

Module J Unit 17F

SERVICE PROVIDERS - CLAIMS HANDLER, LAWYER, LOSS ADJUSTOR

Purpose

At the end of this unit the participant should understand the roles of Claims Handlers, Lawyers and Loss Adjustors and the circumstances in which they might typically be deployed.

Assumed knowledge

None

Summary of learning outcomes
1. Explain when it is appropriate to appoint a Claims Handler
2. Explain when it is appropriate to appoint a Lawyer
3. Explain when it is appropriate to appoint a Loss Adjustor
4. Explain what type of claims the insurance manager will be able to deal without external support

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17.0 CLAIMS HANDLERS

Insurance Management companies are often able to handle simple and infrequent claims when the captive is writing direct insurance policies.

When it is anticipated that there will be a high volume of routine claims it is common for the captive board to consider the appointment a firm that specialises in claims handling in the territory where the claims will arise.

This relieves the administrative burden on the captive manager and also contains the costs of handling those claims as the costs of the claims handler will usually be lower than those of an Insurance Manager based in the domicile of the captive.

Perhaps most importantly it should enable the efficient and timely settlement of the claims which will be the primary expectation of the claimant, be that a subsidiary of the group or a third party claimant.

It is important that the captive enters into a service level agreement with the chosen claims handler which sets out clearly the responsibilities and authority of the claims handler to manage and settle claims on behalf of the captive.

The captive must monitor the claims handler's performance as an "outsourced service provider" and the service level agreement should contain key performance indicators against which the performance of the claims handler can be assessed.

Due to the simplistic nature of certain claims which a claims handler is asked to deal with, it is not unusual to remunerate on the basis of a fixed fee per claim. More complex claims may require a fee based on hours incurred.

It is likely to be necessary for the captive to provide the claims handler with a claims fund from which to settle claims. This must be carefully documented, with funds being held for the account of the captive and payments made being regularly monitored by the Insurance Manager. Typically, this fund will be topped up by the Insurance Manager monthly.

17.1 LAWYERS

Some law firms specialise in providing claims handling services and this is typically in respect of complex liability insurance coverage where the level of indemnification is likely to be reflect the actions or lack of action of the insured, market practice and case law.

The lawyers will sometimes be delegated to agree settlement of a claim on behalf of the captive up to a given sum, above which the matter must be referred back to the captive board.

Appointment of lawyers is often best practice where the claim is complex, has the potential to require a significant settlement, appears to be contentious or is a class action where the outcome could have a significant impact upon the finances of the captive.

Lawyers will typically be remunerated on a time spent basis. Again, a formal agreement should be put in place for their appointment.

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17.2 LOSS ADJUSTORS

Loss adjustors can undertake the role described above for claims handlers but more frequently they are appointed by captives and indeed the conventional insurance market to assess and manage large or complex claims.

Loss adjustors are professionally qualified and bring a level of expertise far beyond that one would expect from a claims handler.

Their role is to investigate the circumstances of a claim and assess whether the claim is covered by the terms and conditions of the policy. They will also estimate what the cost of the claim is likely to be to enable the captive to establish a reserve, and then liaise with the insured to seek to contain the cost of the claim whilst recommending appropriate level of indemnification to the insured.

It is not the role of the loss adjustor to settle the claim but rather to act on behalf of the captive and make recommendations to the captive board for consideration.

The loss adjustor will be paid, by the captive, a fee for the work undertaken. This fee will be calculated based on time committed at pre-agreed fees for members of staff committed to adjusting the loss. There will be a service agreement in place with the captive and performance will be monitored by the board.

It is usual for the captive and the insured to agree on the appointment of the loss adjustor at the inception of a policy where a loss adjustors services are likely to be required. This means that upon the event of a large or complex loss occurring the insured can notify the loss adjustor immediately and then the captive so as to allow the adjustor to make contact and be on site quickly which can be most important in minimising the impact of any loss.

17.3 REINSURERS

It is common for reinsurers to wish to have some control in relation to claims management. They may wish to be a party to agreeing which law firm or loss adjustor is to be appointed by the captive, and certainly they will want to have access to all their reports. For claims of a given size it is not unusual for the reinsurer to require that the captive pass control of the claim process to the reinsurer.

Regardless of the above, it is important that reinsurers are promptly informed of claims that may impact on the coverage they are providing, be that for a single loss or for an aggregation of claims, and are regularly kept apprised of developments and potential settlements which may require their prior approval. Failure to do so could lead to a claim recovery by the captive on its reinsurance arrangements being denied.

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Self-test questions

Answering these questions will remind the participant as to what has been learnt. Once completed, please check your answers against the relevant text.

1. How are Claims Handlers normally remunerated?
2. When should a Lawyer be appointed and should a contract/engagement letter be entered into?
3. Why is it important to keep the reinsurers apprised of any large claims?
4. Will a Loss Adjustor settle all claims on behalf of the insurer?

Summary of learning outcomes

1. Explain when it is appropriate to appoint a Claims Handler
2. Explain when it is appropriate to appoint a Lawyer
3. Explain when it is appropriate to appoint a Loss Adjustor
4. Explain what type of claims the insurance manager will be able to deal without external support