

# Module 1

## Property Claims Handling Process

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### Module 1 Chapter 1

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### Learning Objectives

- ☐ Obj I – Steps in the Loss Adjustment Process
- ☐ Obj II – Public Adjusters
- ☐ Obj III – Investigating and Documenting Claims
- ☐ Obj IV – Use of Experts in Claims Situations
- ☐ Obj V – Subrogation and Reinsurance

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## Steps in the Loss Adjustment Process

### Objective I

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### Notifying the Insurer

- ❑ When a loss occurs, several steps must be taken before the insurer can begin the loss adjustment process.
  - ❑ Loss notice is submitted to the insurer.
- ❑ After loss notice is received, the insurer begins the loss adjustment process.

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### Loss Adjustment Process

- ❑ Steps in the loss adjustment process:
  - ❑ Step 1: Acknowledgement and assignment to an adjuster.
  - ❑ Step 2: Coverage verification.
  - ❑ Step 3: Contact with insured.
  - ❑ Step 4: Investigation of facts.
  - ❑ Step 5: Determining cause of loss and extent of damage.
  - ❑ Step 6: Concluding the loss adjustment.

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### Acknowledgement and Assignment

- ❑ Step 1: Acknowledgment and Assignment to an Adjuster
  - ❑ Insurer assigns loss to an adjuster.
  - ❑ Most insurers follow up with written confirmation of the assignment.
- ❑ Most adjusters handle losses within a specific geographic area.
  - ❑ Should be familiar with adjuster licensing laws in the area.

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**Coverage Verification**

- ❑ **Step 2: Coverage Verification**
  - ❑ Typically, the adjuster can quickly determine that a policy is in force.
  - ❑ Adjuster may need to consult with an expert to determine issues such as cause of loss.
- ❑ Sometimes coverage verification cannot be completed before contacting the insured.
  - ❑ Adjuster must not say anything that might waive any policy defenses.

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**Contact With the Insured**

- ❑ **Step 3: Contact With the Insured**
  - ❑ Adjuster should contact the insured and make an appointment to meet at loss location.
  - ❑ Adjuster should get information about the extent of the loss and how the loss occurred.
- ❑ Most insureds do not understand their coverage thoroughly.
  - ❑ Adjuster must convey any possible policy violation, exclusion, or limitation.

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**Investigation**

- ❑ **Step 4: Investigation**
  - ❑ Good investigation is the basis of every claim settlement.
- ❑ Adjuster investigates, inspects, and appraises the loss.
  - ❑ Must determine what level of investigation is appropriate.
  - ❑ A loss's dollar value does not necessarily indicate the amount of investigation needed.

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### Determining Cause of Loss

- ❑ Step 5: Determining Cause of Loss and Extent of Damage
  - ❑ Adjuster must communicate whether the loss was caused by a covered cause of loss and how much of the loss is recoverable.
  - ❑ Investigation forms the basis for an opinion.
  - ❑ Negotiations as to the extent of the loss often occur at this time.

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### Concluding the Loss Adjustment

- ❑ Step 6: Concluding the Loss Adjustment
  - ❑ Adjuster should assemble the claim and submit it to the insurer for review.
- ❑ The statement of loss is an accounting overview of the adjustment.
  - ❑ Lists the value of the property, the amount of loss, and amount claimed under the policy.
- ❑ Closing, or final, reports are made whenever the adjuster has completed the assignment.

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### Practice

- ❑ The insurer begins the loss adjustment process after:
  - ❑ A. Contacting the insured and arranging a meeting at the loss location.
  - ❑ B. Determining the insured has completed all required duties under the policy.
  - ❑ C. Receiving the loss notice from the insured.
  - ❑ D. Verifying a policy is in force.

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Public Adjusters

Objective II

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Public Adjuster

- A public adjuster is hired by an insured for a fee to represent the insured in a claim.
  - Active in some states and metropolitan areas.
  - Most often involved in presenting fire claims to insurers.
- Public adjusters perform many of the duties required of insureds in presenting and documenting claims.
  - Also are involved in settlement negotiations.

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Public Adjuster

- Public adjusters can help insureds by:
  - Presenting claims in an organized manner.
    - May expedite settlement.
  - Compiling and documenting claims to fulfill the insured's obligations under the policy.
    - Allows insured to focus on other tasks.
  - Reassuring the insured the claim settlement is fair.

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**Public Adjuster**

- ❑ Public adjusters may obtain business by monitoring police and fire calls and appearing on the scene immediately after a loss.
  - ❑ May take advantage of insured's vulnerable position.
  - ❑ May cause an insured to distrust the insurer.
- ❑ Public adjusters are usually paid a percentage of the amount paid to the insured by the insurer.
  - ❑ May encourage some public adjusters to overstate amount of loss.

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**Practice**

- ❑ Public adjusters, active in some states and metropolitan areas, are involved in many claims. These public adjusters are hired by:
  - ❑ A. An appraiser.
  - ❑ B. The policyholder.
  - ❑ C. A contractor.
  - ❑ D. The insurer.

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**Investigating and Documenting Claims**

**Objective III**

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### Verification of Losses

- Every investigation should determine what caused the loss and how coverage applies.
  - Statements from the insured and witnesses can be critical in determining the cause of loss.
  - Adjusters must appropriately document the extent of loss or damage.

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### Statements

- Statements taken from the insured and witnesses can establish:
  - Property's ownership.
  - Cause and extent of loss.
  - Facts surrounding the loss.
  - Whether any third party is responsible.
    - May establish basis for subrogation.
- Statements can either be written or recorded.
  - Statement may be waived if claim is small.

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### Statements

- Obtaining a statement might waive the insurer's right to an examination under oath.
  - A nonwaiver agreement avoids the problem of waiving any conditions.
- A witness statement is needed when gathering information regarding the cause of loss.
  - Particularly if fraud is involved.
  - When identifying witnesses, adjuster should be careful not to imply the insured was responsible for the loss.

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**Documentation**

- ❑ Adjusters must document losses to:
  - ❑ Identify the property covered.
  - ❑ Inform insurer of magnitude of loss.
  - ❑ Establish cost of repairs.
  - ❑ Avoid disputes with the insured.
  - ❑ Assist contractors in preparing bids for repairs.
- ❑ The type of documentation required depends upon the type of loss.

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**Documentation**

- ❑ Types of documentation include:
  - ❑ Books and records – useful in documenting loss to inventory and personal property.
  - ❑ Photographs and video – photos/video should be taken during initial inspection.
    - ❑ Extremely close photography is sometimes needed for serial numbers.
  - ❑ Floor plans and diagrams – helpful in noting structure's size and damaged areas.

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**Documentation**

- ❑ Types of documentation include:
  - ❑ Inventory – should include as much pertinent information about the property as is available.
    - ❑ Manufacturer, serial and model numbers, size, and pre-loss condition are all helpful.
  - ❑ Scope and estimate – a scope sheet is a list of damaged areas and proposed repairs.
    - ❑ Preliminary scope allows the contractor to prepare a bid.
    - ❑ Scope can help in reserving.

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**Practice**

- ❑ Which one of the following statements is correct regarding the gathering of statements from the insured and witnesses?
  - ❑ A. In all jurisdictions, statements cause the insurer to waive their rights to an examination of the insured under oath.
  - ❑ B. Witness statements are especially important if fraud is suspected.
  - ❑ C. A statement is only valid if it is written.
  - ❑ D. In large and complicated losses, the insured's statement is often waived.

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**Use of Experts in Claims Situations**

**Objective IV**

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**Use of Experts**

- ❑ The ultimate reason for using experts is to help the adjuster determine to what extent coverage applies.
  - ❑ Experts include origin and cause experts, as well as accountants.
  - ❑ Experts can be used in subrogation cases to determine if insurer can recover damages from a third party.

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### Types of Experts

- Types of experts:
  - Origin and Cause Experts – determine if a fire was accidental or intentionally started.
    - Also can identify responsible person/entity.
  - Private Investigators – have knowledge and skills required to obtain information.
    - Gather facts relating to a claim.
  - Accountants – some specialize in claims.
    - Can determine financial condition of insured's business.

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### Types of Experts

- Types of experts:
  - Restoration Specialists – help limit amount of damage and protect property.
    - Clean structures and merchandise.
  - Salvors – mainly used to separate damaged from undamaged merchandise.
    - Also sell or purchase salvage.
  - Attorneys – commonly provide advice and counsel to insurers on coverage issues.
    - Can also file subrogation suits.

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### Types of Experts

- Types of experts:
  - Engineers – occasionally needed to resolve issues related to the cause of loss.
    - Usually employed to document whether a third party is responsible for a loss.
  - Architects – needed to draw plans and provide specs for reconstruction of structures.
  - Appraisers – establish value of property, or can resolve disputes about amount of loss.
    - Some appraisers are certified or licensed.

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**Types of Experts**

- Types of experts:
  - Contractors – often asked to repair structures.
    - Can also act as appraisers in disputes over the amount payable.
  - Conflicts of interest can arise between an expert, an adjuster, and/or an insured.
    - If an appraiser is needed, they should be impartial.

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**Practice**

- Certain professionals specialize in the cleaning of equipment, merchandise, inventory, structures, and personal property after a loss caused by fire, smoke, or another peril. These professionals are commonly referred to as:
  - A. Salvors.
  - B. Origin and cause experts.
  - C. Private investigators.
  - D. Restoration specialists.

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**Subrogation and  
Reinsurance**

**Objective V**

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### Subrogation and Reinsurance

- ❑ After a loss adjustment is complete, the adjuster must pursue the insurer's right of recovery.
  - ❑ An insurer that pays a claim has a right of subrogation.
  - ❑ Subrogation is the substitution of one party for another in a claim.
- ❑ An adjuster also needs to be aware of when a policy is subject to reinsurance.

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### Subrogation

- ❑ Subrogation rights are established by policies and by law.
  - ❑ Expressed in the "Transfer of Rights of Recovery Against Others to Us" condition.
- ❑ Insured must execute assignment of rights to the insurer.
  - ❑ Known as a subrogation agreement.
  - ❑ Sworn statement in proof of loss often contains the subrogation agreement.

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### Subrogation

- ❑ Insured might breach subrogation condition by interfering with insurer's right of subrogation.
  - ❑ In this case, insurer would have right to collect from insured.
- ❑ Some policies permit insured to waive rights of recovery before a loss.
  - ❑ In those cases, the insurer waives its right of subrogation.
- ❑ Insured might also release a third party before a loss in connection with bailment situations.

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### Subrogation

- ❑ Insurer has the right to receive only the amount that it has paid.
  - ❑ No right of recovery for losses insured absorbs because of lack of coverage, exclusions, or policy limitations.
- ❑ Decision to pursue subrogation usually is based on cost involved and likelihood of success.

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### Subrogation

- ❑ When liability is questioned, arbitration can resolve disputes between the insurers.
  - ❑ Intercompany arbitration.
- ❑ Many insurers are members of the Property Subrogation Arbitration Agreement.
  - ❑ Gives insurers a means of resolving matters without resorting to litigation.
  - ❑ Member insurers must use arbitration when amount payable is in dispute.
  - ❑ Claim typically cannot exceed \$100,000.

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### Reinsurance

- ❑ Reinsurers assume financial consequences of a loss otherwise payable by the original insurer.
  - ❑ Each insurer has its own reinsurance procedures.
  - ❑ Each insurer sets a dollar threshold for the amount of loss requiring notice to the reinsurer.
- ❑ Reinsurers have the right to participate in a claim's investigation and settlement.

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**Practice**

- Which one of the following statements is correct regarding the right of subrogation?
- A. The insurer has the right to receive only the amount it has paid in a claim.
  - B. Some policies permit the insured to waive rights of recovery after a loss.
  - C. It is the most common approach used to resolve insurer disagreements regarding overlapping coverage.
  - D. The insurer's decision not to pursue subrogation precludes the insured from pursuing a negligent third party.

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