

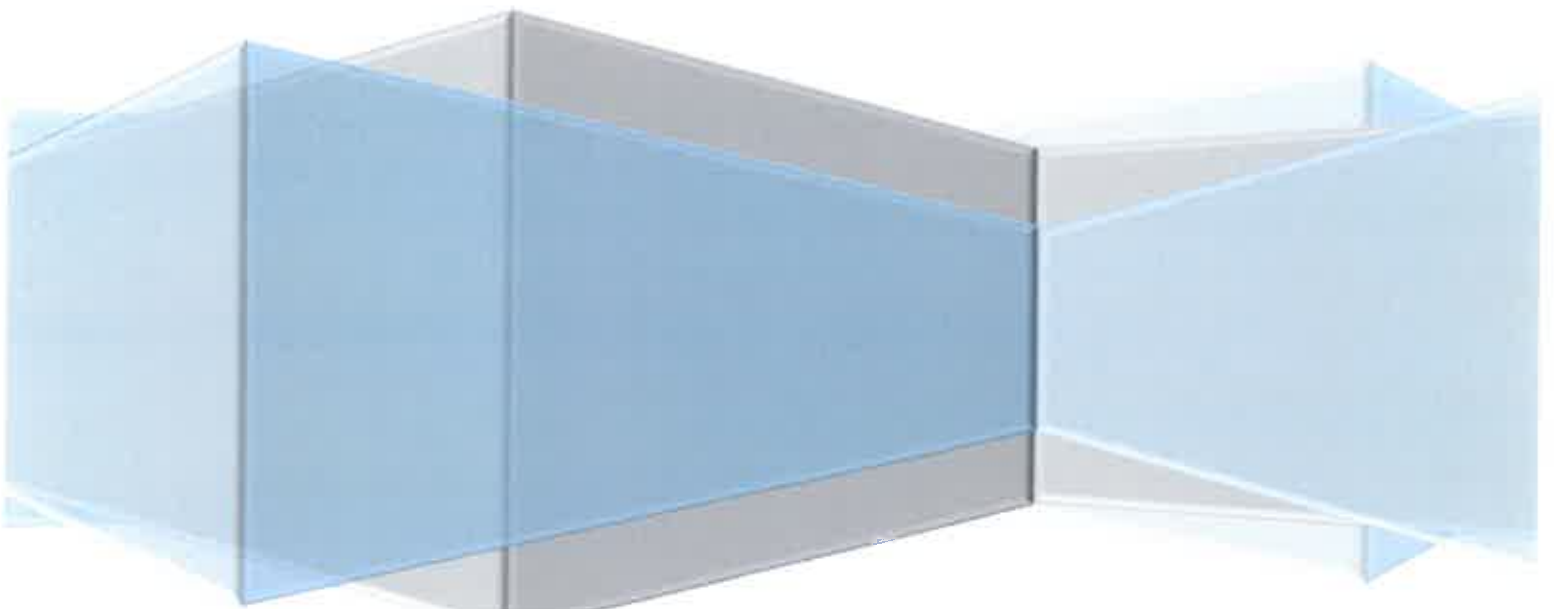
# Subrogation Benchmark

Best-Practices  
Workers-Compensation  
Improvement  
Market  
Quality  
Universal  
Talent  
Property  
Change  
Analytics  
Metrics  
Results  
Performance  
Auto  
Figures  
Numbers  
Objectives

## Benchmark Definitions

*Universal Definitions  
Auto, Property and Worker Compensation*

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## Universal Definitions

**Allocated Loss Adjustment Expense (ALAE)** – costs that are typically assigned to specific claims (examples: attorney fees, independent adjuster fees, doctor fees, court costs, police report costs).

**Audit** – a review and evaluation of claim work to detect whether procedures have been followed and appropriate decisions reached according to organizational practices.

**Adjuster** – (Auto Adjuster, Property Adjuster, Work Comp Adjuster) A person who handles claims only and does **NOT** handle subrogation.

**Average In-Force Policy Count** – This figure is based on beginning and end of year average, or preferably, based on end of month average. Policies should be reported on an annualized basis (6 month policies should not be doubled).

**Cause of Loss** – Term used to describe the peril or event description (example: fire, collision, theft).

**Collections Vendor** – Outside, third party vendor solely dedicated to pursuing subrogation recoveries on behalf of a company.

**Gross Recovery** – Total Insured and Uninsured collision recoveries before removing any expenses incurred during the recovery process. Recoveries will exclude the following:

- Reinsurance
- Allocated Loss Adjust Expense (ALAE) recovered (if any)
- Deductibles
- Anything that is recovered that is not included as part of the paid loss.
- Salvage Recoveries (Auto and Property Only)
- Catastrophic Recoveries (Auto and Property Only)
- Class Action Recoveries (Auto and Property Only)

**Net Recovery** – Total gross recoveries less expenses incurred on behalf of the subrogation process (including internal and external expenses).

**Notice of Loss Date** – The date the loss was first report to the carrier.

**Out of Pocket Expenses** – Any damages incurred by the Insured which are not covered / paid by the underlying insurance policy other than the insured deductible.

**Paid Loss** – Loss payments only (excluding reserves) prior to subrogation offsets less deduction for salvage. Paid loss will exclude the following:

- Allocated Loss Adjusting Expense (ALAE)
- Deductibles
- Salvage Paid Losses
- Catastrophic Losses
- Class Action Losses

**Subrogation Professional** – The Subrogation Professional only handles subrogation files. **Need to determine if processors are included or excluded.**

**Subrogation Referral** – A claim referred to the Subrogation Unit for review and potential pursuit. A referral may or may not be assigned.

**Unallocated Loss Adjustment Expense (ULAE)** – Those claims settlement costs that either cannot or for practical reasons are not directly allocated by individual claim (examples: Claims department salaries, travel, postage, rent, equipment).

## Auto Definitions

**Allocated Loss Adjustment Expense** - costs that are typically assigned to specific claims (examples: attorney fees, independent adjuster fees, doctor fees, court costs, police report costs).

**Audit** – a review and evaluation of claim work to detect whether procedures have been followed and appropriate decisions reached according to organizational practices.

**Auto Adjuster** – A person who handles claims only and does **NOT** handle subrogation.

**Auto/Subrogation Adjuster** – A person who handles both the auto adjustments and subrogation pursuit on a given claim.

**Average In-Force Policy Count** – This figure is based on beginning and end of year average, or preferably, based on end of month average. Policies should be reported on an annualized basis (6 month policies should not be doubled).

**Cause of Loss** – Term used to describe the peril or event description (example: fire, collision, theft).

**Collections Vendor** – Outside, third party vendor solely dedicated to pursuing subrogation recoveries on behalf of a company.

**Commercial Auto** – Any vehicle used for business purposes that is insured with a Commercial Auto Policy (may be referred to as Business Auto).

**First Subrogation Close Date** – the first date that Subrogation completed work on the claim and closed the claim in the system.

**Gross Recovery** – Total Insured and Uninsured collision recoveries before removing any expenses incurred during the recovery process. Recoveries will exclude the following:

- Reinsurance
- Allocated Loss Adjust Expense (ALAE) recovered (if any)
- Deductibles
- Anything that is recovered that is not included as part of the paid loss.
- Salvage Recoveries
- Catastrophic Recoveries
- Class Action Recoveries

**Intra-Company** – Refers to a subrogation matter being pursued against another insured that has their policy with the same company or subsidiary.

**Net Recovery** – Total gross recoveries less expenses incurred on behalf of the subrogation process (including internal and external expenses).

**Notice of Loss Date** – The date the loss was first report to the carrier.

**Out of Pocket Expenses** – Any damages incurred by the Insured which are not covered / paid by the underlying insurance policy other than the insured deductible.

**Paid Loss** – Loss payments only (excluding reserves) prior to subrogation offsets less deduction for salvage. Paid loss will exclude the following:

- Allocated Loss Adjusting Expense (ALAE)
- Deductibles
- Salvage Paid Losses
- Catastrophic Losses
- Class Action Losses

**Personal Auto** – Insurance purchased for cars, trucks and other vehicles used for personal use only. The type of policy that covers the insured for personal liability, physical damages, medical expenses, uninsured or underinsured motorist protection in case of an accident.

**Reported Claim** – A new file opened or accident reported on a calendar year basis. Claims should be reported at the claim-occurrence level (rather than on the feature or coverage level). Only include claims where you paid at least \$1.00 of a collision payment.

**Subrogation Assignment** – A claim assigned to a Subrogation Professional for pursuit of a recovery.

**Subrogation Expense** – Expenses to pursue subrogation.

**Subrogation First Recovery Date** – The date the first subrogation recovery on the claim was made and credited to the claim.

**Subrogation Professional** – The Subrogation Professional only handles subrogation files. **Need to determine if processors are included or excluded.**

**Subrogation Referral** – A claim referred to the Subrogation Unit for review and potential pursuit. A referral may or may not be assigned.

**Unallocated Loss Adjustment Expense (ULAE)** – Those claims settlement costs that either cannot or for practical reasons are not directly allocated by individual claim (examples: Claims department salaries, travel, postage, rent, equipment).

## Sample Calculations for Auto

Example: A claim is reported with \$10,000 in paid losses and is subrogated. \$1,000 is recovered in Salvage. The Insured paid a \$1,000 Deductible. The Insured incurred \$2,000 in subrogation expenses on the claim. The Insurer recovers \$6,000 in paid losses.

### Paid Loss Calculation:

Initial Loss Payment	\$10,000
Less Deductible	- \$1,000
Less Salvage	<u>- \$1,000</u>
Paid Loss	\$8,000 (Do not include ALAE)

### Gross Recovery:

Recovered Amount	\$6,000
Paid Loss	\$8,000
Sample Equation	$\$6,000/\$8,000 = 75\%$ Gross Recovery Rate

### Net Recovery:

Recovered Amount	\$6,000
Less Subrogation Expense	<u>- \$2,000</u>
Net Recovery Amount	\$4,000
Paid Loss	\$8,000
Sample Equation	$\$4,000/\$8,000 = 50\%$ Net Recovery

## Property

**Allocated Loss Adjustment Expense** - costs that are typically assigned to specific claims (examples: attorney fees, independent adjuster fees, doctor fees, court costs, police report costs).

**Audit** – a review and evaluation of claim work to detect whether procedures have been followed and appropriate decisions reached according to organizational practices.

**Average In-Force Policy Count** – This figure is based on beginning and end of year average, or preferably, based on end of month average. Policies should be reported on an annualized basis (6 month policies should not be doubled).

**Cause of Loss** – Term used to describe the peril or event description (example: fire, collision, theft).

**Collections Vendor** – Outside, third party vendor solely dedicated to pursuing subrogation recoveries on behalf of a company.

**Gross Recovery** – Total Insured and Uninsured recoveries before removing any expenses incurred during the recovery process. Recoveries will exclude the following:

- Reinsurance
- Allocated Loss Adjust Expense (ALAE) recovered (if any)
- Deductibles
- Anything that is recovered that is not included as part of the paid loss.
- Salvage Recoveries
- Catastrophic Recoveries
- Class Action Recoveries

**Net Recovery** – Total gross recoveries less expenses incurred on behalf of the subrogation process (including internal and external expenses).

**Out of Pocket Expenses** – Any damages incurred by the Insured which are not covered / paid by the underlying insurance policy other than the insured deductible.

**Paid Loss** – Loss payments only (excluding reserves) prior to subrogation offsets less deduction for salvage. Paid loss will exclude the following:

- Allocated Loss Adjusting Expense (ALAE)
- Deductibles
- Salvage Paid Losses
- Catastrophic Losses
- Class Action Losses

**Property Adjuster** – A person who handles claims only and does not handle Subrogation.

**Property / Subrogation Adjuster** – A person who handles both the property adjustments and subrogation pursuit on a given claim.

**Reported Claim** – A new file opened or accident reported on a calendar year basis. Claims should be reported at the claim-occurrence level (rather than on the feature or coverage level). Only include claims where you paid at least \$1.00 of a collision payment.

**Subrogation Expense** – Expenses to pursue subrogation (internal and external).

**Subrogation Professional** – The Subrogation Professional only handles subrogation files (investigation, evaluation, negotiation and resolution).

**Unallocated Loss Adjustment Expense (ULAE)** – Those claims settlement costs that either cannot or for practical reasons are not directly allocated by individual claim (examples: Claims department salaries, travel, postage, rent, equipment).

### Sample Calculations for Property

Example: A claim is reported with \$10,000 in paid losses and is subrogated. \$1,000 is recovered via salvage. The Insured paid a \$1,000 Deductible. The Insured incurred \$2,000 in subrogation expenses on the claim. The Insurer recovers \$6,000 in paid losses.

**Paid Loss Calculation:**

Initial Loss Payment	\$10,000
Less Deductible	- \$1,000
Less Salvage	<u>- \$1,000</u>
Paid Loss	\$8,000 (Do not include ALAE)

**Gross Recovery:**

Recovered Amount	\$6,000
Paid Loss	\$8,000
Sample Equation	$\$6,000/\$8,000 = 75\%$ Gross Recovery Rate

**Net Recovery:**

Recovered Amount	\$6,000
Less Subrogation Expense	<u>- \$2,000</u>
Net Recovery Amount	\$4,000
Paid Loss	\$8,000
Sample Equation	$\$4,000/\$8,000 = 50\%$ Net Recovery



## Workers Compensation

**Cases Closed With Recovery** – The number of subrogation files that were assigned and closed with a recovery in the calendar year basis.

**Cases Closed Without Recovery** – The number of subrogation files that were assigned and closed out without recovery in the calendar year basis.

**Cycle Time** – Average number of months from date of loss to date of recovery.

**Global Settlement** – A Subrogation recovery resolution that includes a component of resolving a future exposure for WC benefits.

**Incurred Amount on Subrogation Inventory** – Paid loss plus loss reserves on files that were either identified as having subrogation assignment or in which subrogation was pursued at the end of the calendar period (net of non-subrogation recoveries).

**Inventory / Pending Subrogation Claims** – Number of subrogation claims (pending or inventory) at the end of the calendar period.

**Lost Time/Indemnity** – Claims involving lost time or indemnity payments and may include medical. Also includes death claims.

**Medical Only Claims** – Claim involving just medical treatment with no lost time or indemnity payments made.

**New Claims Reported** – The count of new claims (occurrence level) in the calendar period. Example: A claim with both a medical and indemnity supplement should be counted as one claim. TPA data is to be included.

**New Subrogation Files Assigned to Subrogation** – The number of claims (occurrence level) assigned to subrogation for the first time during a calendar period.

**Paid Losses** – All paid losses in a calendar period, net of non-subrogation recoveries (such as contribution, Second Injury Fund (SIF) and overpayments).

**Paid Losses on Subrogation Inventory** – Paid losses on files that were either identified as having a subrogation assignment or which subrogation was pursued at the end of the calendar period (net of non-subrogation recoveries). Paid losses include indemnity and medical payments.

**Subrogation Expenses** – Expenses incurred in the pursuit of Subrogation (Internal & External – does not include ULAE).

**Subrogation Recoveries** – Cash Subrogation recovery credits of loss dollars with recovery in the calendar period. Do not include contribution, Second Injury Fund (SIF) or overpayments.

**Subrogation Referrals** – The number of claims referred to subrogation for review and potential assignment. TPA data is to be included.

### **Sample Calculations for Workers Compensation**

Example: The injured worker sustained significant injuries in an automobile accident and became represented by an attorney. The global settlement with the adverse party led to a partial lien waiver and closure of the work comp claim, including a reserve release.

**Paid Loss Calculation:**

Work Comp Lien:	\$275,000
Gross Settlement:	\$825,000
Lien Waiver:	\$200,000
Lien Recovery:	\$ 75,000
Future Credit:	\$ 0
Reserve Release:	\$140,000