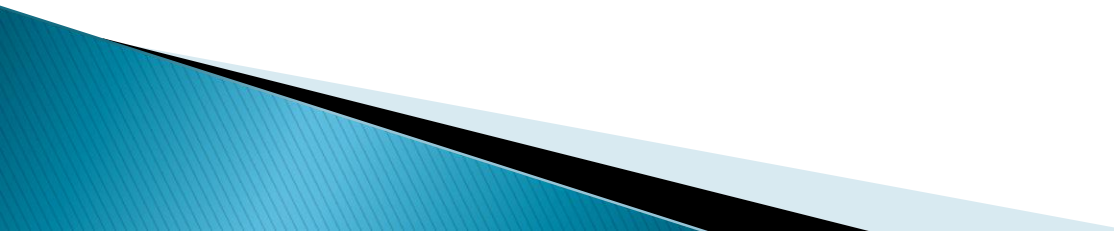



Chapter Six

Claims

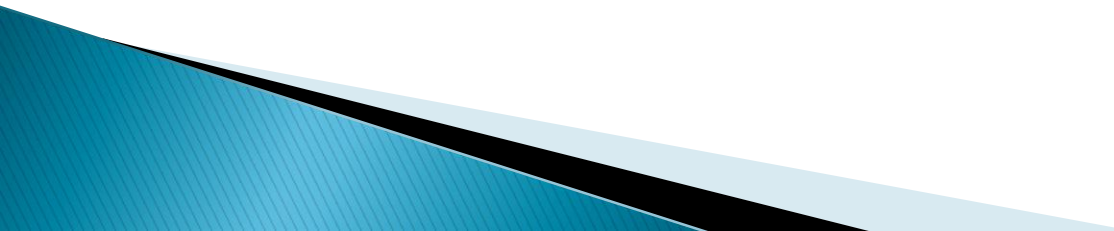
Objectives

- ▶ Identify the various types of claim representatives and their functions.
 - ▶ Consider the financial results if claim representatives underreserve or overreserve large liability claims.
 - ▶ Examine an insurance claim experienced by you, a family member, or a friend.
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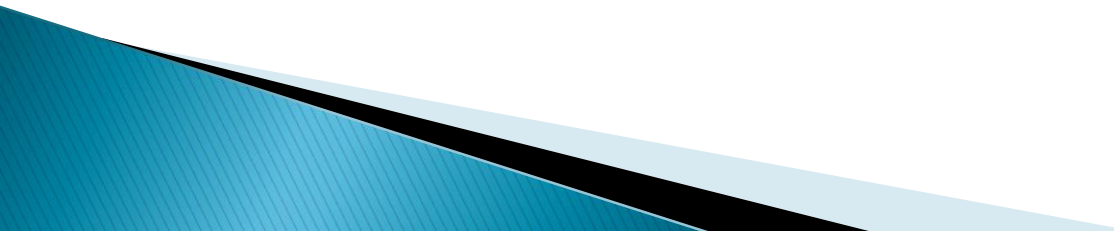
Claims

- ▶ Insurance is a promise. In return for the premium payment, the insurer promises to pay those claims that are covered by the policy provisions.
 - ▶ An insurance claim payment is the fulfillment of the promise made by the insurer.
 - ▶ **Claim:** “ it is a demand by a person or business seeking to recover from an insurer for a loss that may be covered by an insurance policy.”
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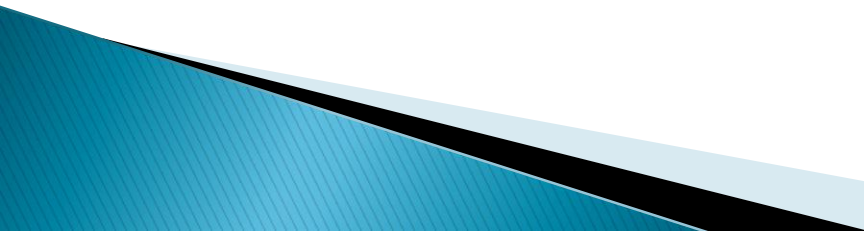
Claims

- ▶ **Claimant:** “ anyone who submits a claim to an insurer.”
 - ▶ **First party:** “ the insured in an insurance contract.”
 - ▶ **Third party:** “ a person or business who is not a party to the insurance contract but who asserts a claim against the insured.”
 - ▶ **Claim representative or adjuster:** “ a person responsible for verifying coverage, determining the cause of loss, determining the amount of damages or extent of loss and settling or otherwise concluding a claim.”
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Claim handling responsibility

- ▶ If an insurer is handling claims, several different types of people can have claim handling responsibility, depending on the circumstances. These include the following:
 - 1) Staff claim representative of insurers
 - 2) Independent adjusters
 - 3) Producers
 - 4) Public adjusters
- 

1) Staff claim representative of insurers

- ▶ **Staff claim representative:** “ an insurer employee who performs some or all of the insurer’s claim handling activities.”
 - ▶ **Inside claim representative:** “ an insurer employee who handles claims that can be settled by phone, mail or e-mail from inside the insurer’s office.”
 - ▶ **Outside claim representative:** “ an insurer employee who handles claims that can not be handled easily by phone, mail or e-mail.”
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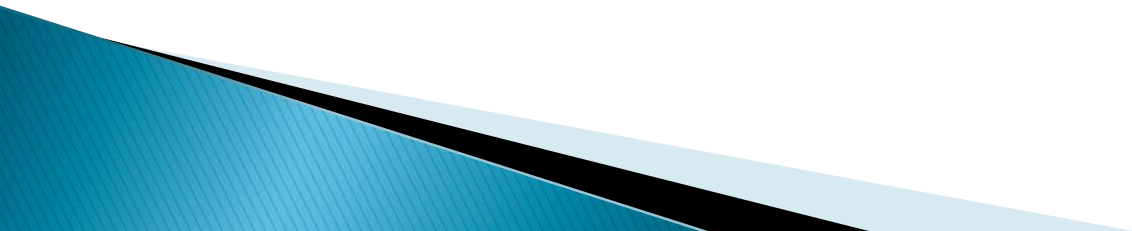
2) Independent adjusters

- ▶ *Independent adjuster:* “ a claim representative who offers claim handling services to insurers for a fee.”

3) Producers

- ▶ If the producer has a settlement authority, the producer may actually settle claims. The producer immediately sets up a claim file and collects information about the loss.
- ▶ **Settlement authority:** “ authority expressly given to a producer by an insurer to settle and pay certain types of claims up to a specified limit.”

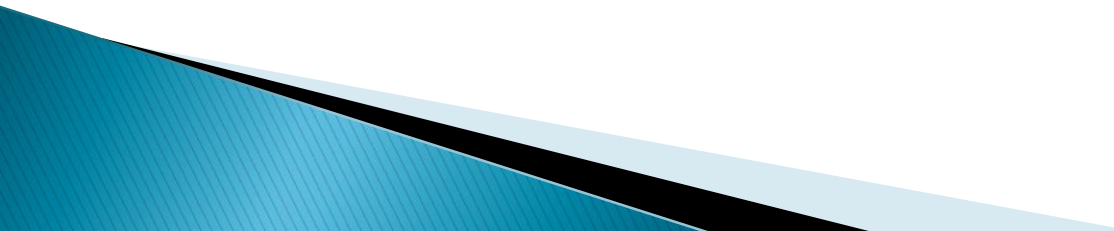
4) Public adjusters

- ▶ In some situations, insureds may decide to hire a public adjuster to represent their interests in the claim handling process.
 - ▶ Public adjuster: “ a person hired by an insured to represent the insured in handling a claim.”
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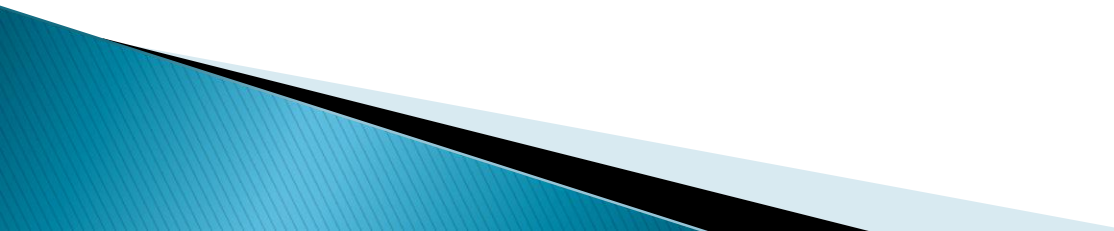
Claim handling under self-insurance plans

- ▶ Many organizations have self-insurance plans to cover part or all of their loss exposures.
- ▶ *Self-insurance plan:* “ an arrangement in which an organization pays for its losses with its own resources rather than by purchasing insurance.”
- ▶ *Options for claim handling include using:*
 - a) An internal claim department
 - b) A third-party administrator

a) An internal claim department

- ▶ If the organization is large enough, it may establish its own claim department. A smaller organization may decide to hire one or two claim representatives to handle its claims. In either case, the organization uses its own personnel to investigate and settle claims.
 - ▶ Regardless of the number of claim representatives an organization employs, the internal claim staff should have the skill and experience necessary to handle many different types of claims.
- 

b) A third-party administrator

- ▶ TPA : “ It is an organization that contracts to provide administrative services, including claim handling, to other business.”
 - ▶ When a self insuring organization hires a TPA, that organization generally purchases more than claim handling expertise. Most TPAs offer claim recordkeeping and statistical analysis in addition to claim handling services.
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Claim handling process

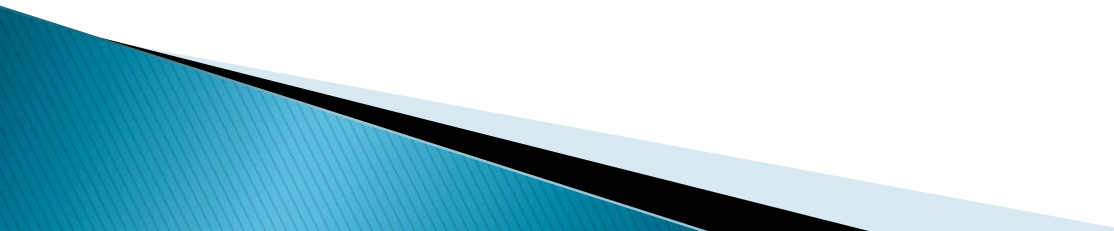
- ▶ Claim handling procedures can vary widely depending on the type of claim involved.
- ▶ Despite the unique challenges and variations from case to case, the same activities are involved in processing most claims as follows:
 1. Verifying coverage
 2. Determining the cause of loss
 3. Determining the amount of damages or extent of loss
 4. Negotiating and settling the claim
- The sequence and the manner in which the previous activities are carried out varies by insurer and by the type of claim whether property or liability.

l) Property Insurance claims

1. Verifying Coverage


Once the insurer responds to the first report of the claim, the claim representative must gather further information to verify coverage. The initial verification involves confirming that a valid policy was in effect, determining that the date of the loss falls within the policy period, and establishing whether the damaged property is insured under the policy.

The claim representative must then determine whether the coverage provided by the policy will pay any or all of the claim submitted.



Property Insurance claims

1. Verifying Coverage

- ▶ The claim representative must seek the answers to the following four questions to verify that the claim is covered:
 1. Does the insured have an insurable interest in the property?
 2. Is the damaged property covered by the policy?
 3. Is the cause of loss covered by the policy?
 4. Do any additional coverages, endorsements, or coverage limitations apply?
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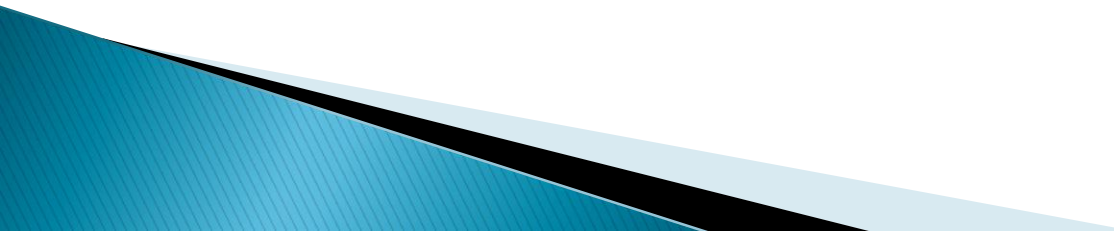
Property Insurance claims

1. Verifying Coverage

- ▶ If a question of coverage exists and the insurer plans to continue its investigation, the insurer might send a reservation of rights letter to the insured.
- ▶ **Reservation of rights letter:** “ a notice sent by the insurer advising the insured that the insurer is proceeding with a claim investigation but that the insurer retains its right to deny coverage later.”


Property Insurance claims

2. Determining the cause of loss

- ▶ For a property insurance claim, the cause of loss must be known to verify coverage., investigation often involves visiting the loss site to inspect the damaged property.
 - ▶ The claim representative may also need to interview and take statements from any witnesses to the loss to better understand how and why the loss occurred.
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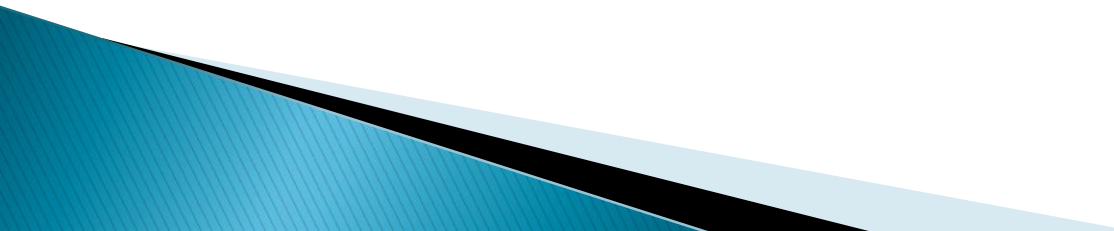
Property Insurance claims

3. Determining the amount of damages or extent of loss

- ▶ For the claim representative to determine the value of the loss a detailed inventory is essential and specific information must be gathered. When the loss involves a business, historical valuation information often appears in the company's financial records.
 - ▶ For claim representatives, the valuation of loss can be the most difficult aspect of settling property insurance claims.
- 

Property Insurance claims

3. Determining the amount of damages or extent of loss

- ▶ In order to indemnify the insured according to the policy provisions, the claim representative must be able to answer the following two questions:
 1. How does the policy specify that the property be valued?
 2. Based on that specification, what is the value of the damaged property?
- 

Property Insurance claims

3. Determining the amount of damages or extent of loss

- ▶ All property insurance policies include a valuation provision that specifies how to value covered property at the time of loss. The most common methods are as follows:
 - ▶ 1. Actual cash value [ACV]: the cost to replace property minus an allowance for the property's depreciation.
 - ▶ Depreciation: “ is the allowance for physical wear and tear or technological or economic obsolescence.

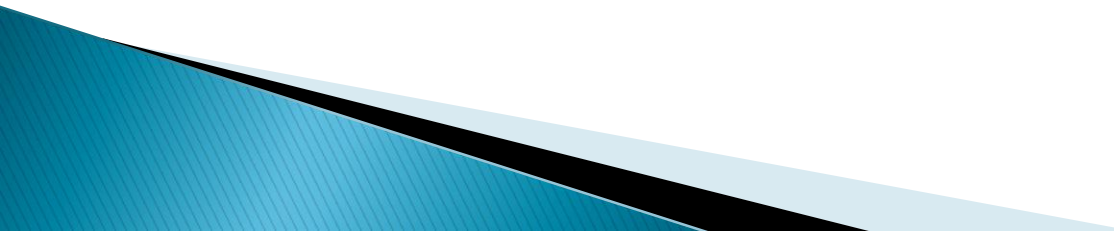
Property Insurance claims

3. Determining the amount of damages or extent of loss

- ▶ 2. Replacement cost: the cost to repair or replace property using new materials of like kind and quality with no deduction for depreciation.
- ▶ 3. Agreed value: it is a method of valuing property in which the insurer and the insured agree, at the time the policy is written, on the maximum amount that will be paid in the event of a total loss.

Property Insurance claims

4. Negotiating and settling the claim

- ▶ This step usually requires that the claim representative and the insured discuss the details of the loss and the valuation of the damage to agree on an amount for the insurer to pay to settle the loss. Sometimes the negotiation may be complicated because of a large number of damaged items, property of high value, or disagreement between the insured and the claim representative regarding the value or circumstances of the loss.
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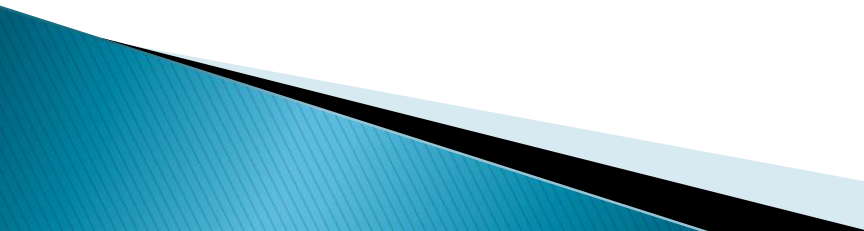
Subrogation and salvage rights

- ▶ They are two factors that can affect the insurer's cost for property claims after the claim representative and the insured agreement on the amount of the settlement.
- ▶ **Subrogation:** “it is the insurer's right , assumed from the insured, to recover payment from a third party that is legally responsible for the loss.”

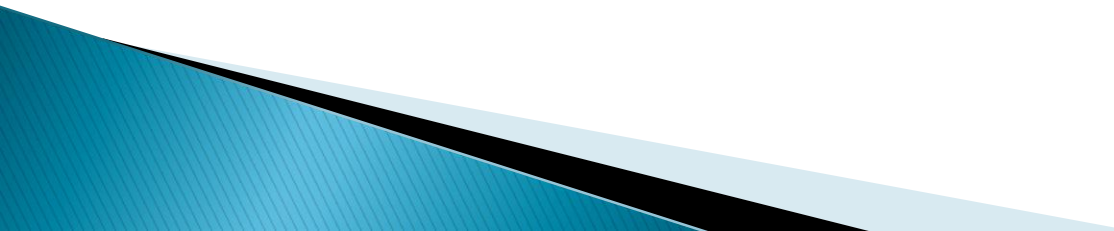
Subrogation and salvage rights

- ▶ **Salvage rights:** “ the insurer’s rights to recover and sell or otherwise dispose of insured property on which the insurer has paid a total loss or a constructive total loss.”
- ▶ **Constructive total loss:** “ a loss such that property cannot be repaid for less than its actual cash value minus the anticipated salvage value.”

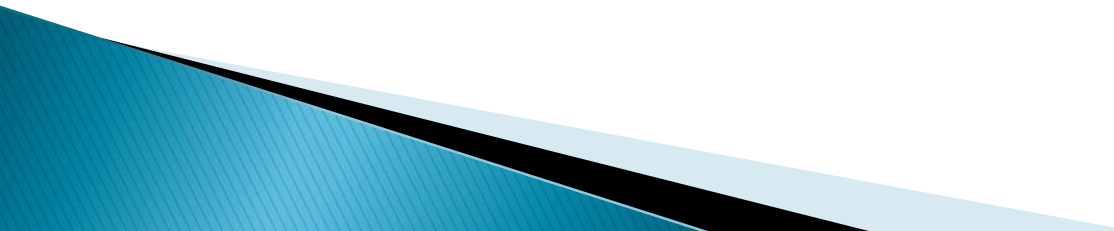
II) Liability Insurance claims

- ▶ Liability claim adjusting is different from property claims adjusting because determining liability may be difficult.
 - ▶ *First*, the claimant is a third party who has been injured or whose property has been damaged by the insured.
 - ▶ *Second*, a liability claim may involve bodily injury.
 - ▶ The discussion concentrates on the issue of legal responsibility which is central to the liability claim handling process.
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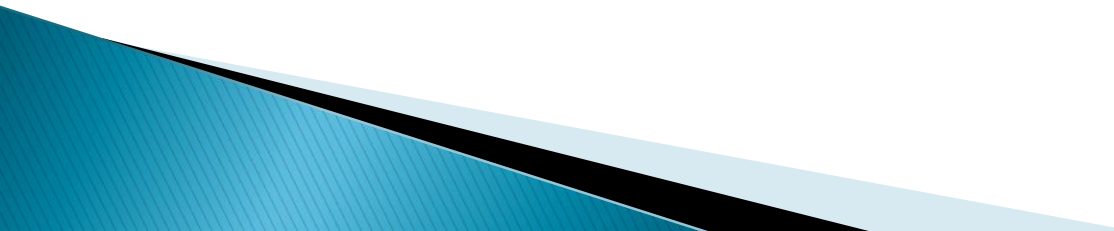
1. Verifying Coverage

- ▶ The claim representative must gather information to verify coverage, as in property claim.
 - ▶ The key difference is that the claim representative must determine if the insured is legally responsible for the loss; if not, coverage does not apply.
- 

2. Determining the cause of loss

- ▶ The claim representative must first determine how and why the loss occurred and whether the insured appears to be responsible.
 - ▶ In investigating a liability claim, the claim representative often inspects the scene of the occurrence or accident. By studying the scene and interviewing the insured, the claimant and any witnesses, the claim representative attempts to reconstruct the events that led to the loss.
- 

2. Determining the cause of loss

- ▶ Additional details are needed to determine the extent of the bodily injury or property damage.
 - ▶ At this point, the claim representative collects enough information to help determine whether the liability policy covers the loss and if so whether the insured may be legally responsible.
 - ▶ If the claim does go to court, the insurer is obligated to provide and pay for the insured's defense for a covered claim.
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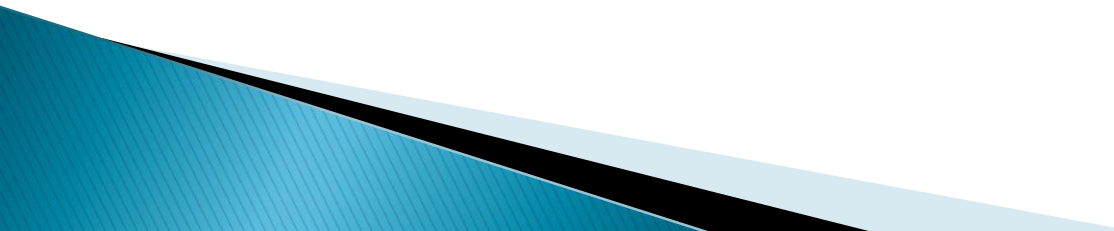
3. Valuation

- ▶ **Damages:** “Money claimed by, or a monetary award to, a party who has suffered bodily injury or property damage for which another party is legally responsible.”
- ▶ Legal liability cases may involve the following types of damages:
 - a) Compensatory damages:** “ Damages intended to compensate a victim for actual harm suffered; these damages include special damages and general damages.”

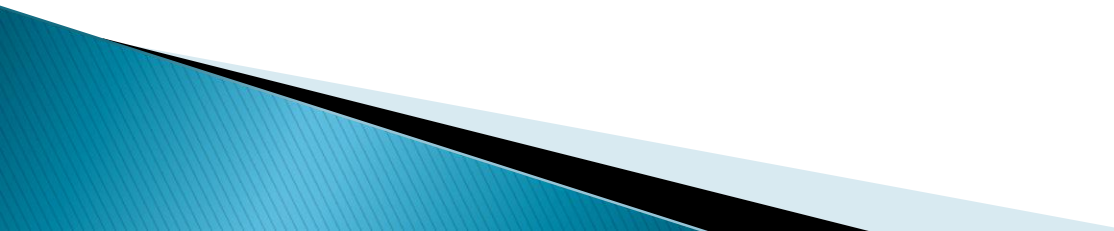
3. Valuation

- ▶ **Special damages:** “compensatory damages for specific, out-of-pocket expenses, such as doctor and hospital expenses.”
- ▶ **General damages:** “compensatory damages awarded for losses that do not have a specific economic value, such as pain and suffering.”

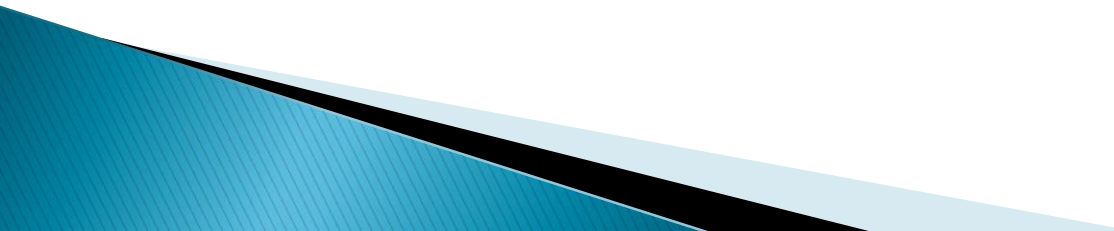
b) Punitive damages: “damages awarded by a court to punish wrongdoers who cause bodily injury or property damage to others and to deter others from committing similar wrongs.”



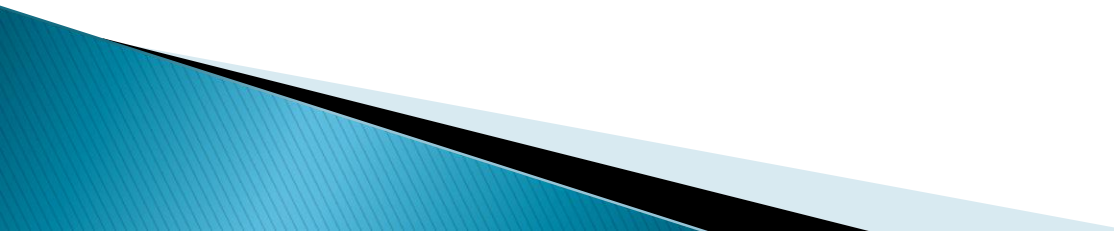
4. Negotiating and Settling the Claim

- ▶ In most instances, neither party wishes to become involved in a formal legal action with the accompanying costs and delays.
 - ▶ A large percentage of liability cases are settled out of court through negotiations between the claim representative and the claimant or the claimant's attorney.
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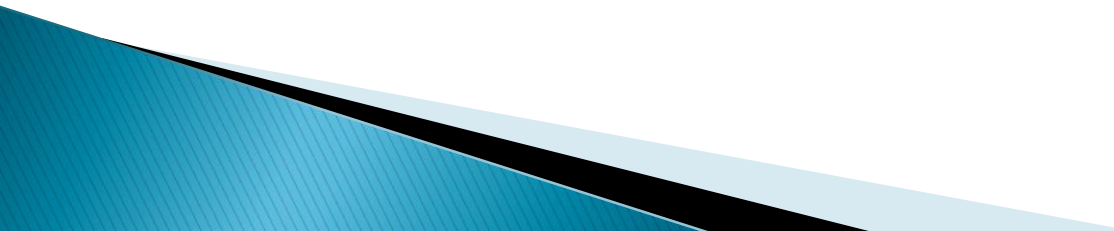
Special considerations for catastrophe claims

- ▶ For each insurer faced with a significant number of losses resulting from a catastrophe, activity originates from the following two sources:
 - 1– Processing the increased number of property claims.
 - 2– Dealing with the increased scrutiny of the claim handling processes when media attention turns toward the victims.
- 


1 – Processing the increased number of property claims

- ▶ After a catastrophe, policyholders and regulators expect an insurer to settle losses quickly, regardless of the volume of claims or any disruptions to the insurer's own resources. Effective catastrophe response requires careful preparation. Contingency plans that are detailed and communicated throughout the organization serve the following **purposes**:
 - Identifying weakness, bottlenecks and potential difficulties.
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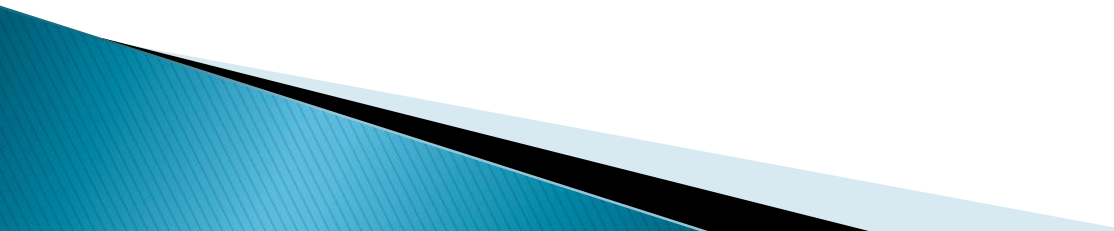
1 – Processing the increased number of property claims

- Permitting staff to clearly understand their roles and responsibilities during a crisis in advance, so that they can react productively and not emotionally.
 - Keeping the organization free to focus on handling claims without reallocating essential resources to resolve problems for which it was unprepared.
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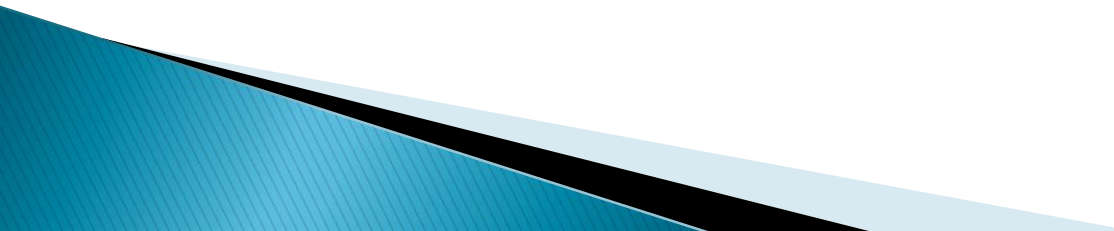
2-Dealing with the increased scrutiny of the claim handling processes when media attention turns toward the victims

- ▶ Insures can initiate certain activities to ensure that catastrophe losses are handled promptly, despite the huge volume of claims. These include the following modifications to normal operations:
 - ❖ Developing and using abbreviated claim handling procedures to speed processing.
 - ❖ Temporarily increasing claim settlement authority to producers for the duration of the catastrophe response.
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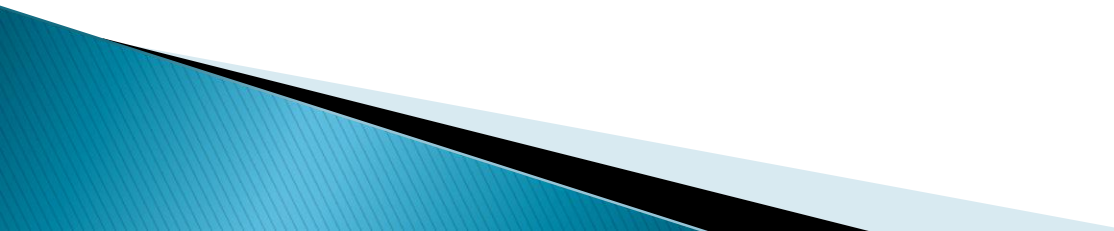
2-Dealing with the increased scrutiny of the claim handling processes when media attention turns toward the victims

- ❖ Temporarily transferring claim settlement authority to preselected independent adjusting firms.
 - ❖ Bringing in catastrophe teams of claim representative from other regions
 - ❖ Making advance payments to policyholders for expenses such as additional living expenses.
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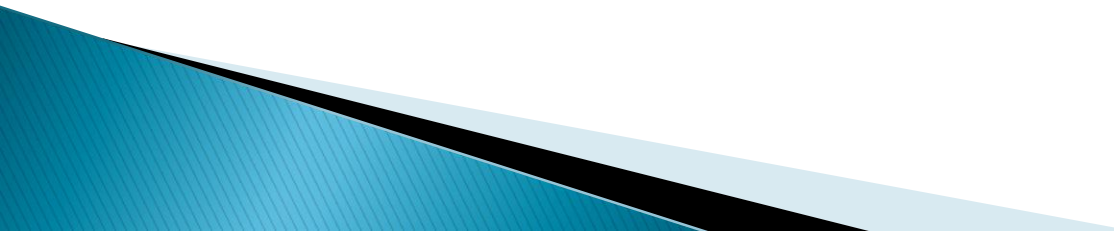
2-Dealing with the increased scrutiny of the claim handling processes when media attention turns toward the victims

- ❖ Immediately settling all questions of property valuation in favor of the policyholder.
 - ❖ Suspending all but the most essential recordkeeping.
 - ❖ Reallocating available employees in critical work areas.
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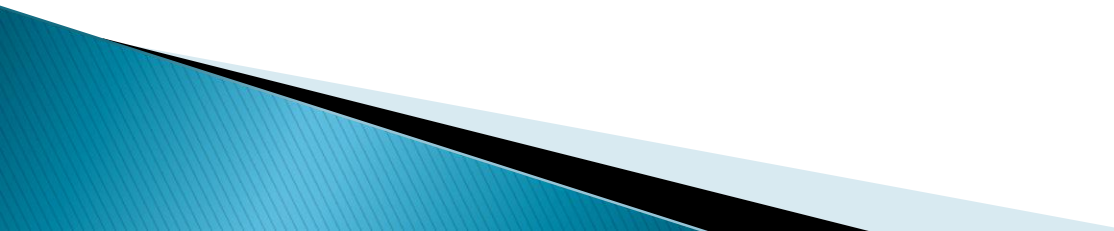
Loss reserves

- ▶ Loss reserves are funds held by the insurer to pay claims for losses that have occurred but have not yet been settled.
 - ▶ Loss reserves are the largest and most important obligation of property-casualty insurers.
 - ▶ They are liabilities in the accounting sense because they are shown on an insurer's financial statements as sums that the insurer owes to others. They represent an estimate of the amount of claim payments the insurer will make in the future.
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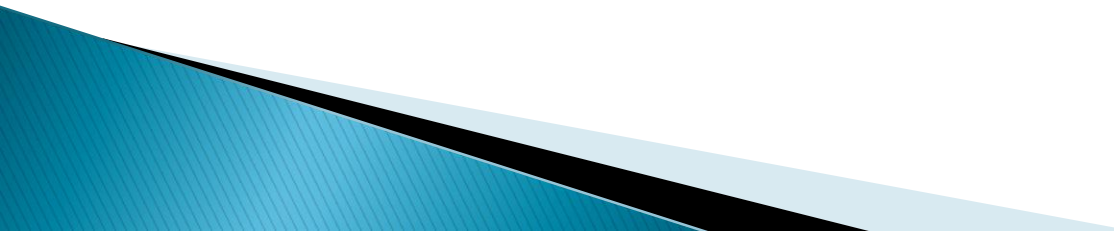
Loss reserves

- ▶ After the claim representative receives notice of a loss, obtains initial information and verifies coverage, a loss reserve for that claim is established.
 - ▶ **Case reserve:** “a loss reserve assigned to an individual claim.”
 - ▶ Calculating case reserves is always an estimate. Claim representatives play a vital role in establishing an insurer's loss reserves. They generally estimate case reserves for individual claims based on their knowledge and experience.
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Unfair Claim Practices Laws

- ▶ Although dealing with persons in such circumstances (losses) can be challenge, the claim representative may find it rewarding to help people through a difficult time.
 - ▶ The claim representative must treat all parties fairly by promptly paying valid claims according to the policy provisions and by denying claims for which no coverage applies.
 - ▶ It is important to policyholders that insurers neither overpay nor underpay claims.
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Unfair Claim Practices Laws

- ▶ *The prohibited claim practices usually include the following:*
 - ❑ Misrepresentation of material facts or insurance policy provisions relating to coverage at issue in a claim.
 - ❑ Failure to acknowledge and promptly respond to communications about claims arising under insurance policies.
- 

Unfair Claim Practices Laws

- ❑ Actions that compel an insured to sue to recover amounts due under insurance policies by offering amounts that are substantially lower than the amounts ultimately recovered in legal actions brought by such insureds.
 - ❑ Refusal to pay claims without first conducting a reasonable investigation based on all available information.
- 