

CREATING ENHANCED CARRIER VALUE BY MANAGING PHARMACY AND ANCILLARY SERVICE COSTS

INDUSTRY HISTORY AND CHALLENGES

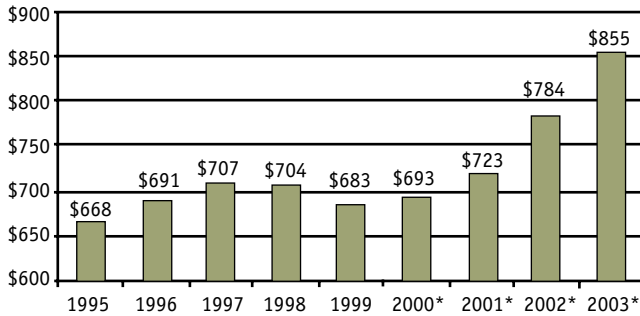
Total estimated medical costs associated with automobile injury related markets ranges between \$15 billion to \$20 billion annually and rising. The amount paid by auto insurers for medical claims each year is a very significant component of auto insurance rates and the upward trend in claims costs is an important expense driver in auto insurance today.

Higher costs for hospitalization and pharmaceuticals, state regulations permitting a wide range of dubious treatments and associated legal costs are largely to blame. (Source: *Outlook for the Auto and Homeowners Insurance: Second Half 2002 and Preview for 2003*; Robert P. Hartwig, Ph.D., Senior Vice President & Chief Economist, Insurance Information Institute)

Medical costs are an important factor in determining rates for auto insurance coverage. Each year there are more than two million car accidents involving bodily injuries... Typical costs for treating an auto accident claim range from \$6,000 to \$9,000 but can easily run into the tens of thousands of dollars considering that several people are often injured in the same accident. The cost of auto injury claims is rising by as much as 30 percent annually in some states.

Fraud and misuse of automobile coverage are major problems in some states, such as New York, Florida and Massachusetts. Loopholes in New York's no-fault insurance statutes, for example, are costing the state's drivers nearly \$2 million per day.

Average Expenditures on Auto Insurance



* Insurance Information Institute Estimates
Source: NAIC, Insurance Information Institute (III)

Based on data from the National Association of Insurance Commissioners (NAIC), in 2005, **Payments to injured persons** accounted for \$28 of every \$100 earned in private passenger auto insurance premiums in the United States.1

The claims per \$100 of earned insurance premiums break down as follows:

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| Medical | \$ 9 |
| Wage loss and other economic payments | \$ 2 |
| Pain and suffering and other non-economic awards | \$ 5 |
| Lawyers' fee | \$ 11 |
| Costs of settling claims | \$ 1 |
| Subtotal | \$ 28 |

In addition, studies indicate recent increases in bodily injury severity reflect higher hospitalization, pharmaceutical and legal costs further impacting the total cost of claims.. (Source: Insurance Information Institute estimate based on data from ISO; National Association of Insurance Commissioners (NAIC) Annual Statement Database,

KEY INDUSTRY ISSUES

Since the late 1980s, managed care programs that were once slow to catch on, have become the standard in the industry for managing rising medical and treatment costs. However, the managed care solutions available to address cost drivers impacting automobile related injuries, including case management preferred provider networks and medical bill repricing, are not consistently applied across the spectrum of care and the industry as a whole. Opportunity exists in the appropriate management of medication dispensing, medical cost expenditures and fraud, especially as this segment continues to grow.

Throughout the industry, it is difficult to consistently find the utilization of proven cost management methods and tools that can be appropriately applied for the management of medical costs for policyholders. This is due to several factors:

1. The policyholder is the consumer and decision maker when choosing an insurance carrier. The consumer is price and service sensitive, therefore cost management approaches need to be policyholder-centric vs. carrier-centric.
2. Cost management programs must deliver consumer and carrier driven strategies focused on increasing market share and market penetration. A successful program will create an environment of policyholder retention, ease of use for adjusters, and increased renewal rates through optimized program outcomes.
3. Successful strategies help to create enhanced carrier value to the policyholder. In a sea of me-too competitors, carriers must continue to develop an expanded service offering to create enhanced value to the consumer while focusing on managing overall costs associated with automobile claims.

(more)

SOLUTIONS

When implementing value added solutions in the management of pharmacy and ancillary services, successful approaches include:

- Enabling access to available voluntary network provider organizations to assist the policyholder with management of auto related injuries and associated pharmacy and ancillary services costs.
- Increased access to pharmacy networks to facilitate obtaining medically necessary pharmacy and ancillary services with no additional out-of-pocket expenses to the policyholder.
- Optimize duration of policyholder benefits.

Key metrics to benchmark:

1. Policyholder retention for carriers due to innovative policyholder-centric best practices that allow maximization and duration of benefits. Creating an overall improved level of customer satisfaction.
2. Ease of use at the adjuster level – streamlining the coordination and management of pharmacy and ancillary services
3. Financial impact – better overall claims cost for the carrier and manageable premiums for the policyholder

Finding the right pharmacy manager for auto accident related claims means asking the right questions to be sure the company has the credentials to provide the best service and outcomes.

Competency – Does the PBM have expertise and experience managing auto accident related cases? Or, is the bulk of their business group health or focused on other lines of coverage?

Utilization – Does the PBM have the ability to deliver the right medication to the right policyholder at the right time? Does its process ensure that patients are taking the proper medication to prevent inappropriate or non-covered medications?

Accountability – Does the PBM have advanced reporting systems that provide information in a manner and format easily understood for review by the adjuster and the claims organization?

Productivity – Is it easy for the adjuster or claims management team to access account information 24/7? Does it have knowledgeable service representatives on call around the clock to address questions and solve problems?

Home Delivery – Are policyholders offered the option of nationwide home delivery?

Prescription Card – Are personalized and customized pharmacy prescription cards available?

Network Penetration – Does the PBM have a large nationwide network of pharmacies to make access easier and eliminate out of pocket expenses for claimants?

Cypress Care’s focused approach facilitates policyholders’ voluntary participation in programs that streamline access to medically necessary pharmacy and ancillary services. Our strategic relationships with all major pharmacy chains and our nationwide network of ancillary services vendors, provide the policyholder with an integrated health cost management solution. Cypress Care’s program allows the delivery of a seamless, fully integrated, and easy to use program offering the following key objectives:

- Elimination of out of pocket expenses for policyholders resulting in higher program utilization and optimized outcomes
- Easy to use pharmacy program for adjusters eliminating multiple touch-points and improving access to clinical specialists
- Improved program outcomes based on application of clinical compliance protocols ensuring appropriate dispensing of medically necessary prescription drugs including aggressive conversion to generics when appropriate, improved network participation based on contracts with all major national pharmacy chains, and reporting capabilities addressing program results and further application of program management tools

Cypress Care assists carriers with implementing these strategies focused on enhancing policyholder value. By remaining policyholder focused, the outcomes include higher insured retention rates, enhanced customer satisfaction levels, all while strengthening the carriers’ service offering options.

1. Source: Insurance Information Institute estimate based on data from ISO; National Association of Insurance Commissioners (NAIC) Annual Statement Database, <http://www.iii.org/media/facts/statsbyissue/auto/>