



## Occupational Disability Claims Re-Imagined

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If asked, most people, regardless of country or industry, will agree that the world of work is changing rapidly. The combination of the sustained economic recession, significant technological advancements and changes in the cultural landscape, have fundamentally changed the way people think and engage in their chosen occupations. Considering this, it is no surprise that we have been hearing from claims assessors that Occupational Disability claims have been increasing in volume and complexity. This could be driven by a number of factors: workers are under increasing pressure to improve productivity due to the economic climate; the popularity of Disability insurance products has increased in many markets, and consumers are more knowledgeable than ever on what to expect from the claims process. In addition, we cannot ignore the fact that people's fundamental beliefs and values about work are changing.

In South Africa our statistics reflect how these trends have changed claims over time. Some of the factors driving complexity are that people now have multiple jobs; income is hard to prove, and we are unable to quantify loss of income, which increases the complexity of the financial information to be assessed. And so we need to ask whether the insurance industry is doing enough to understand these changes and to develop product, underwriting and claims solutions to meet the changing needs of the workforce.

### Why are jobs changing?

Some say the changes to the work environment are an inevitable result of the passing of time, while others argue a generational shift has taken place. In truth, attributing these changes to a single factor is unrealistic and it is more likely that a complex interaction of innumerable factors is responsible. We will briefly highlight just three of these many factors: the global economy, generational changes, and technological advancement.

We have already mentioned the sustained economic crisis as a significant contributing factor to the increase in Occupational Disability claims. It is well-documented that the unemployment rate increases whenever the overall economy goes into a recession and then gradually declines as the economy recovers. However, some studies suggest that the recent recession has been unusual in that unemployment has risen much more than in other recessions and the

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unemployment rate has remained high for an exceptionally long time.<sup>1</sup> This affects Disability claims experience in a number of ways: employers may attempt to use medical boarding as a means to avoid retrenchment; employees who suffer short-term illness or disability may find their position has been filled or eliminated when they attempt to return to work, and self-employed individuals may find fall back on their Disability insurance when they find their businesses failing.

There are also demographic changes occurring in the workplace. Millennials are expected to occupy 75% of the job market by 2025 and there has been much discussion about how this generation is changing the workplace.<sup>2</sup> Millennials grew up with social media and technology forming an integral part of their lives and many of them entered the workforce during or soon after the 2008 economic crisis. As a result of these and other factors, Millennials have some beliefs about work that set them apart from other generations:

- They learned to anticipate change and employ creative problem solving for solutions.
- They want their daily work to be a reflection of their values and larger societal concerns.
- They want their workplaces to be comfortable, fun and flexible.
- They want to try several jobs and follow multiple interests or passions.

In addition to economic and demographic challenges, technological advances are having a significant impact on roles and responsibilities fulfilled by workers. In “Working world 4.0 – Opportunities and challenges of artificial intelligence”, Prof. Sabina Jeschke described some of the most important recent technical innovations that have affected society and employment. An interesting question in this regard is how susceptible jobs are to automation. A 2013 study by two scientists at the University of Oxford analyzed the probability of computerization for 702

detailed occupations. They estimated that approximately 47% of total U.S. employment was at risk.<sup>3</sup>

Technology is not only replacing jobs but also changing the roles performed by employees. Portable digital devices have made it possible to work anywhere and anytime, blurring the boundaries between work and personal life. Developments in wearable devices, holography in virtual meetings and instant translation streaming offer a glimpse into what a workplace of the future may look like. And improvements in the user-friendliness of digital platforms mean anyone can become a digital entrepreneur.

### How are jobs changing?

As a result of the changes discussed above, research both locally and globally has pointed to a seismic shift in the occupational space. Where individuals previously had one occupation that they built into a linear career, we are now seeing individuals working multiple jobs at the same time, not only out of economic need, but also to follow their passions. There have also been changes in job structure; for example, the employer is the platform and individuals are not employed full-time, but rather on a contract or assignment-type basis. These are the trends that will drive the occupational space going forward and there is every indication that they are here to stay.

The Old Mutual Savings and Investments Monitor is an annual survey that tracks the shifts in the financial attitudes and behaviours of working households in South Africa.<sup>4</sup> The 2017 survey results showed that more than a third of individuals were working multiple jobs. Of these, 13% had a second job similar to their everyday job and 24% had a job that was totally different from their daily work. This global phenomenon has become so popular that a new term has been coined to describe them – “Slashers” – referring to the slash between their job titles (i.e. editor – slash – nail technician).

The McKinsey study, “Independent work: choice, necessity, and the gig economy”, released October 2016 is the most significant to date in this field and examined people who work multiple jobs, who work as independent workers and who are formally employed.<sup>5</sup> The study found that 20%–30% of the labour force in both the United States and the European Union is now made up of independent workers and it is estimated that this could rise to 50% by 2020. By McKinsey’s definition, independent workers meet three criteria: they have a high degree of autonomy; get paid by task, assignment or sales, and have a short-term relationship with their employer. The study described four types of independent workers:

- Free agents actively choose this form of independent work and receive their primary income from it (30% of all independent workers).
- Casual earners do independent work by choice to supplement their income (approximately 40% of all independent workers).
- Reluctants would prefer a traditionally job, but are compelled to get their primary income from independent work (14% of all independent workers).
- Financially strapped feel required to do independent work by necessity to supplement their income (16% of all independent workers).

The study also examined the variation in job satisfaction in these groups. It is not surprising that free agents and casual earners are more satisfied with their work lives than reluctants and financially strapped. What is of interest is that free agents reported a higher level of job satisfaction than those in traditional jobs. Furthermore, some studies suggest that the decision to perform independent work is not driven only by personal choice. Over half of the companies surveyed in the 2017 Old Mutual Savings and Investments Monitor reported that they will increase their usage of contingent workers over the next three to five years.

Another way employers are attempting to meet their employees desire for autonomy and flexibility is by offering flexible working hours and workspaces. Employers have found that giving their workers the flexibility to work remotely and at hours of their choosing allows for greater productivity and happier employees.

### Key terms:

- Telecommuting: working at home using a computer connected to one's employer network or via the Internet.
- Slasher: an individual who works multiple jobs with different titles (i.e. lawyer/chef).
- The gig economy: a labour market characterized by the prevalence of short-term contracts or freelance work as opposed to permanent jobs.

### How can insurers respond?

Despite all the benefits, the above changes in occupations involve some trade-offs. The lack of a steady income, fixed working hours and company-provided benefits make it harder to plan for the future and protect against risk. Thus it is fair to say that these changes in occupation are a significant contributing factor to the increase in Occupational Disability claims. Furthermore, how workers define their occupations has evolved beyond the traditional insurance definitions

making claim assessment increasingly complex.

To illustrate this, imagine a highly specialized worker has taken out a Disability income protection product and was underwritten as a

legal professional. At claims stage, this individual reports that in addition to having a regular occupation as a legal consultant, he or she is also earning an income as a contract driver and driving instructor. These are independent jobs with no fixed contracts, no fixed income, and probably no life or health benefits. It would be very difficult to monitor whether this individual had started working again because of the variable hours and income. We are unable to reduce the benefit for partial earnings due to the income being so variable that it sometimes is quite high. Furthermore, as the income and type of job done as a driver/driving instructor is so different from the job of a legal professional, this would not be considered a reasonable alternate occupation. Thus, we may be unable to prove return to normal work or a reasonable alternative position to terminate the benefit.

What does this mean for insurers and claims assessors? Some traditional approaches and actions have been implemented to address this incongruity. These solutions include:

- Reserve strengthening
- Rate increases
- A few product innovations

- Increased regulatory scrutiny
- Market exits
- Putting restrictive terms in place like stronger exclusion clauses
- Restructuring Disability Income benefits by implementing longer waiting periods
- Introduction of partial total and permanent Disability cover
- Compulsory re-skilling

However, much of the activities occupying the claims areas have been retrospective and reactionary.

But there is hope on the horizon to improve the current situation in the claims space. What we are seeing from international markets is a shift toward claimant and process-enabling changes. On the claimant-enabling side, we are seeing a move toward skills and transferrable skills analysis, and are looking at introducing some behavioural economics. On the process-enabling side are some exciting developments, such as triaging claimants according to risk scoring in order to quantify the risks of those likely to become long-term claimants. Claims are also triaged and given to assessors with the appropriate experience and skills to best handle the complexity. Claim forms are being replaced with initial face-to-face interviews, which have proved to be successful in identifying potential triggers for extended claims durations, such as employer/employee relationships, retrenchments and stressors at home. Research has shown that more claims have been declined using this face-to-face interview technique compared to the usual claim forms.

In addition, insurers need to rethink the value proposition offered by occupational benefits for the 21st



century worker. The product has to be updated to a much more portable form, and as the independent worker population continues to grow, we need to develop ways to provide benefits that workers can carry with them from job to job. In that way, benefits would be tied to the worker instead of the employer. As individuals transition through multiple jobs or dip in and out of part-time employment, they could carry these benefits across a day, a year, or a career. New models could vary widely to include benefits ranging from retirement savings, workers' compensation, Life or Disability insurance and sick leave, to training and educational benefits, healthcare and more.

This change in benefits is slowly happening and is reflected in changes made to legislation. In the U. S. a bill was introduced to fund experimentation with portable benefits programs that would be tied to the worker instead of the employer.<sup>6</sup> In the United Kingdom, the Taylor Review has defined a new category of worker within the independent economy called a "dependent contractor", which is clearly defined as different to the legitimately self-employed.<sup>7</sup> This was done to guard independent workers against exploitation and protect their rights, including access to certain benefits.

## Conclusions

We are operating in a space where the product and processes are restricting the options for claims management in an environment in which the concept of occupation has and will change rapidly. We need to start looking at proactive rather than reactive solutions. There is a need to change products and we need to look into expanding and refining the definitions of occupation in our product design and the occupational classes at underwriting. Furthermore, we should continue the ongoing exploration into how to better use behavioral economics and

skills assessments, and how to better focus on abilities.

We all know occupations are changing. We know that the industry is already looking at some of these issues. These are changes that span across all generations, jobs and industries. We are already seeing, hearing and feeling this effect in the claims space. Some of the questions that these changes raise, and that we feel the industry should be thinking about, include the following:

1. Are products appropriate for these changes in occupation?
2. How do we cover individuals with multiple jobs and income streams?
3. Will there be group cover when employers are platforms?
4. Do claims assessors have the necessary skills to handle these changes?
5. Is it time to consider different skills within our claims teams?

Gen Re would love to hear your opinion on this topic and work with you to develop creative solutions for these challenges.

## Endnotes

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