Claims 10m

The Claims Process

REPORTING A CLAIM

The claim process starts with the occurrence of an event that may be covered by the policy. The insured then reports a claim to the insurer. There are several methods to report a claim, including:

- **Telephone**: Contacting the insurer's call center
- **Internet**: Submitting the claim through the insurer's website, mobile app, or email
- **In-person**: Visiting the insurer's branch office
- **Written communication**: Sending a formal statement of claim via a lawyer's letter
- **Intermediary**: Informing the insurance agent or broker

REVIEWING A CLAIM

Next, a claim professional, often referred to as a ***claim examiner*** or ***claim adjuster***, reviews the initial claim report. The claim adjuster can be an employee of the insurer or a third-party claims administrator (TPA). In some cases, the insurer may engage independent adjusters (IAs) to manage claims that require expertise beyond the insurer's capabilities or to handle the large volume of claims after the occurrence of a catastrophic event.

The claim adjuster will first decide if the reported claim is covered under the terms of the policy. To do so, the claim adjuster typically evaluates the following factors:

- Effective dates of the policy
- Date of occurrence
- Terms and conditions of the policy

- Policy exclusions
- Policy endorsements
- Policy limits
- Deductibles
- Reinsurance or excess coverage
- Reporting requirements
- Mitigation of loss requirements
- Extent of injury and damages
- Extent of fault
- Potential other parties at fault
- Potential other sources of recovery

CLAIM TRANSACTIONS

If the claim professional determines that the reported claim is covered by the policy, the first transaction will usually be the establishment of an initial case reserve. The amount of the initial case reserve can be based on a formula, a tabular system, or an independent estimate by the claim adjuster. As time progresses and new information about the claim emerges, the estimated case reserve value is likely to change.

Insurers typically set the case reserve based on one of the following:

1. The best estimate of the ultimate settlement value of the claim
2. The maximum value
3. The advice of legal counsel

While some insurers also establish a case reserve for claim adjustment expenses, others do not.

Certain claims may be settled with a single payment on the same day they are opened. Such claims would have only one transaction and would likely never show a case reserve value. Other claims may involve multiple transactions or the reopening of closed cases before being ultimately settled.

Besides the establishment of the initial case reserve estimate, a claim may have the following transactions:

- Notification to the reinsurer if the claim is expected to exceed the insurer's retention

- A partial claim payment to the injured party
- Expense payment for independent adjuster
- Change in case reserve estimate
- Claim payment (assumed to be final payment)
- Take down of case reserve and closure of claim
- Reopening of the claim and establishment of a new case reserve estimate
- Partial payment for defense litigation
- Final claim payment
- Final payment for defense litigation
- Closure of claim

RECOVERIES

An insurer may be able to recover some payments made on a claim. The different types of recoveries include:

- **Deductibles:** For first-party coverage, the deductible is usually applied before paying the insured. For third-party coverage, the insurer typically pays the injured party, then tries to recover the deductible from the insured.
- **Salvage:** After settling a claim for a damaged item declared as a total loss, the insurer assumes ownership of the item. The insurer may restore and sell the item to offset part of the payments made to the claimant. The amount that the insurer receives from the sale is called ***salvage***. Alternatively, the insured may choose to keep the totaled item and salvage it themselves. In this case, the insurer would pay the insured the total loss amount minus the salvage value.
- **Subrogation:** When the insurer pays for a claim, the insurer receives the right to ***subrogate***, allowing them to seek reimbursement for damages from a third party who was at fault.

Insurers have different practices on whether to include or exclude these recoveries when establishing a case outstanding for a claim.

REINSURANCE

The insurer may receive payments from a reinsurer for any covered losses that exceed the insurer's retention. Common types of reinsurance are proportional reinsurance and excess-of-loss reinsurance.

Characteristics of Insured Claims

A typical claim often exhibits the following characteristics:

1. The claim process usually spans a period of time, which could be as short as a day or several years.
2. The estimated value of a claim can fluctuate throughout its lifespan and is not definitively established until the claim is ultimately closed.
3. A claim can involve many different types of payments, like payments for defense litigation, lost wages, medical expenses, or an IA's services.
4. A claim may involve multiple dates, such as the policy effective date, the accident date, the report date, the transaction date, the reopening date, and the closing date.