Insurance Operations – Claim Procedures and the Claim Adjustment Process

Claims adjusting is the process of determining coverage, legal liability, and settling a claim. The claim function exists to fulfill the insurer's promises to its policyholders. Claim adjusting is integral to establishing an insurer's relationship to its policyholders. The reputation of the insurer in settling claims directly impacts the marketing and retention of policyholder insurance.

Goals of the Claim Function:
(1) Complying with the contractual promises in the policy

Insurer fulfills this promise by providing prompt, fair and equitable service in either paying first party claims covered under the policy or paying claims on a third party loss against the insured due to liability

Insurance is marketed not only as a financial mechanism to provide indemnity on covered losses, but also to ensure peace of mind after a loss has occurred. Were it not for insurance and the claim settlement process recovery might be slow, inefficient and difficult.

In some cases, having a claim settlement process allows a policyholder to settle a case that might not easily be resolved due to emotion ----- e.g. plane crashes --- Airlines benefit by having insurance and the claims adjustment process to settle with loved ones.

(2) Supporting the insurer's profit goal and avoid paying for fraudulent claims

An effective claim settlement process should be designed to control costs and assure that covered losses are fairly reimbursed. Policyholders are entitled to fair claim resolution. However, overcompensation of claims will raise the cost of insurance and cause better risks to pay more for their coverage. \

Conversely, unpaid claims that fall under the contract can result in angry policyholders, litigation, or regulatory sanctions. A reputation of resisting meritorious claims can invalidate the effectiveness of insurer advertisements

3 Users of Claim Information

Marketing --- needs information about customer satisfaction, in addition, information gathered from the claims department can be used to fashion new coverages to better meet the needs of policyholders – e.g. insurance provision for power surges

In some cases, premiums may need to be altered at the agency level to account for increased claims cost.

Claim personnel must inform producers of court rulings that affect the insurer's loss exposures or pricing, such as interpretations of policy exclusions or application of limits.

Underwriting ----a post-evaluation of claims costs can reveal characteristics of loss that an underwriter may have been able to detect when considering an application for insurance. Reviewing a claim can uncover operations and activities that if the underwriter had more thoroughly investigated might have led to either denial of the policy or offering it on a different basis. A number of similar claims could also alert underwriters to an emerging problem with a particular class of policies----e.g. several years ago there was a controversy in the auto insurance industry over the use of after market parts.

Actuarial----require accurate information on the actual claims costs, as well as, up to date information on claims that have occurred and need to be reserved against settlement later on [IBNR]

Claim Department Contacts

Public --- Providing information to policyholders about the claims process, demonstrating that commitment of the insurer to meeting promises to the insureds through a fair settlement process.

Claimants' Attorney - In some cases claimants are more likely to hire attorneys leading to costly litigation --- although it is not necessarily that all claims will be settled with higher litigation costs [many cases are settled out of court – legal fees are the claimants responsibility] Litigation of third party claims has become more expensive --- time to get the case into court, deposition costs, legal research expenses]

Defense Attorneys-The duty to defend under liability policies may cause the insurer to hire outside defense attorneys. Managing defense expenses is an essential component of managing over claim costs. Insurers generally hire an attorney from the jurisdiction in which the claim occurred. The ideal situation is for the insurer to avoid litigation --- a litigated claim might indicate that some aspect of the claim adjusting process failed to operate properly.

State Regulators – monitor insurers' activities in the claim settlement process. Regulators control the licensing of adjusters, investigation of consumer complaints, and performing market conduct investigations. Ultimately, a regulator also has the authority to suspend an insurer from being able to operate in its state. Enforcement for claims may be handled through the Unfair Claims Settlement Practices Act.

Licensing --- not all states currently license adjusters, see Exhibit 8-1, it should be noted that Iowa does not license independent adjusters, but Minnesota does. Those states that do require licensing usually have applicants pass a written exam, pay a fee, and secure a fidelity bond. Some states also license vehicle-damage or property appraisers. Temporary permits or licenses are frequently granted to out-of-state adjusters that insurers may need to use to adjust claims in the aftermath of major storm damage.

Consumer Complaints –Most states have a specific time limit within which a claim inquiry must be responded to --- failure to respond can result in fines and event the loss of an adjuster's license.

Market Conduct Investigations – regulators periodically investigate claims processes as part of a normal audit of insurer activities or in response to complaints – a typical market conduct investigation includes looking into claim practices.

Organization of the Claim Settlement Process

Centralized versus Decentralized Claims Settlement
A centralized approach consists of either one home office where all claims are handled or a home office with a few regional offices. Centralized operations are more efficient that decentralized operations in terms of cost of rental space, supervisory overhead, MIS, and support staff. Decentralization can be more costly/difficult to supervise, but allows for adjustment to occur in person -- because claim tasks can not be done as well from remote locations, claims can never be completely centralized.

The type of insurance, volume of business, geographic location and density of loss exposures can determine how an insurer structures its claim operations ---e.g. location of claims office closest to an area where there is a majority of the cases.

Some insurers organize the claim function by type of insurance or class of business – a property claim dept. handles first party claims, a casualty claim dept. handles third party claims, a marine dept. handles marine/transportation claims. Responsibility is generally divided amongst geographic regions.

Claim Function Management and Settlement Authority

Structure and authority varies among insurers ---- VP of Claims is a key member of the management team. Reporting to the VP of Claims -- one or more assistant VPs responsible for certain insurance lines.

Claim Managers – person below the top executive level has the title of claim manager— often in charge of both claim files and general administration and supervision of the claim department.

Examiners – found in either regional or home offices. An examiner is primarily a claims specialist who determines coverage, liability, and damage factors; extends settlement authority to adjusters and recommends settlement amounts or other authorization to superiors up the chain of the claims process.

Insurer Claim Dept. Structure

VP Claims

Assist. VP Property
Property Manager

Examiners Support Staff

Assist. VP Casualty
Casualty Manager

Examiners Support Staff

Regional, Branch or Claim Office Staff

Office Manager

House Counsel Outside Counsel

Supervisors
Company Adjusters Independent Adjusters

Supervisors - claims dept. divided into subdivisions by type of coverage or geographic location. Each unit is under a supervisor’s direction. The claim supervisor is usually responsible for the unit’s daily activities --- a supervisor might have certain levels of settlement or denial authority --- many insurers have a list of approved outside attorneys in localities where losses are most likely to occur.

Adjusters --- those responsible for investigating, evaluating and negotiating the coverage, liability and damages related to a claim. An adjuster can be an employee of the insurer, an employee of an insurer-owned adjustment bureau or an independent adjuster retained either on a contract basis or on an individual adjustment basis.

Adjusters are usually employed as “field” adjusters who operate outside the claim office or as “inside” adjusters who adjust claims from within the claim office. Field adjusters spend much of their time visiting the scene of a loss, interviewing witnesses and investigating damages --- coordinating loss appraisal.

Inside claim adjusting is appropriate for claims whose expenses are known or for claims that need little investigation. The level of responsibilities for inside adjusters varies amongst insurers.

Independent Adjusters ---- provide claim adjusting services to a variety of insurers and self-insurers. Independent adjusting firms derive revenue by charging insurers a fee for claim settlement services.

National adjusting firms serve not only insurers, but also self-insured corporations [captives] and government agencies. Many large insurer groups and insurance brokerage groups own their own independent adjusting firms. Independent adjusters enable an insurer to have comprehensive coverage of a geographic area without the expense of leasing office space and hiring more personnel. One disadvantage is that there may be lack of operational control. Sometimes insurers will hire independent adjusters to handle claims that require specialized knowledge --- asbestos or pollution claims.

In some “fronting” arrangements between businesses with high self-insured retentions, the insured might be instrumental in selecting the independent adjusting firm that will handle claims on the insurer’s behalf.

Insurers might also hire independent adjusters when they have been unable to hire permanent personnel or when they need to supplement staff.

Public Adjusters --- represent policyholders in property claims cases against insurers. They assist clients in preparing verification of loss, negotiating values to be paid, and preparing settlement documents.

Producers --- independent agency insurers sometimes permit their producers to handle minor claims within a specific settlement authority. Most large personal insurers have separated out their marketing and claim settlement functions.

Other Claim Adjusting Personnel
Insurers rely on special experts to handle unusual or particular claims. Both independent and staff adjusters tend to specialize in one area of the claim settlement process. One type – catastrophic adjuster who travels to the location of disasters and remains until all claims have been completed. Another – marine or average adjuster who handles freight, cargo, vessels, aircraft [average in marine insurance is a term used for loss].

Origin and Cause Experts --- attempt to determine where and how a fire began – seek to find out whether a fire loss may be due to arson.

Material Damage Appraisers - inspects the damage, and if it is repairable, estimates the repair cost. If an item is not repairable or is lost, the appraiser assists the adjuster in determining the value or replacement cost of the item and in disposing of salvage [for commercial coverages – in the case of Homeowner’s policy salvage is the responsibility of the homeowner].

Reconstruction Experts, Private Investigators, Accountants, Health and Rehabilitation Experts, Medical Cost Containment Consultants, Professional Engineers, Support Personnel

Unbundled Claim Services --- large commercial firms have both the necessary expertise and desire to retain, rather than insure losses. Even though they have financial resources to insure losses, they may not have or want to maintain in-house talent to settle their own claims.

Many insurers unbundled their services allowing these business to purchase loss control, data processing, and/or claim adjusting services separate from insurance coverage.