

STRATEGIC OUTCOMES PRACTICE

YOU SHOULD KNOW

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CORRELATION DOES NOT MEAN CAUSATION

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Human beings tend to assume that because two events occur in relatively the same time and space, that they are causally related. In other words, the first event caused, or led to, the second. This assumption can affect the bottom line of your Workers' Compensation claim management program – and not in a good way.

Twenty years ago, “frequency drives severity” was the industry-accepted view, based upon statistics showing that frequency was increasing at the same time workers' compensation claim costs were increasing. Because of the correlation in time of these two trends, it was assumed that the first (frequency) was the cause of the second (severity). Fresh statistics, however, bring into question the soundness of past logic, because frequency over the past 10 years has decreased by 38% and severity has continued to increase.

What does this mean from a Workers' Compensation claim management perspective? Simply this: if a company devotes resources to solving issues identified by correlation only, with no thought as to whether the two variables are causally related, they will incur the costs of the effort with no results.

If we employ measures and make assumptions based upon correlation only and not true cause and effect, we may get

the wrong answer. For example: Does closing a Workers' Compensation claim faster have an impact on total claim costs? Today's statistics do, in fact, show that the quicker a claim closes the less is paid. But, before we assume that the first (quick claim closing) causes the second (lower payment), we must ask: was it the speed of the closure that caused the lower payment, or was it the lower amount paid, and the lower stakes involved, that allowed the claim to close more quickly? A correlation between the time and expense clearly exists. But causation is much harder to define. It may turn out to be the case that if you force a major claim to close more quickly, you'll pay more. Another theory to consider.

In summary, metrics that indicate correlation between events should be the trigger for further analysis, not the final answer.

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