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Trends in Third Party Claims and How to Address Them

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Tom Kerr (TK): Enlyte recently [released our Annual Trends Report](#) and to supplement that content, we asked Norman Tyrrell from our Mitchell third party auto team to discuss major trends in third party claims and how they're impacting our industry.

Norman, thanks for joining us.

Norman Tyrrell (NT): Thanks for having me.

TK: So let's get started. What are the top trends you are seeing today impacting third party claims organizations and how have things shifted since the beginning of the pandemic?

NT: There are two main trends that are affecting third party auto claims and, for that matter, the entire property and casualty industry as a whole. The first of these is the changing insurance workforce.

Remote Work

As we highlighted in our recent [Annual Trends Report](#), there has been a dramatic shift across insurance and many other fields to remote work.

Prior to 2020 less than 10% of the professional workforce worked from home all or most of the time, and while some experts put remote work at more than 70% during the peak of the pandemic, today, it seems to have normalized with approximately 60% of the professional workforce now working primarily from home.

Needless to say, this has been a significant shift in the claims adjusting environment. Many industry executives are dealing with how to ensure that the benefits of face-to-face collaboration in insurance office locations doesn't disappear as the next generation of adjusters enter the workforce remotely.

Severity

The other big trend we are seeing is increased severity and this is certainly not new. Since 2017, we have seen the average paid claim cost for third-party liability increase by 27% according to data from ISO Fast Track. These costs have been on the rise over the past few years due to many factors including social inflation, "nuclear" settlements and increasing medical costs.

We recently published an analysis of Mitchell's third party medical bill review charge data for claims created in our bill review systems between 2017 through the end of 2021 to examine medical cost inflation trends across the country. From 2017 until the end of 2021, physician charge per unit for third party claims increased by 9%. It is interesting to note that first party medical bill increases were only at about a 4% increase during that time. And for comparison, during the same time period, the Bureau of Labor Statistics Physician Services Consumer Price Index increased 6%.

TK: And can we dig deeper here in looking at how medical inflation is impacting third party costs?

NT: Yes. To help better understand some of the specific third party medical cost trends, we also examined medical inflation by service group. Not surprisingly, both evaluation and management and pain management services saw significant increases in charged amounts. Between 2017 and 2021, the charge per unit for evaluation and management services increased 19%. And the charge per unit for pain management services increased 32%.

So, you can see that these increases are significant.

TK: Are there other service groups impacted by medical severity?

NT: Sure. Additionally, Mitchell's medical bill review analysis also highlighted a few other service groups that are commonly associated with trends in medical severity:

It's notable that while chiropractic therapy, emergency services, radiology and physical medicine experienced little change in the charge per claimant metric throughout the pandemic, physical medicine and chiropractic therapy actually have experienced an uptick starting in Q3 2021, which amounted to a 33% and 21% increase.

And most significantly, we saw that surgery services had a 76% increase in charge per claimant since January 2019.

So, all of those areas have been significant contributors to the increased medical severity.

TK: Can you tell me more about social inflation and in particular “nuclear” settlements and how they are impacting liability claims?

NT: Sure. “Social Inflation” describes broadly the trend in rising claims costs due to increased litigation settlements, larger jury awards, a growing anti-corporate bias and aggressive tactics used by plaintiff attorneys.

We go into this in more detail in our [Annual Trends Report](#) but the average size of jury awards is increasing dramatically – they are up a whopping 1000% from 2010 to 2018. This includes a now infamous \$1B verdict against two trucking companies in Florida as a third-party auto liability claim. The bottom line is that experienced adjusters play a key role in helping to prevent these claims going all the way to litigation and that is an area that is challenging right now to get this level of expertise in the claim workflow.

TK: You mentioned earlier that remote work as one of the changes to the insurance workforce. Are there other things that are changing how work, particularly for third party claims teams is changing?

NT: Yes, according to a recent study by the National Association of Mutual Insurance Companies, over the next 15 years, 50% of the current insurance workforce is going to retire. This will leave more than 400,000 open positions unfilled with less than 25% of the industry under the age of 35. As a result of this great resignation/transformation, we are seeing adjusters with multiple tens of years of experience resigning, retiring or moving to new industries. This is leaving a knowledge gap for the third-party auto industry in particular, presenting an emerging challenge for new adjusters coming up to speed on best practices.

So, to summarize, the new insurance workforce is going to be younger, less experienced, and expected to move around more frequently than previous generations.

This leaves carriers with a key challenge: how can we train adjusters more quickly and allow them to be collaborative in an environment where they aren’t physically together and may have a shorter tenure?

TK: What are some of the top carriers doing now considering this changing environment?

NT: There are really five key strategies that we are seeing implemented to overcome the challenges we have discussed.

1. The first strategy is continuing the focus on BI cost containment and using some of the new tools available whether that be additional bill review benchmarks, direct provider negotiations, or a capability we have recently introduced to utilize provider networks for third party payments. These capabilities also have the benefits of increasing accuracy and reducing adjuster workload.
2. The second key strategy is the increased usage of analytics and insights in the third party claims process. This includes using real-time data access and ad-hoc analysis tools to get to the insights that matter most for claim teams.
3. Workflow automation is a third strategy to focus on since it can help with third party workforce pressure. To date much of the automation focus has been around first party and workers’ comp claims handling, but in order to make up for some of the gaps in staffing, it is important to focus on increasing adjuster efficiency by automating low-value tasks, such as fee look-up and core bill pricing, while supporting adjuster critical thinking during claim evaluation.
4. A fourth strategy is staff augmentation and that is an area we have seen success since this help claims organization meet staff shortages. By working with a partner such as Enlyte, we are able to leverage cutting-edge technology and best-in-class approaches to outsourced services to optimize things like

document processing & bill review workflows. We help leverage scale to make these technology-based solutions best in class.

5. The final strategy and one that really hits at the heart of so many of the trends we have talked about so far is providing adjusters with decision support and best practice guidance. This new generation of adjusters just coming into the industry is going to be less experienced, and a key strategy is looking for ways to build better decision support and guidance into their workflow tools.

TK: On decision support, what are some of the key foundations for third party claims processing, and why do you recommend that carriers focus on getting those steps right?

NT: Much of this is just best practice claims handling, but for third party we all know that these claims can be some of the most complex out there. So, this is where it is critical to be able to build and standardize best practices across your organization. In many ways, these tools can help institutionalize the experience and knowledge that is going to be leaving your organizations with adjuster retirements over the next few years.

Another key foundation that third party organizations should focus on is how they're integrating the tools that the adjusters are using on their desktops. I think it's one thing to provide the adjusters with a full toolbox, everything that they would need to handle a claim, but if you're not mindful of how you integrate those tools and make them work together, the best tools may be underutilized because the workflow ends up being disjointed and adjusters are just looking to get the next task off their desk.

Additionally, making sure that adjusters have the best insights to use and have the information they need, when they need it, again to boost decision support and organizational efficiency, is key. By transitioning the focus to these critically important steps first, carriers can enhance productivity and reduce inconsistency and other major hurdles, leading to better customer outcomes.

TK: And how is Mitchell Third Party Auto helping to address these issues?

NT: Mitchell's leading end-to-end third party liability solutions combines powerful software with technology-enabled services to help improve consistency, efficiency and overall claim outcomes. Our solutions help third party carriers drive bottom line results and boost third party claims consistency, accuracy, and efficiency through integrated, seamless tools. Carriers are able to operationalize their best practices and retain knowledge as the workforce transforms.

TK: Thanks, Norman. And for more insights on third party trends and other valuable information for the P&C industry, [check out the Annual Trends report](#) .



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