



TRUST

# CLAIMS MANAGEMENT IN GENERAL INSURANCE

Presented by  
Trust Reinsurance Broker



TRUST

# Outline

- Introduction, Why Claims Management?
- What is Risk Management
- Insurance as risk management tool
- Technical Principles of Insurance
- Legal principles of insurance
- Factoring the Technical and Legal principles in practice
- Claims Handling Vs. Claims Management
- Claims Handling
- Claims management
- Claims Department, objectives, role and responsibilities
- Importance of improving claims management
- Reinsurance and claims management
- Guidelines for good practice for Claims Management
- Challenges facing Claims Management
- RECAP



TRUST

# *Why Claims Management?*

- Any insurer's success is often defined by one factor: *how efficient is their claims management*
- Claims are the heartbeat of the industry
- Claims are the defining moment in the relation between insurer/insured



TRUST

# Why Claims Management?

## □ What is the position in Egypt?

- Claims surveying
- adjusting companies
- Process/resources
- Personal experience

## □ The latest effects on the market:-

- HR, Recruiting Claims employee
- The competition
- Unstable economical environment
- Devaluation of EGP



TRUST

# What Is Risk Management?

□ Risk Management in six questions:

1. **The Objective** What are we trying to achieve?
2. **Identification of risks** What might affect us?
3. **Weight, significance and prioritization** Risk assessment, risk evaluation and risk analysis. Which of the risks are more important?
  - **Probability (Frequency)** How likely is it to happen?
  - **Severity** If it happen, what are the effects and the extent of such effects?
4. **The Plan** What shall we do about it?
5. **The Outcome** Did it work?
6. **Risk management is a continuous process** What changed?



TRUST

# *Insurance as a Risk Management Tool*

- Should insurers worry about their own risks?
- The concept of Insurance as a risk transfer mechanism
- Insurance as a mechanism by which an entity can reduce the effects of a loss by reducing the factors and effects of uncertainty
- Insurance as an Economic device whereby the organization/ individual substitutes a small certain cost for a large uncertain financial loss.



TRUST

# *Insurance as a Risk Management Tool*

- Social significance of insurance
  
- Insurance as a Cooperative device.
  
- What are the Customers' expectations in insurance?
  - Adequate coverage
  - Defect free policy
  - Quick and fair claims settlement



TRUST

# Technical Principles of Insurance

- ❑ Insurance contract vs Insurance policy
- ❑ Definition of risk
- ❑ Definition of event
- ❑ Characteristics of an insurable risk:
  - A Fortuitous Event (Uncertainty)
  - A Financial loss
  - A Pure Risk
  - Homogeneous Exposure
  - A Particular Risk
  - Ability to prove the loss (time, place and cause)



TRUST

# Technical Principles of Insurance

- ❑ Insurance contract vs Insurance policy
- ❑ Definition of risk
- ❑ Definition of event
- ❑ Characteristics of an insurable risk:
  - A Fortuitous Event (Uncertainty)
  - A Financial loss
  - A Pure Risk
  - Homogeneous Exposure
  - A Particular Risk
  - Ability to prove the loss (time, place and cause)



TRUST

# Legal Principles of Insurance

- ❑ Legal principles have evolved from practices over a period of several hundred years
  
- ❑ Main purpose is to avoid conflict at the time of claim
  
- ❑ The legal principles are:-
  - Utmost good faith
  - Insurable interest
  - Proximate Cause
  - Indemnity
    - Right of Subrogation
    - Right of Contribution (Double Insurance, valued policy, effect of under insurance)



TRUST

# Technical & Legal Principles in Practice

- Preamble , disclosure- premium payment- Insuring clause,
- Included (covered) / excluded risks,
- Period,
- Misrepresentation,
- Insurable interest,
- Reasonable diligence
- Marine Insurance,
- Claim notification,
- Forfeited interest in case of fraud
- Jurisdiction/ time bar/ arbitration
- Contribution/ average clauses
- Specific CM tools
  - Deductible
  - Pre risk survey
  - warranties/ subjectivities



TRUST

**CLAIMS HANDLING**  
**VERSUS**  
**CLAIMS MANAGEMENT**



TRUST

# Definition of A Claim

- ❑ A claim is a demand by an insured (individual or organization) to the insurer for the payment of benefits under a policy,
- ❑ Claims processing is the gateway to the customers . Focusing on enhancing efficiency and effectiveness of claims functions
  - Efficiency, is the ability to minimize the use of resources in achieving the organizational objective,
  - Effectiveness is the extent to which stated objectives are met. The policy achieved what is meant to be achieved,
- ❑ The speed, accuracy, efficiency and effectiveness of claims processing is paramount for controlling costs, managing risks, and meeting the portfolio underwriting expectations,
- ❑ It is a mission critical that touched upon all parts of the organization affecting competitive positioning, customer service, fraud management, risk exposure, cost control and IT infrastructure.



TRUST

# Claims Handling

- Refers to what insurers do within their four walls of the organization rather than the entire claims lifecycle,
- It refers to a procedure rather than a plan,
- Does not necessarily focus on monitoring and controlling cost,
- It is mainly the role of the claims department,
- Is it mechanical????
- Reactive!!



TRUST

# Claims Management

- Carrying out the entire claims process with a particular emphasis on monitoring and lowering claims costs,
- Has to strike a balance between customer expectations and lowering cost,
- Has to strike a balance between the Customers' expectations ( Which includes paying the full amount and without any delay) and maintaining cost efficiency
- Impact of outsourcing part of the claims handling
- Claims management is the responsibility of all divisions on the company , Marketing, underwriting, supporting divisions as well as top management,



TRUST

# Claims Management

## □ Claims management captures the following:-

- Loss prevention Via
  - Pre risk survey report
  - Imposing risk management aids
  - Properly phrasing cover, exclusions, warranties..
  
- Claims minimization and reduction, should be implemented in the marketing and underwriting phases,
- Prevent fraud, mitigate its impact if it happens,
- Speedy, effective and efficient handling of claims via implementing a proper claims procedure manual,
- Carefully watch the regularity requirement,
- Effective and efficient handling of recoveries and salvages



# Claims Management

## □ Claims management captures the following:-

- Avoid/ minimize chances of taking clients to court, however if it happens, it must be handled in the most professional manner,
- Satisfy the customers and keep them fully informed with the development of their claims,
- Continuous review and development of an integrated IT system that support better handling of claims,
- Proper reserving and continuous reviewing of the technical reserves,
- Produce the periodical set of reports,
- Protect the insurer's balance sheet and shareholders equity via the reinsurance arrangement,
- Lay down and impose procedures for the ex- gratia claims,



TRUST

# Claims Department in the Organizational Chart

- Claims Dept. as part of the underwriting division versus a separate entity,
- Which one do you prefer?
- By separating, are we building walls?
- What are we missing in the separation?
- Claims and Legal departments, is there a chance to combine?



TRUST

# Objectives of the Claims Department

- Has a crucial role in the overall performance and used as a benchmark to differentiate between high performing insurer,
- Assessing the scope, causes, complexity and amount of loss,
- Determine the legal obligation to pay claims,
- Conducts on- site loss inspections and negotiates directly with clients regarding all cover and liability issues and potential loss minimization measures,



TRUST

# Objectives of the Claims Department

## □ Claims manager:-

- works hand in hand with the underwriting departments and continuously passes on his claims experience to the entire team,
- Advise clients on legal and technical matters and continuously passing on claims experience to the entire team,
- Try as much as possible to always make funds available to pay claims when due,

## □ Have the strategic role of maintaining a company's competitive edge by ensuring the provision of high quality service. Claims department is expected to at least meet the standards of service whilst maintain operation within budget,



# Roles and Responsibilities of Claims Department

## □ Functionally responsible for:-

- All claims handling tasks in the company,
- Ensuring that only valid claims are paid,
- Ensuring adequate reserves are set up against outstanding liabilities,
- Exercising control over the technical matters related to claims management,
- Providing advise and support to the underwriting departments as required,
- Handling all claims insurance related legal aspects whether by its own and/ or coordinate with third party,



# Roles and Responsibilities of Claims Department

## □ Functionally responsible for:-

- Developing OPM,
- Reviewing MLAS,
- Reviewing/approving claims within authority,
- Representing the company in all related contacts,
- Maintaining all related technical standards,
- Maintaining contacts with law firms, loss adjusters etc...,



# Roles and Responsibilities of Claims Department

## □ Functionally responsible for:-

- Monitoring claims accumulation,
- Primary contact with all parties regarding major claims,
- Effecting recovery under the company's R/I arrangements,
- Continuously reviewing the adequacy of loss reserves,
- Comparing actual loss ratio with targets and reasons for deviation,
- Liaising with IT management in the automation process of claims,



# Roles and Responsibilities of Claims Department

## □ Functionally responsible for:-

- Supporting underwriters in developing policy wording particularly for new products,
- Disseminating technical information relating to claims handling including development in case law and statute law,
- Ensuring claims records files are maintained in good order,
- Ensuring that efficient claims services is provided to clients,
- Advising senior management on all non- insurance related legal matters and act as an interface between the company and lawyers/ other professionals,
- Producing periodical reports as may be required,



TRUST

# Importance of Improving Claims Management

- Proper claims management is a legal and regulatory requirement,
- In a competitive and service driven market, client satisfaction should be maintained at all times,
- What are the differentiating factors??
  - Pricing,
  - Innovative product AND,
  - Quality of service in general and more particularly the claims service,
- Proper claims management will keep the price competitive,
- Delay in claims settlement is more expensive/ leads to customer dissatisfaction,



TRUST

# Importance of Improving Claims Management

- A dissatisfied customer is the worst publicity. Stop complaints in the first place,
- Attend to the claims of the less fortunate first not necessarily the VIP clients,
- Claims files process must be closely monitored, Avoid unnecessary and time consuming patch ups and trying to sort out later,
- Unpleasant decisions conveyed timely with proper justification is better than procrastination which is bound to create unpleasant situations,
- Proper underwriting is essential,



TRUST

# Importance of Improving Claims Management

## ❑ Defective underwriting:-

- results in complications at the time of settlement of claims,
- Saddle insurers with unwanted claims,
- Any defect / ambiguity in the documents issued goes against insurers
- Claims and U/w departments should not work in isolation,

## ❑ A lot of time/ energy/ money is spent when claim cases go to court,

- In addition to the negative/adverse publicity when the insurer is held liable,



# Importance of Improving Claims Management

- ❑ Insurers must have a corporate claims strategy:
  - The broad approach aiming to provide high quality service,
  - Should specify the nature of the service at each stage of the claim process,
  - Speed of the claims service,
  - The IT , enabled interactive process to know the status of the claim without visiting the office,
  - It should specify grievance readdressing procedure. Claimant should not be treated as an intruder
  
- ❑ 10%/15% out of the total outgo on account of claims is because of leakages, fraud And inflated claims,



TRUST

# Importance of Improving Claims Management

- Claims reserving:
  - Vital part of the claims management process,
  - Adequacy of claims reserving. Insufficient claims reserving is one of the main reasons for insurers going bust,
  
- Solvency aspect and assessing the true picture of the financial health is quite important. Analysis of claims trend help to timely initiate remedial action,
  
- Effectiveness of loss control measure is another important aspect. Average time being taken for the settlement of a claim and claim settlement ratio and how it compares with other operators in the market,
  
- The time gap between the reporting of claim and its ultimate settlement needs to be reduced to the bare minimum,
  
- The attitude of the people handling claims is important,



# Reinsurance & Claims Management

- ❑ What are the main functions of Reinsurance?
  
- ❑ Impact of accepting risks from a variety of Insurers/region
  - Provide loss mitigation and claims handling advices /new products/ trends
  
  - Provide economies of scale to its clients via their accumulative claims experience and knowledge
  
  - Help in rephrasing the policy wording
  
  - Experts attend clients seminars
  
- ❑ List of exclusions despite not appreciated by insurers but it has technical benefits,



# Reinsurance & Claims Management

- ❑ Reinsurance and spread of risk, Company and market wise
  - It creates a partial hardening market.
  - Leads to lengthy discussion between the concerned parties, and market is better informed.
  - List of exclusions differs from one insurer to another, so the list in fact rewards the better equipped/ prepared partners
  
- ❑ Controlling large risks and catastrophes
  - Definition of anyone risk
  - 72 hours clause
  
- ❑ Implications of the different methods of reinsurance on claims management



TRUST

# *Guidelines for Good Practice for Claims Management*

- This guidelines for good practice of claims management is suggested by the Organization of Economic and Cooperation ( OECD)
- Usually, what we see in theory is a bit different from what we actually practice
- Many Claims managers already have their own set of guidelines, most of which would not be far from the ones we are discussing here
- This is just a very general guideline which we can build on and around to come up with the best claims management procedures



# Guidelines for Good Practice for Claims Management

## 1. Claims Reporting

- ❑ Should draw the attention of the insured/ claimant/ beneficiary to the necessity of :-
  - Minimizing losses,
  - Reporting claims duly in a timely manner,
  - Having effective role in the investigation through providing insurer with all relevant information,
  - Authorizing insurer to handle necessary inspection to examine and assess the severity of damage prior to any repairs or replacement,
  
- ❑ Ensure that Claims reporting phase proceeds as smoothly as possible by proving the insured with:
  - An appropriate claim form,
  - The information necessary to help them report the claim,



TRUST

# *Guidelines for Good Practice for Claims Management*

## *2. Receipt of Claim By Insurer*

- Accessibility of the claims department to the claimant,
- Contact the claimant or at least acknowledge the receipt of the notification,
- If the claim cannot be settled promptly, notify the insured with the situation and a feedback within time frame,
- Send the insured the list of the required documents.
- Immediately notify the insured, if the claim is not covered, explaining WHY,
- If the claimant is not the beneficiary, send him/ her information on his/her rights and duties when relevant,
- Notify the insured with the main principles governing the subrogation procedure,



TRUST

# Guidelines for Good Practice for Claims Management

## 3. Claims Files & Procedures

- Claim filing number,
- Policy number,
- Name of PH / claimant/ beneficiary,
- Summery sheet showing development / review of the claim,
- Type of ins.,
- Assessment date,
- Copy of the adjusters investigation report,
- Identity of the adjuster,
- Estimated cost of damage,
- Dates and amounts of payment,



TRUST

# Guidelines for Good Practice for Claims Management

## 3. Claims Files & Procedures

- Opening date,
- Reporting date,
- Date of loss,
- Description of claim,
- Information on claimant,
- Date of denial/rejection if applicable,
- Name of intermediary if applicable,
- Date of file closure,
- Documents recording contacts with the PH,



TRUST

# *Guidelines for Good Practice for Claims Management*

## *4. Fraud Detection & Prevention*

- To curb the growth of fraudulent claims / rise in premium that results therefrom, insurers are expected to take the following steps:-
  - Establish compliance programme for resisting fraud and money laundering appropriate to their exposure and vulnerabilities,
  - Reference in the wording of the policy, / the appropriate law and or regulation should be specifically included in the claims form,
  - Where legally possible, Insurers should participate in relevant database where claims susceptible to be fraudulent should be reported,
  - Always provide claims staff with adequate training on fraud indicators,



TRUST

# Guidelines for Good Practice for Claims Management

## 5. Claims Assessment

### General Issues

- Specific factors such as depreciation , dismounting or negligence on the part of the claimant should be clearly outlined in the claim file,
- Any loss evaluation methods used by the insurer must e reasonable, well-structured and coherent,
- Use internal methods for assessing claims values based on applicable law and jurisdiction,

### Information to PH

- Send the PH/ Claimant/ beneficiary copy of the document used to assess the claim amount



# *Guidelines for Good Practice for Claims Management*

## *5. Claims Assessment*

### The role of claims adjusters

- Need to ascertain the competence and qualification of the Claim adjusters,
- If they commit any errors or misrepresentations that may affect the claimant, insurers are to be held liable,
- Consequently, insurers may decide to limit the scope of action of claims adjusters ( Setting ceilings on the number of claims they can handle)
- Notify the insured whenever using independent claims adjusters,



# Guidelines for Good Practice for Claims Management

## 6. Claims Processing

### □ General Issues

- Claims OPM has to be kept up to date. Updating should be assigned to one of the staff member,
- Insurers claims staff should possess proper qualifications,
- To establish this, insurers must encourage ongoing internal or external training of their staff
- Regular internal audits for all claims not settled in their entirety. Internal audits apply to all stages of the claims management process.
- In case of a claims settlement procedure involving several insurer, PH indemnification is a priority, claim should be settled while the potential dispute between insurers is to be resolved at a later stage.
- Specific agreements should be preliminary concluded between insurers in order to accelerate and simplify claims settlement,



TRUST

# Guidelines for Good Practice for Claims Management

## 6. Claims Processing

### Insurance Companies **Should not:**

- Cancel policy coverage provisions of any insurance policy when they are pertinent to a claim,
- Dissuade PH/ Claimant/ Beneficiary from obtaining the services of an Attorney or adjuster,
- Attempt to settle claims for less than the amount to which the claimant is entitled as per written or printed advertising material accompanying the application forms, however insurers may take the necessary action against any intermediary that has made irresponsible promises,
- Deny a claim without reasonable investigation,
- Transfer responsibility for the claim to others, except as may be provided by the policy terms and conditions,



TRUST

# Guidelines for Good Practice for Claims Management

## 6. Claims Processing

- Provision of information to PH
- Keep the PH/ Claimant/ Beneficiary informed of the progress during the claims process, including the time frame within which any payments, repairs or replacement are expected to be made,
- Inform PH/ Claimant / beneficiary when calling upon any third party and the reason for this decision, also fully explain the role that these outside parties shall be performing,
- When a final payment or offer is made, explain to the PH/ Claimant/ beneficiary what this payment represents and the basis used for the adjustment and calculation of the payment/ settlement,
- Make proper documentation in the claims files in order to be able to address questions that may arise,



# *Guidelines for Good Practice for Claims Management*

## *6. Claims Processing*

### ☐ Cases of No/Partial Payment of Claims

- If the claim is denied, state explicitly to the PH/ Claimant/ beneficiary the policy provision, condition or exclusion on which the denial is based,
- If the amount offered is different from the amount claimed, the PH/ claimant/ beneficiary is entitled to an explanation of the reasons behind such adjustments,
- If and when the insurer is not liable, notify the PH/ Claimant / beneficiary of this fact and fully disclose the reasons,



TRUST

# *Guidelines for Good Practice for Claims Management*

## *7. Timely Claims Processing*

- Specify the time of response to correspondence from PH/ Claimant/ beneficiary,
- Once a claim is filed, PH/ claimant/ beneficiary must be informed of the acceptance or declinature within a reasonable amount of time,
- Contact any other insurer involved in the claim within a reasonable amount of time and work on resolving inter company disputes, if any, as fast as possible



TRUST

# *Guidelines for Good Practice for Claims Management*

## *7. Timely Claims Processing*

- Insurers should take all necessary action to enable them to settle the claim ASAP and advise PH/ Claimant/ beneficiary for any delay
- Once an agreement has been reached, the payment should be effected within a reasonable amount of time,
- Implement and update the statistical database tracing their performance in settlement of claims as well as the trends in settlements and expenses, A proper procedure for the coding and statistical processing of losses should be developed.



# *Guidelines for Good Practice for Claims Management*

## *8. Complaints & Disputes*

- When the PH/ claimant/ Beneficiary files a complaint, the company should:-
  - Acknowledge receipt of the complaint within a reasonable amount of time,
  - Provide PH/ claimant/ beneficiary with a detailed account on how their complaints shall be handled and on the protocol to be followed,
  - Provide information on internal and external disputes settlement procedures



TRUST

# Guidelines for Good Practice for Claims Management

## 8. Complaints & Disputes

- Process all complaints promptly and fairly,
  - Keep them regularly informed of how their complaints are progressing,
  - Provide a final response in writing within a reasonable period of time,
- ☐ If PH/ claimant/ beneficiary is not happy with the final response, they can activate an internal appeal procedure. They may go to the regulator. Insurer must inform the client of the existence of these appeal procedures.



# *Guidelines for Good Practice for Claims Management*

## *9. Supervision of Claims Related Services*

- Insurance supervisory authorities may conduct examinations on claims management services especially where problems are suspected. The following elements are to be taken:-
  - Possible access to all non confidential claims data for all open and closed files within a specified time frame,
  - Maintaining of sufficient and appropriate information on claims files,
  - Use of claims forms appropriate for the type of insurance,
  - Ensure proper qualification of the claims department's employees
  - Valuation of claims payments according to company procedures,



# *Guidelines for Good Practice for Claims Management*

## *9. Supervision of Claims Related Services*

- Appropriate tracking of the nature and number of complaints related to claim management process,
- Monitoring of the proportion of claims that result in litigation,
- Compliance with procedures for avoiding and fighting fraud and money laundering,
- Regular internal audit practices of claims files,
- Appropriate internal claims procedures manuals,
- Proper procedure for coding and statistical reporting of losses,
- Performance in terms of the speed of claims settlement ( As assessed in 7 above),



TRUST

# *Guidelines for Good Practice for Claims Management*

## *10. Market Practices*

- The Bench marking,
- The terms of remuneration of insurers employees or other services in charge of claims, does it incentivizes them??,
- Does it reflect badly on the Customers?,



TRUST

# Challenges Facing Claims Managers

- ❑ The Value chain analysis, a basic tool for examining all the activities a firm performs and how they interact in analyzing the sources of competitive advantage,
- ❑ The Value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing potential source of differentiation,
- ❑ A firm thus gains a competitive advantage by performing the strategically important activities at a lower cost, offer higher efficiency than its competitors,
- ❑ The aim of the value chain framework is to maximize value creation while minimizing costs, in order to gain competitive advantage,



TRUST

# Challenges Facing Claims Managers

- ❑ The Value chains are classified into two categories:
  - Primary activities, identifies as, marketing, underwriting and claims handling,
  - Support activities, Include corporate management, HR, It, Finance, etc...,
  
- ❑ There are of course third party service providers, including, PR, consultants, Advocates, Surveyors, and loss adjusters,
  
- ❑ Shall concentrate on the Claims function,
  
- ❑ Insurers should try their best to keep the balance between the speedy and effective handling of claims and providing protection against fraud,



TRUST

# Challenges Facing Claims Managers

- If claims are processed efficiently and effectively, customers are more satisfied and likely to be maintained,
- The claim is the ultimate moment of truth in the insurer/ insured relationship
- Insurers reputation, not to mention ability to conduct business, can be dramatically affected by how it administers claims.
- The Challenge, New or difficult task that tests a person's ability and skills
- In terms of CM, it is a factor that hinders effective performance of the claims function
- Major challenges are explained in the following slides



TRUST

# Challenges Facing Claims Managers

## 1. FRAUD DETECTION & PREVENTION

- Fraud is a deliberate act done with intent to deceive,
- It is an omission or act intended to make one gain advantage unlawfully or dishonesty in dealings that may be achieved by intentionally concealing, suppressing, misrepresenting or non disclosure of material fact pertinent to transactions or financial decisions, misappropriating assets, and abusing fiduciary responsibility or position of trust.
- A claim is said to be fraudulent if the insured makes false statement in his claim, intentionally provides inaccurate information statements, or makes statements carelessly without paying much attention whether they are true or not
- Insurer has the right to decline the claim if fraud is proved,



TRUST

# Challenges Facing Claims Managers

## 1. FRAUD DETECTION & PREVENTION

- Insurer have had to undergo very tough times and incur huge payments in claims, some of which have proved to be fraudulent,
- Fraud is perpetrated by cartel of crooks through non existent of exaggerated claims,
- If a fraudulent claim is paid, insurers loses money to fraudsters, and may resort to increasing premium which affect both the good and bad clients,
- If fraudster gets away with it, they may be tempted to continue this practice in the future.



TRUST

# Challenges Facing Claims Managers

## 1. FRAUD DETECTION & PREVENTION

### □ Types of Fraud

- **Hard fraud**, Which occurs when a person intentionally, and completely fakes a claim or deliberately misrepresents the circumstances of a claim,
- **Soft fraud**, which occurs when a person has a valid claim, but falsifies part of the claim or exaggerated damages in order to obtain the maximum benefit,
  - ✓ Many people do not consider this to be as serious as the hard fraud, however it is still a crime and can result in increased insurance costs for clients,



TRUST

# Challenges Facing Claims Managers

## 1. FRAUD DETECTION & PREVENTION

### Classes of Fraud

- Internal Fraud
- Intermediary fraud
- Policyholder fraud
- Insurer Fraud,

Most of the fraud cases go unnoticed. So it is hard to determine the exact amount of money lost in fraud cases,

However it is believed that 10- 15% of the insurance industry's total annual losses are due to fraudulent claims,



TRUST

# Challenges Facing Claims Managers

## 2. CASH FLOW CONSTRAINTS

- Cash Flow management is the process of monitoring, reviewing and regulating a company's cash flows,
- Cash flow Statement reports a company inflows and outflows for a period of time,
- What cash inflow and outflow for an insurer,
- Why an insurer may experience cash flow constraints?,



TRUST

# Challenges Facing Claims Managers

## 2. CASH FLOW CONSTRAINTS

- Whilst claims payment usually takes the largest % of an insurer's cash outflow, claims payment is the one affected the most when a company has cash flow constraints,
- The Situation in Egypt,
- Loss ratio for 2014, 2015 and 2016 is 51, 54, and 59% respectively
- What is the impact of an insurer having Cash flow constraints??,



TRUST

# Challenges Facing Claims Managers

## 3. CLAIMS PERSONNEL

- In a service industry, contact employees are the face of the organization and can directly influence the customer satisfaction ,
- The difference between one service supplier and another often lies in the attitude and skills of their employees,
- The best defense against fraud is a well trained claims staff. The process of uncovering and resisting fraud begins in the claims department,



TRUST

# Challenges Facing Claims Managers

## 3. CLAIMS PERSONNEL

- What is required??
  - Recruit, train and retain intelligent and competent staff
  - Delegate authorities,
  - Decisions with serious ramifications on the business are not left to inexperienced or incompetent staff.
  
- Cost o leaving / replacement of well trained staff,
  
- Indirect cost associated with loss of employees,
  
- If the insurer is not an attractive employer , retentions of competent and qualifies staff may be a major challenge



TRUST

# Challenges Facing Claims Managers

## 4. INFORMATION TECHNOLOGY SUPPORT

- To be successful, insurers need to improve the operational efficiency of their claim organizations/ build an operating model that can minimize claim costs as well as eliminate the unnecessary expenses associated with claims handling,
- In high volume or highly complex operations, inefficient or sub- optimal process steps can be replicated often with costly implications .
- Many insurers have distinct claim operations, personnel and units that focus on the products they offer which results in massive claim organization with unique unit configurations,
- Insurers struggle to maintain control over these organizations and implement consistent models for managing claim operation,



TRUST

# Challenges Facing Claims Managers

## 4. INFORMATION TECHNOLOGY SUPPORT

- So what options should be considered to best drive claim transformation??,
- Implementing effective , supporting technology to improve claims management across the organization,
- Often overlooked are the people and process components of a more holistic improvement initiative, something that packaged solutions are not necessarily positioned to address,
- What are the main features of any IT claims management system?,
- Automatically aligns adjusters and resources under an optimized claim process,
- Claims processes are not unique. FNOL, segmentation, and assignment, subrogation, investigation, are actually similar when you break them down to their core processes,



TRUST

# Challenges Facing Claims Managers

## 4. INFORMATION TECHNOLOGY SUPPORT

- Insurers can reutilize this commonality to quickly transform claim operation for competitive advantage,
- The platform should provide insurers with the ability to leverage a core best practice claim process. Applying the best core business practice across the organization ensures the optimal claims process is available,
- By focusing on opportunities to optimize and reuse best practice business processes, insurers can break the manual or exception claim processing. Then they create competitive advantages. They benefit from increased customer satisfaction and higher market share,
- To contain cost, insurers need to automate work that is of little value to the organization .Insurers can realize efficiency , expense and productivity gains by using work automation to manage simple claims,
- it also provide end to end visibility into a claim event or claim operation,



TRUST

# Challenges Facing Claims Managers

## 5. WEAK UNDERWRITING STANDARDS

- ❑ Underwriting refers to the process of evaluating a proposal that comes from insurance and making a decision of whether to accept the proposal or not. If accepted, at what price, and on what terms, conditions and scope of cover,
  
- ❑ *The underwriters prime responsibilities, in addition to the above:-*
  - No adverse selection nor moral hazard,
  - Prevent fraud,
  - Ensure that the premium charged is commensurate with the risk exposure,
  
- ❑ The wrongly worded policy document, incomplete proposal forms, agents completing proposal forms on behalf of the insured are another challenges,



TRUST

# Challenges Facing Claims Managers

## 5. WEAK UNDERWRITING STANDARDS

- Underwriters do not adhere to internationally accepted underwriting standards, and as a result underwriters underestimate the level of risk and charge premium which is less than the risk exposure?
- What happens when the level of claims exceeds premium???
- Quality of underwriting in EGYPT. A topic for discussion



TRUST

# Challenges Facing Claims Managers

## 6. UNPREDICTABLE COURT AWARDS

- In addition to Liability claims, There are other claims wherein the insured had to go to court claiming for his rights under the policy,
- In such cases, judges determine the amount of compensation to the aggrieved party guided by previous cases of a similar nature,
- This leaves the judge with big margin of subjectivity, further court awards vary from court to court and from region to region,
- Consumers of insurance and public in general become very litigious. Until very recently most people in developing countries were not aware of their legal rights, even some of them look at it as Haram,
- Court system is usually sympathetic to the weak party,



TRUST

# Challenges Facing Claims Managers

## 6. UNPREDICTABLE COURT AWARDS

- Moreover as per the interpretation rule, any ambiguity in the terms and conditions of the insurance policy shall be resolved for the best interest of the insured,
- Also courts believe that insurance is not only a risk management tool, it is a methodology to redistribute the wealth, take from the richer( insurer) and give the unlucky ones,
- This is why insurers have been complaining that the awards are unreasonably high,
- Delay in issuing the sentences shall no doubt increase claims costs and made bad publicity,
- Taking your client to court, or forcing him to go to court, what would be the end result???,



TRUST

# Challenges Facing Claims Managers

## 7. INCOMPETENT & CORRUPT SERVICE PROVIDERS

Service providers include:-

- Assessors, investigators, loss adjusters, lawyers, TPA to ascertain whether to pay a claim and if so the amount of compensation,
- Garages are also appointed to carry out repairs,
- The service of defense advocates are required in the legal cases,

Insurers expect their service providers to adhere to the set of customer service benchmarks and exercise a high level of integrity,

Also they are expected to assist insurer to reduce claims costs,



TRUST

# Challenges Facing Claims Managers

## 7. INCOMPETENT & CORRUPT SERVICE PROVIDERS

□ Usually, this may not happen:-

- Lack of necessary skills to perform the task
- or lack of integrity,
- not attach as much importance to customer retention,
- try also to please customer and fully agree to their full set of requirements which is as bad as dissatisfying them,



TRUST

# Challenges Facing Claims Managers

## 7. INCOMPETENT & CORRUPT SERVICE PROVIDERS

- It has become quite normal to hear a client asking to go for a specific Garage or TPA, or a loss adjuster. That may ring the bell for the insurer,
  
- This shall result at the end of the day :-
  - Service to customers may be compromised,
  
  - Insurers shall at the end of the day shall bear the consequences of such extra service,



TRUST

# Challenges Facing Claims Managers

## 8. UNDER INSURANCE

- The situation where your insurance cover – what your insurance policy will pay out in case of a loss and subsequent claim- is less than what it would cost to replace the lost items,
- The occurrence where there is a shortfall between the amount of cover selected and the actual replacement value of what is being lost
- The principle of average,
- Applied for three main reasons:-
  - To prevent under insurance
  - To obtain full premium for the risk the insurer is carrying
  - To ensure that each party bears fair share of each loss



TRUST

# Challenges Facing Claims Managers

## 8. UNDER INSURANCE

❑ The Average Clause is applied for three main reasons:-

- To prevent under insurance
- To obtain full premium for the risk the insurer is carrying
- To ensure that each party bears fair share of each loss

❑ Average formula ,  $\text{Sum insured} / \text{Value at risk} \times \text{amount of loss}$ ,



TRUST

# Challenges Facing Claims Managers

## 8. UNDER INSURANCE

- ❑ One of the main sources of inconvenience to the industry as it creates:-
  - Delay in claims settlement with its associated increased cost,
  - Bad publicity to insurance sector,
- ❑ Insurers claim that they have nothing to do in determining the sum insured and assess it only at the time of claim WHY???,
- ❑ Insurance industry long time ago created solutions to the issue of average clause, Replacement Value, Valued Policies, New for Old, 85% Average Clause, yet it remains a major challenge



TRUST

# Challenges Facing Claims Managers

## 9. OTHER

- Organizational issue
- Claims adjustment companies/ individuals



TRUST

# *Recap & Discussions*



TRUST



Thank you!