

Editorial

Chances are you have heard that the ILO Administration a few months ago commissioned a study of the costs and benefits of transferring SHIF claims settlement from the Fund's Secretariat to a private sector service provider. Chances are you are wondering – or even worried – about the outcome. This NewsLetter is devoted to presenting the facts about the study. I have strived do so dispassionately: challenging the paradigm of how SHIF claim settlement should be managed is a sensitive exercise and the temptation is great to be protective of the status quo.

I've been asked several times about why the ILO and ITU want to "outsource the SHIF". Well, they don't.

The scope of the study was strictly limited. Anything other than the transfer of the claims processing function was out of bounds. It was emphasized that the fundamentals of the SHIF in terms of conditions of insurance, governance and proximity would be safeguarded. The SHIF Management Committee would continue to function as it does now. The principle of self-funding would be maintained and so, also, the freedom of choice of healthcare provider. Special cases would continue to be considered by the SHIF Standing Subcommittee. The SHIF Secretariat would continue to oversee the running of the Fund, including financial supervision. Both the ILO and the ITU would maintain SHIF Help Desks for the purpose of ensuring continued proximity for insureds with special needs for assistance.

Are the findings of the study an indictment of the performance of the SHIF claims adjusters? Absolutely not. Are the claims adjusters concerned about what those findings mean for them? Yes, understandably. But that they are valued staff members whose work ethic, empathy and competence are a credit to the Fund and to their respective organizations is unquestioned.

What are my views on the findings of the study? Not surprisingly, I have mixed feelings. But should the advantages for the insured persons that, in the study, are associated with a transfer of SHIF claims settlement to a private sector service provider be disregarded on the grounds that there is no place for the private sector in SHIF claims settlement? I think not.

So, let's consider those advantages. Let's consider the risks. Let's weigh the issues and explore the options. Dispassionately.

Cliff Kunstler
Executive Secretary

**The SHIF Management Committee has decided to call a General Meeting of Insured Persons:
Thursday 12 May from 12:30 to 14:30
ILO Governing Body Room (R3 South)
Come express your views!**

Cost/benefit analysis of externalising SHIF claims processing

How did the study come about in the first place?

In response to constituents' repeated calls for greater efficiency, the ILO Director-General's 2010-11 Programme and Budget proposals included a change in the way core administrative services were delivered at headquarters and in the field, in particular through the establishment of shared service centres linked to the roll-out of the IRIS system to the field.

Early in 2010, following a competitive bidding process, the ILO administration commissioned from the consulting firm Dalberg Global Development Advisors (Dalberg) a feasibility study regarding the potential efficiency gains to be achieved from decentralizing the ILO payroll and SHIF claims settlement functions to either Bangkok or Lima. Dalberg was also requested to explore potential efficiencies to be achieved from transferring the two functions to an external service provider.

From the results of the feasibility study, it was concluded that the decentralization option should not be pursued for either of the two functions and that no external service provider could be identified to efficiently take on the payroll function. However, a more detailed follow-up study was commissioned to compare the costs and benefits of transferring SHIF claims settlement to a private sector third-party administrator (TPA) with the costs and benefits of "in-house" claims settlement. As Dalberg conducted the first study to the satisfaction of the Office, they were again commissioned for the follow-up study.

The ILO and ITU want to outsource the SHIF? Why?

No, neither the ILO nor the ITU want to outsource the SHIF. The studies commissioned by the ILO center on a single administrative function: claims settlement.

This is because, although claims settlement is unquestionably the SHIF Secretariat's central function, its transfer to a TPA would not alter the manner in which the Fund is governed. In other words, both the ILO and the ITU remain fully committed to a self-funded staff health insurance scheme, as well as to maintaining the prerogatives of the Management Committee.

Okay. So what was Dalberg's approach ?

As a basis for comparison of the costs and benefits associated with TPA settlement of SHIF claims with those of the status quo, Dalberg developed a Request for Information to which four responses from TPA's were received. In addition, five international organizations (AFDB, CERN, ESA, UNESCO, UNON), were interviewed, whose staff health insurance is self-funded, but whose claims settlement has been transferred to a TPA. Costs and operational information in relation to the status quo were obtained from the relevant ILO units. Costs associated with the status quo included the cost of an unavoidable re-write of the obsolete Health Insurance Information System (HIIS).

(Continued overleaf)

Cost/benefit analysis of externalising SHIF claims processing (Cont'd)

And what benefits did Dalberg come up with?

SHIF is experiencing increasing difficulty in operating on a backlog basis. Because of the limited number of claims adjusters and an increasing claims volume, annual leave and sick leave have an immediate effect on timeliness of claim settlement.

Dalberg believes that, because claims settlement is the TPA's core business, by transferring the SHIF claims settlement function to a TPA, efficiencies associated with scale could possibly be achieved. A service standard could possibly be set that the SHIF would understandably struggle to meet.

Other benefits cited in the Dalberg study include 24-hour accessibility, direct payment capability, better protection against breaches of confidentiality and sustained investment in IT.

Fine. But what about the cost?

The ILO and the ITU share all SHIF administration costs, none of which are passed on to the insured persons. Both are faced with budget constraints, so cost must be a determining factor, right? Well, no. In fact, Dalberg found that there is little or no cost difference between the option to transfer the SHIF claims settlement function to a TPA and the status quo.

Well, if it's cost neutral and there are all these advantages, why think further ?

Wait! Not so fast!

Dalberg has also identified certain risks that need to be taken seriously. Chief amongst these are vulnerabilities arising from the limited size of the TPA market and its current dynamics. Technical and contractual "lock-in" have also been identified as significant risks: once the claims settlement function has been transferred, procedural changes can be financially onerous for contractual reasons. Re-integrating the function, should this be required by market conditions, would be technically difficult and costly.

The Claims Adjusters are on the front lines. What about them?

Yes, the Fund's Claims Adjusters are on the front lines. They have demonstrated their commitment to their organizations and their organizations have stated their commitment to them.

In fact, at the time the study was commissioned, it was made clear to Dalberg that no separation-related costs should be factored into the financial equation, i.e. that they should consider that – in the event claims settlement is transferred to a TPA – all Claims Adjusters would be redeployed within their respective organizations.

Note :

The SHIF Secretariat has received several comments about the abnormally long time it currently takes for claims to be settled. The SHIF takes timeliness very seriously and the Fund's Claims Adjusters are working hard to meet the timeliness standard to which you have grown accustomed.

But the fact is the SHIF Claims Adjusters have increasingly been challenged, not only by the growing volume of the claims crossing their desks, but also by their complexity. This complexity is inherent to an insurance entity with international scope and is compounded by the increasing number of retired insureds undergoing extensive medical treatment.

As a result, the SHIF Claims Adjusters are stretched and year-end volumes of unsettled claims have gradually risen. To resorb backlogs, the SHIF has resorted to overtime, but it can reasonably be expected that ad hoc arrangements will no longer prove adequate in the short- to medium term.

In addition, both the SHIF Secretariat and the ILO internal auditor have identified weaknesses in the HIIS system and its operation attributable to the obsolescence of the IT platform. A re-write of the system and its integration into the ILO environment would require a significant financial commitment on the part of the ILO and the ITU.

What does the SHIF Management Committee think about all this?

Against this backdrop, the SHIF Management Committee acknowledges the high quality of the work carried out by Dalberg, but has not yet drawn firm conclusions. The study provides food for thought regarding service standards and pinpoints areas in which it might be possible to improve the operations of the SHIF.

The Management Committee notes that the Dalberg report reflects no major financial benefit to migrating the claims settlement function to a TPA. In fact, following an initial 6-year period, once the costs associated with the re-write of HIIS have been absorbed, the status quo option appears financially more advantageous.

The Management Committee believes that certain of the non-financial benefits that Dalberg associates with a transfer of claims settlement to a TPA should not be ignored, but is concerned that Dalberg may have under-estimated some of the risks. These range from the difficulty of interfacing with internal departments, or of adequately managing exceptional cases, to the vulnerabilities – in relation to cost, service and business continuity – arising from the limited size of the TPA market and its dynamics over time.

What about the ITU ?

The ITU Administration has stated their support for any position taken by the ILO, provided the best interests of the ITU and the ILO as organizations, as well as those of the persons protected by the SHIF, are safeguarded.

So, what's the bottom line ? Is this « transfer » going to happen ?

Too early to say.

The Director-General of the ILO has not yet decided if or how the consultants' findings should translate into an alteration of the current claims settlement system.

He has emphasized that the matter warrants that no decision be taken in haste and that he intends to consult broadly to arrive at a fully informed decision. He has charged the ILO Human Resources Department with spearheading those consultations.

Views to express on what you've read in this SHIF NewsLetter ?

Send your comments to:

shif@ilo.org