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Achieving Best Practice in Claims

A guide for Risk Managers

Guide 2015

Contents

Introduction

The objective for an organisation is to achieve a claims handling approach that ensures claims are managed in a consistent, flexible and fair manner. The claims handling approach must feedback into the organisation informing continuous improvements in claims performance, insurance programme relevance and the organisation's overall risk and incident management.

Risk manager surveys consistently reveal that claims-related issues are one of their biggest concerns. Claims outcomes are ultimately the acid test of any insurance programme so effective claims handling is a vital issue for policyholders and insurers alike.

In 2009, Airmic released '**Delivering Excellence in Insurance Claims Handling**', a best practice framework for **insurers** to assess the capabilities of their claims services. However, to see an overall improvement in claims performance, excellence needs to start *within* the organisation themselves.

As Karen Dawson, Assistant Insurance Manager at BAM Construct, advises; "*Organisations that invest in a quality resource consisting of an experienced claims professional will consistently be able to demonstrate improvements in claims outcomes, possibly including a reduction in claims spend. However, risk and insurance managers have difficulties in convincing their boards of the importance of this.*"

This updated guide builds upon Airmic's earlier framework to provide practical guidance for the **insured's own insurance and claims team** to evaluate is overall approach to claims handling in a structured and objective way.

Airmic recognises the wide range of claims handling arrangements and risk transfer structures utilised by Airmic members. This guide is predominantly directed at Airmic members who have some responsibility for claims handling. However, the overall principles and considerations are the same whether claims handling remains in-house or is outsourced to a third party. The overall objective is to achieve a claims handling approach both internally, and through effective partnerships with insurers, brokers and other service providers, that ensures claims are managed in a consistent, yet flexible and fair manner.

Structure of the guide

The guide is structured to provide information on eight key components that must be in place in order to achieve excellence in claims handling. The eight components are as follows:

1. **Culture and philosophy**
2. **Structure**
3. **Infrastructure**
4. **People**
5. **Claims procedures**
6. **Communication**
7. **Data management**
8. **Monitoring and performance review**

Section 1 of the guide outlines the meaning and importance of each component before proposing a list of considerations for the in-house team to assess its own operations and how it integrates its claims handling approach with that of its insurer and service providers. As well as evaluating current performance, the guide can also be used as a means of identifying areas for improvement.

Section 2 of the guide reinforces the need for in-house insurance and claims managers to ensure best practice not only within their own operations, but also within the service providers they engage with. Claims manager Angela Doran advises: "*One of my pet grievances is that insurance companies tend to get involved only once a claim has already arisen, by which point time is a scarce commodity.*" Section 2 proposes a list of key topics to be discussed during insurer selection and placement, to ensure that effective and efficient claims procedures are agreed and understood at the outset of the policy.

Section 1: Components of best practice

Component 1: Culture, philosophy and governance

The culture of an organisation describes the typical behaviour patterns of the individuals who work there, and should align with the brand and reputational image chosen by the organisation. The culture and philosophy of an organisation must be set out and supported at the highest level, demonstrated by the claims handling function having access to senior management. Adequate governance and controls must be in place to ensure the culture is reflected through the practices and procedures in place at all levels of the organisation and its service providers.

In the context of claims, the prevailing philosophy and culture can be played out in a variety of ways, for example in whether a hard line or commercial approach is taken. In order to achieve best practice, it is essential that a culture of excellent customer service and customer-focused claims management prevails. Finally, controls must be in place to ensure compliance with applicable legal and regulatory requirements relevant to the organisation and / or its service providers.

Demonstrating best practice in Culture, Philosophy and Governance

IN-HOUSE CONSIDERATIONS

- Full commitment from the Board and senior management towards the claims approach adopted by the organisation, with the understanding that the timely and efficient handling of claims is a critically important function
- Fully documented philosophy for claims handling, including documented arrangements for escalation to and oversight from senior management.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Claims philosophy is shared and agreed with insurers and service providers, ensuring seamless handling of claims and negotiations with claimants
- Contracts with insurers and service providers confirm their compliance with appropriate statutory and regulatory requirements.

INSURERS AND SERVICE PROVIDERS

- Adequate top-level governance and control is in place at service providers to ensure the agreed philosophy is achieved
- Procedures are established for regular monitoring and review of service providers, ensuring the approach and philosophy reflects any changes in the insured organisation's objectives and approach.

Component 2: Structure

The structure component considers both the roles, responsibilities and accountabilities of the insurance team, and where the function sits within the wider organisation. Where claims handling has been outsourced to another party, the relationship between this party and the insured organisation must be considered.

The structure adopted will depend on the type and number of claims received by the organisation, as well as the availability of budgets and resources, and the organisations view of risk to reputation and brand. The structure chosen, regardless of whether claims are handled internally or externally, will guarantee that experienced and qualified senior staff are always available to supervise operations and ensure adherence to established procedures. The structure should support consistent, high quality and fair claims handling, and be transparent and understood by all stakeholders.

Demonstrating best practice in Structure

IN-HOUSE CONSIDERATIONS

- Full structure chart and process flowcharts for the in-house insurance function prepared, including decision-making, authority levels and referral procedures (both internal and external)
- Reporting lines within the insurance function and beyond into management are clearly defined and understood by appropriate stakeholders.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Structure charts, process flowcharts and contact details are shared with insurers, brokers and other relevant service providers ona reciprocal basis, and are reviewed regularly
- The role and procedures adopted by the claims handling function are clarified and documented in the renewal and market placement presentation.

INSURERS AND SERVICE PROVIDERS

- Appropriate relationships are forged and documented beyond the claims team of the insurer, e.g. include the insurer underwriting function in all structure charts
- External service providers commit to maintain an optimal structure where changes to the team are agreed with the insured beforehand.

Component 3: Infrastructure

Excellence in claims handling requires a robust infrastructure and a range of other non-people resources. Non-people resources include IT and claims systems, document management systems, premises and facilities. Appropriate infrastructure must be in place both internally and within service providers to sufficiently handle the number, value, nature and complexity of claims received, and to enable communication with all stakeholders.

Initially, the insured must understand and approve the information required at all levels within the organisation, as well as that required by the insurer and other stakeholders. Once clarified, appropriate systems to capture, store, retrieve and analyse such information can be adopted internally and externally. Finally, it is critical that all relevant organisations adopt, test and improve business continuity plans, to ensure business resilience.

Demonstrating best practice in Infrastructure

IN-HOUSE CONSIDERATIONS

- Organisation's premises are installed with appropriate technology to capture, store and retrieve incident information that is relevant to claims handling
- Internal systems in place are designed for handling incident and claims information in an efficient manner and for producing relevant management information reports.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- The internal claims system adopted is compatible with other relevant databases internally, e.g. risk management, finance and accident databases, and allows sharing of data externally on a reciprocal basis, e.g. TPA claims database.

INSURER AND SERVICE PROVIDERS

- Business plans in place to develop and enhance the IT infrastructure, ensuring it remains up-to-date with changes in the claims landscape, e.g. MOJ reforms
- Continued investment in IT infrastructure eliminates any legacy systems
- Claims management system has built-in checks and access to external sites (including social networking sites) to help verify claimant data and assist with the detection of fraud.

Component 4: People

This component covers the skills and capabilities of any internal and external teams handling claims for the insured organisation. The specific roles and responsibilities undertaken as well as the types, volumes and complexity of the claims expected will define the skills sets, capabilities and staff numbers required.

The key elements of best practice remain the same whether claims handling is retained in-house or outsourced to other parties, and these have therefore not been separated below. As well as relevant skills and experience, the capabilities of the function must remain current. Therefore, continued training and development supported by monitoring and review of the people involved is an essential factor in maintaining the resilience of the claims function.

Demonstrating best practice in People

THE SKILLS, EXPERIENCE AND CAPABILITIES WITHIN THE CLAIMS HANDLING TEAM

- Match the number and technical capability of staff to the nature and complexity of the risks and case load, specifically considering the handling of large / complex claims
- Technical capability demonstrated by progression towards advanced diploma of the CII and up-to-date knowledge of market reforms and civil litigation developments
- Business capability demonstrated through highly developed communication, database / spreadsheet management, decision-making, management of expectations and flexibility.

THE MANAGEMENT OF THE CLAIMS HANDLING TEAM AND SUPERVISION

- **Job descriptions commensurate with ability are prepared and include accountabilities, KPIs, authority levels and supervision for specific tasks**
- **Regular review of caseload, considering number, type and complexity. New claims are matched to a handler's ability and authority, ensuring an appropriate level of service**
- **Workflow processes enable the team leader remote and real-time access to claims information, automated deadline and supervision prompts**

THE TRAINING, DEVELOPMENT AND SUCCESSION PLANNING FOR THE CLAIMS HANDLING TEAM

- Personal development plans and skills profiles prepared for staff and reviewed regularly, ensuring targets, objectives and learning opportunities remain relevant
- Use of internal and external training opportunities, online resources and mentoring for both technical and behavioural development, which are documented in training and CPD records
- Opportunities for enhanced yet supervised responsibility of complex cases and project management provided, developing understanding of the organisation and the wider industry
- Succession planning arrangements are established and linked to career path planning to ensure continuous staff skills are developed and improved.

Component 5: Claims Procedures

Claims procedures should be clearly defined and agreed by the organisation internally and with any outsourced service providers. The claims procedures should efficiently deliver quality handling outcomes in a transparent way that is compliant with the culture and objectives of the organisation.

The insured must consider the following areas when assessing the claims procedures used internally and through service providers. They may wish to document these within a continuously updated procedures manual, ensuring best practice and consistency. Ideally these should be set out, discussed with suppliers and agreed ahead of any outsource provision:

- The definition and maintenance of an appropriate claims infrastructure and resources
- The key transactional stages within the claims process
- Policies on communication, fraud, payment and fund management
- Data requirements and reporting
- Performance requirements and monitoring.

Demonstrating best practice in Claims procedures

IN-HOUSE CONSIDERATIONS

- Established timeframes for claims handling that provides transparency to all decision makers within the process.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Agreed and documented procedures for the involvement of brokers, insurers, TPAs and other specialist advisors, covering roles and responsibilities, authority levels, measurable KPIs and reporting requirements.

INSURERS AND SERVICE PROVIDERS

- Documented procedures that are flexible to the client and reflect the expected number, value and complexity of claims handled, covering the following:
  - Team decision-making authority and referrals process
  - Determining coverage and liability
  - The reserving philosophy
  - Involvement of specialist advisers
  - Documentation to evidence the claim
  - Settlement and claims closure process
  - Contribution and recovery
  - Ensuring compliance with legal / statutory requirements, e.g. Portal compliance
  - Claims logging and reporting to both internal and external stakeholders
  - KPIS and SLAs for both the claims function and service providers
  - Feeding back into the wording development and placement process
  - Key contacts
- A continuous improvement stretch set into the objectives each year which can include reduced claims spend, monitoring of repudiation and litigation rates, rehearsing claims scenarios and highlighting risk management lessons.

Component 6: Communication

This component covers both internal communications within the insured's organisation and external communications with the customer and all other relevant stakeholders.

Internally, communication protocols should achieve both the smooth flow of claims and incident-related information and the reinforcement of the role of the insurance and claims function to the wider organisation. Externally, communication protocols should cover: protocols for significant loss events, a structure for dealing with claimants and complainants, and the transmission of information to the insurance market and relevant service providers.

For both internal and external communication plans, the nature and extent of the information imparted and the protocols and flows adopted must ensure effective, efficient and transparent communication with all relevant stakeholders in a secure and non-prejudicial manner.

Demonstrating best practice in Communications

IN-HOUSE CONSIDERATIONS

- Customer complaint and claims processes are documented and shared, with agreed timescales, remedies and methods of communicating with complainants / claimants
- Establish and document the reporting requirements of senior management in terms of information, frequency and form
- Feedback meetings with both senior management and business units to feedback on claims, review KPIs and consider risk management lessons. All minutes and actions are recorded and their implementation is reviewed.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Contract between the in-house claims provision and service providers is agreed and shared at all levels. Contract is reinforced by sharing organisation and communication structure charts of all relevant parties, including the insurer's claims and underwriting teams
- Documented procedures for supply of appropriate claims data on a confidential basis.

INSURERS AND SERVICE PROVIDERS

- Arrangements for the insured claims handlers to meet insurers and service providers pre-placement and regularly thereafter, to ensure claims handling is recognised during placement
- Service providers document and share the claims handling function structure, including roles and responsibilities, authority levels and the referral process, with regular review arrangements in place
- The communications structure established is specific to the client and includes specific contact details for reporting and escalation.

Component 7: Data Management

Data management embraces the capturing and storage of appropriate data and the use, sharing and analysis of such data both internally and externally.

The ability to achieve best practice relies on complete understanding of the information and reporting requirements both internally and from external stakeholders, to ensure relevant data is captured. Protocols adopted internally and by service providers must ensure the secure management and analysis of all relevant data in compliance with applicable legal and regulatory standards. Finally, any parties holding data must have robust business continuity and disaster recovery plans in place to avoid any unplanned disruption to data management activities.

Demonstrating best practice in Data Management

IN-HOUSE CONSIDERATIONS

- The why, what and how information relating to a claim is understood and procedures to capture, store and use this information are established
- Ownership of data by individuals is clarified in job descriptions and supported by relevant training, particularly in data protection and information security policies.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Information required by internal and external stakeholders is understood and procedures for capturing and transferring this information are documented and agreed
- Service provider contracts incorporate relevant data retention, analysis and protection obligations, particularly when referring to data sharing.

INSURER AND SERVICE PROVIDERS

- Data procedures support key performance metrics and allow like-for-like comparisons, trends analysis and forecasting, which can subsequently be used to manage risk and improve outcomes, proving the value of the claims function
- Established controls and procedures ensure data is accurate, reliable and protected from alternation or loss, and are compliant with data protection obligations
- Internal and external systems used to identify suspicious claims and invalid data, and support detection and investigation of claims that may be fraudulent or inaccurate
- Service providers are able to evidence strong governance around data management.

Component 8: Monitoring and performance review

To achieve best practice in claims handling, all components described must be subject to monitoring and review of performance, both internally and for relevant service providers. Beyond this, the insured should consider use of market intelligence and periodic alternative supplier review to ensure claims performance remains in line with best practice. The review process itself must be subject to routine independent assessment, to ensure continuous improvements in claims handling.

The benefits of monitoring and review are two-fold. Firstly, risk management procedures should be in place to use claims information to reduce incidents, claims numbers and improve key claims outcomes. Secondly, the auditing of claims procedures and protocols can ensure alignment with the intended organisational culture and gaining assurance that claims procedures are delivering anticipated outcomes, including customer satisfaction.

Demonstrating best practice in Monitoring and Performance Review

IN-HOUSE CONSIDERATIONS

- Evaluation of negative feedback, complaints and case review summaries, following-up any problem areas identified, e.g. potential causes of incidents or poor communication lines
- Established procedures track the implementation of recommended training and process improvements and evaluate their success in improving claims performance
- Scenario planning used to 'stress-test' incident and claims handling procedures, including internal and external reporting procedures.

INTEGRATING WITH INSURERS AND OTHER SERVICE PROVIDERS

- Agreed KPIs and MI reporting requirements are included in service provider contracts and reviewed at regular meetings, where both claims and coverage issues are considered
- Content and frequency of performance management reporting are agreed with any service providers.

INSURERS AND SERVICE PROVIDERS

- Established claims KPIs covering claims handling, data management, people and infrastructure are visible to the Board and are subject to routine independent assessment
- Periodic review of the claims procedures manual and claims philosophy, as well as monitoring compliance with statutory / regulatory requirements
- Operational review and auditing of open and closed claims files are undertaken to ensure structure and processes are consistently applied.

Section 2: Ensuring best practice amongst service providers

As detailed in Section 1, to achieve best practice in claims handling, the eight components must be embedded not only within the internal team, but also within the insurer claims service and any other service providers involved. The approach to claims handling by all parties must be agreed, documented and understood. Clarity over responsibilities and processes will enable efficient claims handling, with a seamless approach in the eyes of the claimant.

In this section, we will consider two areas reported as specific concerns for Airmic members:

1) Managing the relationship with service providers involved in claims handling

2) Questions for the insurer claims service during insurer selection and placement

2.1. Managing the relationship with service providers

The claims manager must maximise the benefit of their chosen claims handling arrangement through effective working relationships with their broker, insurer(s), claims handlers and other service providers, e.g. loss adjusters and lawyers. Candy Holland, Managing Director of Echelon Claims Consultants, advises: "*Many corporations may have little idea of what the claims process will entail and this may give rise to unrealistic expectations and a lack of preparedness which may delay and/or damage the eventual claim settlement. Discussing responsibilities, wishes and requirements beforehand can avoid many of the pitfalls commonly encountered.*"

- **Define the relationships and role purpose**
  - Clarify the culture, style of approach and communication of your brand
  - Agree roles and responsibilities of all involved, with an emphasis on reporting, decision-making and escalation points
  - Agree communication procedures and response times
  - Agree procedures for dealing with confidentiality issues
  - Clarify the principal and agency relationship between each party in the chain.
- **Managing the relationship**
  - Create a governance framework which drives and validates performance through shared goals
  - Think about the process and outcome improvements you want to see over time and ensure any KPIs you design enable the right behaviours
  - Establish procedures to ensure learning from each claim is embedded within all organisations.

2.2. Getting involved in insurer selection

Martin Thomas, Chief Claims Officer at Aon, stresses the importance of the claims team developing effective working relationships with the insurer: "*Airmic members must remember that there is more to customer satisfaction than price. Ensuring that an insurer's claims service is aligned to your culture, brand and needs and establishing processes pre-loss will lead to better outcomes. Claims service and delivery should be at the heart of your purchasing strategy***". Claims managers should become involved at the earliest stage, i.e. insurer selection to ensure that insurer claims performance and philosophy are given due recognition when choosing an insurer.**

Information on insurance claims services can be scarce and it's often difficult to evaluate which are good performers. Below is some information which can help you form a view.

- **The claims commitment and philosophy**
  Many insurers have developed dedicated claims offerings that set out their commitments to their policyholders in the event of a loss, which cover the following:
  - Attitude to interim payments on large losses based on estimates within a certain timescale
  - Guaranteed response times
  - Communication protocols
  - Complaints and dispute escalation processes
  - Coverage for claims preparation
  - Ownership philosophy where there is significant self-funding
- **Claims procedures**
  - Procedures for notifying claims, including timescales and notifying excess layers
  - Reserving strategy
  - Reservation of rights – does the insurer comply with Airmic protocol?
  - Procedures for involving the insured's preferred lawyers / advisers / third parties
  - The impact of subrogation on the claims process
- **Claims performance statistics**
  - How many claims do they handle and what percentage are paid in full / repudiated / complaints
  - Claim settlement timescales
- **Claims information and reporting**
  - Insurance policy reporting conditions and obligations upon the insured
  - Incident reporting requirements and obligations upon the insured
  - Information requirements for claims adjusting
  - Claims data, bordereaux and reporting, format, flexibility and access to shared databases

Relationship between the insurer underwriting and claims teams

Claims managers frequently advise that they are uncertain as to what extent claims performance and handling by the insured impacts upon the policy. Trish Kent, Head of Claims Account Management at RSA, advises: "*Underwriting and claims people working collaboratively ensures that important information and insight is shared and used to inform product development, reserving and pricing. Most importantly it is vital in delivering a comprehensive service that meets brokers and customer's individual needs.*" To gain an understanding on how claims information can feed into the underwriting process, the claims manager may want to request information on which of the following procedures are in place within the insurer;

- Underwriting and claims teams work in partnership to understand customer objectives and share and understand their service promises to meet these objectives
- Pre-placement claims protocol is agreed and shared between the claims and underwriting team. Protocols include team contacts, structure and the control limits of the claim.
- Underwriting and claims staff meet customers pre-placement and regularly thereafter to develop and grow mutually beneficial working relationships
- Underwriting and claims staff share customer feedback and insight, and challenge each other to continuously enhance capabilities
- Communication and service protocols are tailored to and agreed with each customer, and are understood and regularly reviewed by underwriting and claims staff
- MI reports meet the needs of the customer and provide both claims information and risk management insight.

Airmic Guide 2009: Delivering Excellence in Insurance Claims Handling

The Airmic 2009 guidance 'Delivering Excellence in insurance Claims Handling' proposed an objective and structured framework for achieving best practice, which the insurer's claims service can benchmark itself against and identify any necessary improvements. The framework considers both KPIs for insurer claims procedures as well as the culture and resources that need to be in place to deliver best practice. Appendix 1 of this guide reproduces the relevant elements of a checklist of best practice from the earlier guide. This checklist may be useful to members when structuring their insurer assessment.

Considerations for international policies

The importance of managing relationships within the claims chain is demonstrated when managing international programmes. Many of the problems that can arise on claims overseas come down to the basic issues of communication, reporting and relationships. For the risk manager responsible for a global programme, education of international partners and your own businesses on claims requirements is essential and may be the greatest challenge faced. You, your broker and insurer will need to have in place clear claims procedures which dovetail. Good collaboration between all stakeholders is critical.

Additional areas to consider when preparing for international claims include:

1. **Culture**
   Diverse cultures can handle matters differently and what is practically achievable in one territory may not be in another

2. **Awareness and Education**
   Use documentation and international claims scenarios to ensure overseas business operations have sufficient understanding of the claim procedures adopted, coverage provided and who should be involved

3. **Loss notification**
   The timescale for notification will be driven by the claim notification condition in the policy(ies) concerned so this needs to be checked per territory. Prepare clear documentation for when and to whom should notifications be made. Specifically agree on whether the loss is reported to the insurer and/or broker locally and in what circumstances it must also be notified to the insurer or broker in the UK. This will usually depend on the size and business class of the loss and the insurer's requirements.

4. **Insurer procedures**
   Ask your insurer for the procedures in place between their head office and overseas offices when handling international claims, and challenge anything that appears unworkable, e.g. How will international payments be made? What claims data will they provide and how frequently? What is the threshold/ trigger for local offices to involve the head office? What rates of exchange will be used for local currencies under a GBP or USD policy? Agree nominated loss adjusters.

5. **Loss adjusters**
   Central co-ordinater appointed with responsibility for co-ordinating all overseas losses.

6. **Payment**
   Clear and efficient procedures for payment of claims monies – exchange rates, transfer of funds.

Appendix 1: Checklist of best practice for the insurer claims service

Culture and philosophy

- Board commitment to excellence in claims handling, supported by strategy and budget
- Documented philosophy and overall approach to claims handling
- Claims function has direct report to senior management
- Client charter contains detailed service promises and complaints procedures

Operations / Structure

- Flow charts to record processes and levels of authority
- Adequately experienced and qualified senior staff to supervise operations
- Workload analysis and management of third-party service providers
- Consistent interpretation of policy terms and conditions
- Minimum time between claim settlement and payment

Infrastructure

- Appropriate IT systems specifically designed for handling claims
- Planned investment in IT to eliminate any legacy systems
- Business plans to develop and enhance infrastructure
- Suitable communication networks with clients and markets

People

- Case load / skills model used to determine required staffing levels
- Succession planning and staff personal development plans formally established
- Specific assignment of senior staff to large accounts
- Clearly established job descriptions for all staff

Claims procedures

- Agreed claims procedures and timescales that are flexible and bespoke to the client
- Procedures for the involvement of specialist advisers
- Adoption of the AIRMIC Reservation of Rights protocol
- Subrogation procedures, including client responsibilities
- Stress-testing of client claims scenarios involving claims staff
- Management of run-off claims described in the procedures

Communications

- Communications and escalation structure established specific to client
- Claims staff meet client pre-placement and at regular reviews for feedback
- Documented procedures for supply of claims data
- Communication protocols with following / excess markets
- Minutes of meetings and other records of client discussions

Data management

- Access controls in place to validate data and ensure data protection and integrity
- Systems in place to detect fraudulent claims / inaccurate data
- Data retention, analysis and sharing protocols established
- Robust business continuity and disaster recovery plans in place

Monitoring and performance review

- Performance review and audit standards established
- Evidence of routine evaluation of claims handling operations, including production of claims KPIs
- Client charter, feedback and complaint procedures included in reviews
- Post-settlement review meetings on large claims

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