

Managing claims



Your organisation might decide to retain some of its financial risk by not taking out insurance cover or having high deductible levels. If this is the case, it'll also need to make sure it can handle the work needed if financial claim is made on it. This means that in the event of an incident causing harm or damage, or an allegation of negligence it can

- make payments
- provide adequate capability, resources, structures and processes for managing those claims
- maintain claims data, which it makes available to VMIA on request.

These requirements are set out in the Victorian Government Risk Management Framework (VGRMF). Meeting them will not only ensure that you manage claims fairly and effectively, but also provide you with data to help you minimise insurable risk and work out the optimal amount of financial risk to retain and what to transfer.

VMIA manages the majority of claims on behalf of our clients

If you decide to do this yourself, then you need to make a conscious decision about your appetite for the costs of managing claims versus the benefits of doing so, for example, a lower premium.

The following guide shows you what you'd need to do if you decide to manage claims in-house.

We'll cover

- Putting in place frameworks and processes for managing claims
- Making sure you have the financial reserve to pay claims
- Maintaining claims data
- The benefits of effective claims management
- The decision to retain or transfer financial risk

Putting in place frameworks and processes for managing claims

A person or organisation can make a claim for compensation from your organisation for a loss or harm that they argue you're liable for.

Your organisation's practices for managing these claims should be formally and explicitly documented in a manual and other documents.

The following list shows what they should cover. Use them as design criteria when you're building your frameworks and designing processes for managing claims.

Policies and standards

We recommend that you document

- your principles when it comes to managing claims; for example, fairness and consistency

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- your service standards; for example, timeframes for response and notifications
- your policy on retained financial risk and how it dovetails with broader risk management and insurance practices, including the escalation of state-significant and other risks to the appropriate person
- your policy on litigation
- delegations
- the Victorian Public Sector Code of Conduct and any legislation that you must comply with, such as the *Information Privacy Act 2000*

Processes

Your procedures for managing claims must include

- a clear line of communication, dedicated to claims and easy for claimants to use
- a triage model for sorting claims and distributing them between claims managers for action
- effective and respectful customer communications
- effective liaison with your organisation's legal specialist
- assessing state-significant risks and escalating them through the appropriate channels to the minister
- assessing risks that are significant for another reason, for example, risks to reputation—and reporting them to the appropriate person in the organisation
- reviewing decisions
- estimating claims
- a system for capturing performance indicators.

Information management

Your information management must be able to

- track who the claim has been allocated to and how it's progressing
- hold all correspondence relating to a claim
- support analytics for:
 - the organisation's decisions on risk management and insurance
 - performance on claims management
 - reporting and attestation
 - reporting to VMIA.

Governance

Your model of governance must facilitate

- reporting to the responsible body, executive team and risk specialists on performance indicators, legal expenditure, and the adequacy of financial reserves
- communication of claims data to VMIA
- planning with risk specialists on how to reduce risk of incidents that cause loss
- planning with insurance specialists on how to optimise the transfer of financial risk
- attesting that claims management is adequate.

Making sure you have financial reserves to pay claims

As well as managing the actual claims, your organisation will need to make sure that it can pay for them. This is what it means to retain the financial risk—you bear the cost if the risk materialises.

Your claims managers must be able to accurately estimate a claim's potential cost. That estimation should be done as a regular part of the claims management process.

Using that information, your organisation's chief financial officer will determine what financial liabilities for claims not yet paid should be recorded on the organisation's balance sheet. Their decision should be made according to the Australian Accounting Standards, which Victorian Public Sector agencies must comply with.

Maintaining claims data

Your organisation needs to be able to provide claims data to VMIA on request.

VMIA uses this data to understand your business and its risk profile. This in turn drives decisions about how to price insurance, the cost of your premium, and the level of the deductible. VMIA also relies on this data for its analysis of the Optimum Risk Transfer [PDF, 188KB] for your organisation.

The minimum claims data that your organisation should have ready for VMIA is the

- date of loss
- report date
- claim number
- claim type
- claim description
- paid amount
- outstanding amount
- date it was closed or settled
- the 'deductible' amount (the part of the financial risk your organisation's decided to retain for each incident)

The more claims data we have for the analysis, the more accurately we can estimate the likely cost of the claims relating to the financial risk you decide to retain.

From your organisation's point of view, claims data is valuable for assessing risk and controlling it. It's a source of some of the most useful key risk indicators for an organisation and provides a responsible body with one of its most tangible tests of its risk appetite. You'll also need it to determine the reserves needed to cover claims.

The benefits for your organisation of managing your retained financial risk

Managing claims effectively can benefit the organisation in several ways.

Reducing risk of harm and loss

Managing claims generates valuable information about the kinds of events that are causing harm and loss. Decision-makers need this information so that they can

- reduce the risk of events that cause harm and loss
- understand the causes and factors that lead to different types of harm and loss
- have a better insight into how likely these types of events are to occur

- monitor their key risk indicators.

Financial benefits

Reducing harm and loss is its own reason to act, but there are also financial benefits.

Premiums are calculated based on the risk of loss. For example, VMIA gives actual claims experience a weight of 25% in its calculations of medical indemnity premiums. If you can demonstrate that you have effective measures in place to control risk—evident in a drop in the number of incidents over time—it may have a positive impact on how your premiums are calculated.

By optimising your transfer of financial risk to us, you also optimise how you spend money on costs and payments relating to financial risk.

Managing claims efficiently will also keep the costs of retained financial risk down.

Assuring your responsible body

Each year your responsible body must attest that your organisation's taking steps to manage its risks and meet the requirements of the VGRMF. By managing claims effectively, reporting on your management, and liaising with other business units to reduce risks of harm and loss, you'll go a long way to helping them to attest with confidence.

Retaining risk is a decision

Managing claims effectively, ethically and in compliance with requirements is costly, so you need to work out whether the cost is worth the benefits. This is a question about whether you know how much financial risk to retain—even in those cases where your policies are set. We recommend that you consult with VMIA about your options.