The Claim Function and Professional Ethics

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GOALS OF THE CLAIMS FUNCTION

The goals of the claims department include keeping the insurer's promise made in the policy and supporting the insurer's profit goal.

People purchase property-casualty insurance policies to protect against financial losses. When policyholders make claims under their insurance policies, the insurer is called on to honor the promise made in the policy—namely, to indemnify the policyholder for financial losses. This does not imply that the insurer should or will pay every claim that is presented; rather, it implies that the insurer's claims department will conduct a good-faith investigation of a claim and pay only legitimate claims that are covered by the policy.

An insurer's senior management establishes the goals for the claims function. In doing so, managers must equally consider the needs of the insurance customer (the policyholder) and the needs of the insurer. The claims function typically has two primary goals:

- Keeping the insurer's promise
- Supporting the insurer's profit goal

Keeping the Insurer's Promise

The first goal of the claims function is to satisfy the insurer's obligations to the policyholder as set forth in the insurance contract. In a property insurance policy, the insurer's promise is to pay for direct physical loss to covered property by a covered cause of loss. In a liability insurance policy, the insurer's promise is to pay on behalf of the insured any damages for which the insured is legally liable because of bodily injury, property damage, or other specified types of injury caused by an accident, up to the applicable limit of insurance. The insurer also agrees to defend the insured against claims or suits seeking damages covered by the policy.

The insurer fulfills its promise by providing fair, prompt, and equitable service to the policyholder either directly, when the loss involves a **first-party claim** made by the policyholder against the insurer, or indirectly, when the loss involves a **third-party claim** made against the policyholder by someone to whom the policyholder may be liable. See the exhibit "First-Party Insurance and Third-Party Insurance."

First-party claim
A demand by an insured person or organization seeking to recover from its insurer for a loss that its insurance policy may cover.

Third-party claim
A demand against an insured by a person or organization other than the insured or the insurer, seeking to recover damages that may be payable by the insured's liability insurance.

First-Party Insurance and Third-Party Insurance

Insurance coverage is often referred to as either first-party insurance or third-party insurance.

Property insurance is considered first-party insurance because the insurer (second party) makes payment for covered losses directly to the policyholder. Liability insurance is considered third-party insurance because the insurer makes payments on behalf of the policyholder (first party) to a claimant (third party) who is injured or whose property is damaged by the policyholder.

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Claimant

A party that makes a claim and that can be either a first-party claimant or a third-party claimant.

Claims representative

A person responsible for investigating, evaluating, and settling claims.

The insurance contract is marketed not only as a financial mechanism to restore policyholders and other **claimants** to a pre-loss state, but also as a way for policyholders to achieve peace of mind. For a claimant, a loss occurrence and the consequences are not routine and can be overwhelming. A **claims representative** should handle claims in a way that promotes peace of mind for the policyholder who has suffered a loss and that quickly restores a claimant to his or her pre-loss condition.

Supporting the Insurer's Profit Goal

The second goal of the claims function is to support the insurer's profit goal. Achieving this goal is generally the responsibility of the marketing and underwriting departments; however, the claims function serves a role in generating underwriting profit by controlling expenses and paying only legitimate claims.

By managing all claims function expenses, setting appropriate spending policies, and using appropriately priced providers and services, claims managers can help maintain an insurer's underwriting profit. Similarly, claims staff can avoid overspending on costs of handling claims, claims operations, or other expenses. Finally, by ensuring fair claim settlement, claims representatives prevent any unnecessary increase in the cost of insurance and subsequent reduction in the insurer's underwriting profit.

Policyholders and other claimants are likely to accept an insurer's settlement offer if they believe they are receiving fair treatment. Parties who believe they have been treated unfairly may seek to settle their differences with the insurer by filing lawsuits. Litigation erodes goodwill between the parties and generates increased claims expenses, reducing the insurer's profitability. Additionally, dissatisfied policyholders or claimants may complain to their state insurance department, and, if the state regulatory authorities find fault, an insurer may be subjected to regulatory oversight or penalties. Costs associated with regulatory action can further erode an insurer's profits.

An insurer's success in achieving its profit goal is reflected in its reputation for providing the service promised. A reputation for resisting legitimate claims can undermine the effectiveness of an insurer's advertising. Consequently, the two goals of the claims function work together in support of a profitable insurance operation.

CLAIMS DEPARTMENT STRUCTURE, PERSONNEL, AND PERFORMANCE

Because the claim function is crucial to an insurer's promise to pay covered losses, an insurer's claim department must operate efficiently.

The loss payments, expenses, and other information generated by the claim department are essential to marketing, underwriting, and pricing insurance products. Claims personnel are among the most visible of insurer employees to insureds and the public and therefore must be able to interact well with a variety of people. Examining the structure, personnel, and performance of an insurer's claim department helps explain how it operates.

Claims Department Structure

An insurer's claims department can be organized in several different ways. A sample departmental structure can illustrate the various claim positions within the department. See the exhibit "Claims Department Organization Chart."

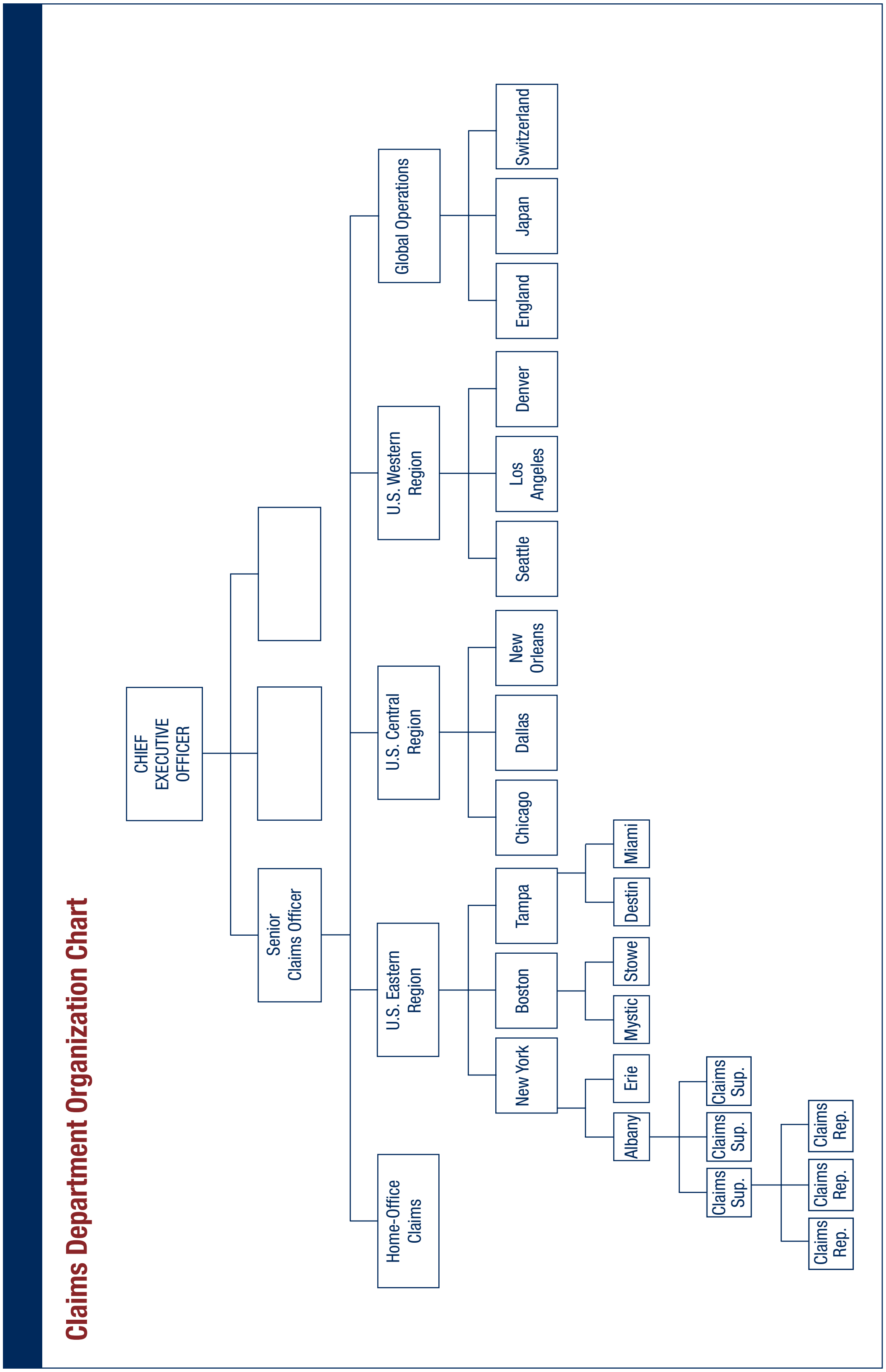
Usually, a senior claim officer heads the claims department and reports to the chief executive officer, the chief financial officer, or the chief underwriting officer. The senior claim officer may have a staff located in the same office. This staff is often called the home-office claims department. Within the home-office claims department, any number of technical and management specialists can provide advice and assistance to any remote claim offices and claim representatives.

The senior claims officer may have several claim offices or branches countrywide or worldwide. Staff from remote claim offices can all report directly to the home-office claims department, or regional/divisional claims officers may oversee the territory. Regional claims officers may have one or more branch offices reporting to them. Each branch office may have a claims manager, one or more claims supervisors, and a staff of claims representatives. Similar department structures are adopted by **third-party administrators (TPAs)**.

Third-party administrator (TPA)
An organization that provides administrative services associated with risk financing and insurance.

Claims Personnel

A claims representative (a generic title that refers to all who adjust claims, except for public adjusters) fulfills the promise to pay the insured or to pay on behalf of the insured by handling a claim when a loss occurs. People who handle claims may be staff claim representatives, independent adjusters, employees of TPAs, or producers who sell policies to insureds. In addition,


Claims Department Organization Chart
CHIEF EXECUTIVE OFFICER
Senior Claims Officer
Home-Office Claims
U.S. Eastern Region
U.S. Central Region
U.S. Western Region
Global Operations
New York
Boston
Tampa
Chicago
Dallas
New Orleans
Seattle
Los Angeles
Denver
England
Japan
Switzerland
Albany
Erie
Mystic
Stowe
Destin
Miami
Claims Sup.
Claims Sup.
Claims Sup.
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