be able to those people at the call center is critical. And again, if you get the right people, it could be handled well.

Tegus Client

Okay. Thanks again for your time, really appreciate it. Bye.
