

- Message from the Editor
- Fulfilling the Promise of Insurance: Achieving Best Practices in Claims Settlement

Message from the Editor

Dear Readers,

The Indian Insurance customer can look forward to a wider choice of providers very soon. Both the life and non-life segments are witnessing new entrants. We now have 17 Life insurers in the fray (with Bharti Axa and Future Generali commencing operations), and an equal number of Non Life Insurers (counting Future Generali and Apollo DKV). The non life segment is getting a full-service insurer (Future Generali) after a gap of more than 5 years. There are more waiting in the wings – Bharti Axa (non-life), Allahabad Bank etc & Sompoo Japan (non-life), SBI & a partner yet to be decided (Non Life).

The proof of the pudding, they say, is in the eating. Well, in this issue of i-notes, we focus on the “proof of the pudding” –

the claims component of the insurance cycle. The article has been written with our target segment (i.e. Corporates) in mind – hence the slant is on Commercial Non Life claims. Corporates and Insurers would make better bed-fellows if we could find ways and means to improve the claims experience for both sides. This article is an attempt to address the issue from one of many possible perspectives. It is by no means exhaustive in its scope. But we trust it will do its job of creating awareness and triggering a pro-active approach.

V Ramakrishna

Editor – *i-notes* & Managing Director, India Insure

Fulfilling the Promise of Insurance: Achieving Best Practices in Claims Settlement

Introduction

A silent prayer must go out from each customer who takes an insurance policy - “Please God, let me not suffer any loss which makes me file a claim with my insurer”. Why is it so? Is the situation of being put through the process of handling a claim with insurers really so bad? When one has a security of an insurance policy tucked away with him, shouldn't he be sitting more smugly or complacently?

So, what's with a claim that causes anxiety and unpleasantness when we talk about it? The claim is the ultimate “moment of truth” in the insurer / policyholder relationship. Everything from service to customer retention to regulatory compliance is worthless if the insurer does not act promptly and fairly at the time of a claim.

What is the state of claims today?

Claims, that process which fulfills the promise the insurance policy makes, seems to have often suffered from secondary status - secondary to the sizzle of distribution! Insurance claims today are being pushed to the backroom or even outsourced - while it requires to be a core competency. The length of time taken, the lack of communication involved and the opacity in the claims settlement process seems to have left the customer frustrated. Once the customer reports a claim, there is little clarity about exactly how and when they will see results. After the initial sale of a policy, till a claim occurs, it is a very pleasant ride which all of a sudden turns into a roller coaster ride with sudden twists, turns, bumps and steep falls. The poor settlement of a claim generally turns the customer and insurer into foes and jeopardizes the opportunity for renewals, referrals, or new business and on the contrary would be exactly the reverse in case of a proactive, fair settlement – the insurer and customer get bonded forever!

Claims handling is one of the main areas causing complaints from customers of insurance products. Isn't getting a claim paid, in case some thing fortuitous happens, the very reason a person buys insurance

in the first place? Are our customers satisfied with our claims service? Are we responding to claims to ensure proper and timely service? When a client calls in with a claim, they are likely to be in some form of distress and if the insurer responds to this in an indifferent manner, it causes even more friction.

According to a report released by a leading technology and services provider, more than 40% of the time spent in the claims handling process is associated with routine overhead functions that have little or no impact on the outcome of the claim or on improving customer service. The study also found that customer satisfaction with the claims process is critical for insurers because it directly affects the likelihood of customers to remain loyal to their insurance company. This denotes the huge opportunity that exists for the insurers to improve their processes with respect to claims settlement.

The Process of Claims

The claims handling process accounts for a huge chunk of the insurer's expenses - 70% of an insurance company's total costs, as per expert estimates. Claims handling is associated with huge, unnecessary, inefficient and time consuming processes which irritate the consumer due to lack of clarity and transparency. When the customer calls in with a claim, he is questioned for innumerable details, **often in installments**, leaving him with a negative feeling about the interaction. Then, he is pursued by surveyors whom the insurance company deputed to assess the loss. Even the response to his enquiry on the status of the claim is frowned upon by the Insurer. Disputes arise when the insurance companies misinterpret any terms embedded in the policies to minimize claims payment and the insured strives to get the additional benefits under such claims.

Claims settlement is a delicate balancing act. You need to provide your customers with a high-quality experience and fair payouts while efficiently managing your operating costs.

For a claim to be processed to the satisfaction of a customer without the insurer getting his feathers ruffled there is a huge responsibility on both parties.

Fulfilling the Promise of Insurance: Achieving Best Practices in Claims Settlement.....Contd. # 1

Achieving Claims Excellence

For a claim to be processed to the satisfaction of a customer without the insurer getting his feathers ruffled there is a huge responsibility on both parties. This responsibility does not arise only when the claim occurs, but is a direct function of several precautionary measures taken by both – the proposer and the underwriter even before the risk is accepted for insurance.

Before placing the Insurance Policy

Surviving a disaster is enough of an ordeal. One can at least plan in advance, to make the aftermath a little less painful. Here are some tips one can follow **before** a disaster strikes to make claim handling a little easier:

In general:

- ♦ The first decisive act as a customer is to **fill in a proposal form**. Before filling it up, read it and ensure that it is filled by you since it forms the basis of the insurance contract. Do not hesitate to ask your broker / insurer any questions or clarifications required. All too often, customers and insurers are only too happy to complete a transaction without this important document – leaving the door open for disputes on what was intended to be covered or excluded.
- ♦ Before closing the sale itself, the insurers/ brokers / agents need to clearly explain to customers: the instances where a claim is payable and where it is not, what is covered and what is not. Coach them right then and there on how the coverage works, highlight the exclusions, the deductibles applied etc.
- ♦ Even if you have a policy, you may be less protected than you think. There are restrictions that can affect the amount you get from the insurer following a disaster.
 - The first loophole is called the **deductible/excess** which is a part of the claim which you will have to bear. You should check the deductible amounts contained in your policy. All policies include deductibles for loss arising from certain perils. The purpose of the deductible is to discourage small claims.
 - The second loophole is **underinsurance**. If you do not insure your assets for the right amount, then at the time of a claim, the reality could be devastating. For eg: Mr. A is the owner of a building with a value of Rs. 50 lakhs. He took up a fire insurance policy for his building with sum insured of Rs.25 lakhs as he thought that it was unlikely that a fire would destroy everything at one time. When his entire family was out on a vacation, a fire broke out and caused a damage of Rs.10 lakhs. Mr. A tried to claim the 10 lakhs damage from his insurer, but his insurer told him he could only get Rs. 5 lakhs as his policy was underinsured by 50%. The amount to be paid as claim will be computed using a formula that takes into account the insured amount, the value at time of loss and amount of loss.

In insurance there can be many a slip between the clause and the loss. Reading the insurance policy carefully will help you understand subtleties.

- In most of the claims, where proper indemnity could have been given, had the sum insured been adequate, the losses stand proportionately reduced because of under insurance. Insuring for value lesser than the actual value makes the insured self-insurer for the difference and is penalized for under-insurance.
- ♦ Customers also need to include the value of all applicable taxes in the sum insured.
 - ♦ For asset policies, while it may be convenient and tempting to consider an insurer who accepts a single value as Sum insured at the time of placement, this could prove to be disastrous in the event of a loss. For the sake of peace of mind, one should therefore submit the detailed break up of assets which are to be covered under the policy during placement itself. In case it is not done at the time of placement of policy, then post occurrence of a claim, to determine the factor of underinsurance, instead of taking only the damaged item into consideration, a valuation is required to be done for all the assets in the policy. This would result in considerable delay in settlement.
 - ♦ Compound wall, staircases, water tanks, internal roads etc generally tend to get missed out while arriving at the Sum insured and claims are quite common for these.
 - ♦ Make sure you understand the difference between **market value, replacement value and re-insatement value** for your buildings and contents. Will your insurer pay 100% of the cost of rebuilding your office and replacing the contents? For that to happen, you need to purchase reinstatement / new replacement value insurance. But, just having a sentence in the insurance policy which says that buildings and contents are covered on reinstatement / new replacement value is not enough. To get the full value of what you lose in a disaster, the Sum Insured should depict that value. It helps to have a valuation exercise done at periodic intervals.
 - ♦ There is also a provision in the insurance policy called the “Escalation Clause” which allows automatic regular increase in the Sum Insured throughout the period of the policy. The maximum increase that may be opted for is 25% of the Sum Insured. For eg: if the Sum Insured is 30 lacs and you have opted for an increase of 20% which is 6 lacs, then your Sum Insured keeps increasing at the rate of Rs.1644/- per day (i.e. 1/365th of the specified percentage increase per annum) through out the period of the policy. To avail of this benefit, an additional premium will have to be paid in advance.
 - ♦ In marine insurance policies, even the so-called “All Risks” cargo insurance (the Institute Cargo Clauses “A”) does not cover all losses that may befall the cargo. So, one needs to be clear about the exclusions set in the policy.
 - ♦ If goods are imported, ensure that the duty to be paid is also included in the sum insured.
 - ♦ For health insurance, be aware that the policy will cover you only when you are hospitalized for a minimum of 24 hours. This 24 hours limit will however not apply to certain ailments.

$$\frac{\text{The amount that the house is insured for}}{\text{The reinstatement value of the house}} \times \text{The cost of damage}$$

$$25,00,000 / 50,00,000 \times 10,00,000 = \text{Rs. } 5,00,000$$

Fulfilling the Promise of Insurance: Achieving Best Practices in Claims Settlement.....Contd. # 2

After the placement of the Policy

- ♦ Be an informed customer. Like they say, there can be many a slip between the cup and the lip, **in insurance there can be many a slip between the clause and the loss. Reading the insurance policy** carefully will help you understand subtleties. Understand your policy. Be familiar with the coverages of your insurance policy as the nuances of the policy wordings could leave you unintentionally unprotected. Don't overlook the exclusions. It is just as important to know what you are not covered for. And do it in a relaxed manner, as soon as you receive the policy — before that big storm hits.
- ♦ Store important documents in a safe and accessible place. Have your insurance broker and insurance company's telephone numbers readily available.
- ♦ Insurers can have a pre decided surveyors panel for different types of claim for each major customer and have a risk inspection done by the surveyor on placement of policy itself. This would help the customer feel more comfortable when he sees a familiar face at the time of distress.
- ♦ Indicate to a policyholder even while a policy is issued as to what documents are, in general, required in the event of a claim and their responsibilities before making a claim.
- ♦ Most of the policies are dynamic in nature, meaning that the risk is not constant. In case of asset policies, with procurement of each additional asset, the risk exposure is increasing and for this to be covered, you need to keep your insurer informed as soon as it is in your custody. This holds for acquisition of new premises too, change of location etc.

Retaining existing customers is always more cost-effective than acquiring new ones and for customer retention to happen, the claims experience is pivotal.

Additionally, there are some policy specific precautions that can be taken for:

Fire policies:

- ♦ A claim cannot be filed for what you can't prove you owned or have an insurable interest in it. It is required to maintain an inventory of your property. It helps to record model and serial numbers when you buy high-value items. Do retain receipts for these items - they provide information such as: *purchase price, purchase date, name of store*, etc. Your insurance company may require proof of the cost of any item for which you make a claim. You may also take videotapes or photos as proof, but store them in a secure location offsite.
- ♦ Once you've created these records, be sure to update them regularly, to ensure that the information remains current.
- ♦ Your office building probably has increased in value over the past several years or you may have purchased expensive equipments which may not have been included in the policy. Property owners risk being under-insured, especially when building costs have increased over the years, and their building reinstatement valuations are not current. So, review your policy periodically to ensure that the changes get reflected.
- ♦ The cost of restoring data can be reduced significantly if backups are stored in a proper fireproof location or off-site.

For marine policies:

- ♦ Before the commencement of every transit, one needs to send the details like description of goods, mode of transit, packing details etc to the insurer. Make sure that you are provided with a satisfactory evidence of insurance.
- ♦ Ensure that packing of cargo is done in a standard manner. Deficiencies in packing are generally not insured. So, if your goods sustain damage in transit because they were not packed well enough to withstand the "usual rigours" of the transportation, then the claim will not be payable.
- ♦ Check whether the commodity you are shipping and the country to which it is being shipped is covered under the insurance policy.
- ♦ Understand clearly from when the cover starts and when it ceases. While loading is not an inbuilt cover, unloading is covered automatically. So has the cargo been covered against the peril of loading? If the vessel arrives at the destination port but unloading is delayed, will the cargo still be covered? If the cargo is stored at an intermediate location, is it covered under the policy?
- ♦ Know your obligations and timelines to protect the rights of recovery against third parties like transporters / freight forwarders, if the loss has happened because of their negligence.
- ♦ Insist upon taking the acknowledgement of the carrier if goods have been delivered in damaged condition.

For Health Insurance

- ♦ Go through the finer points of the policy wordings in detail and understand the waiting period that may apply for certain diseases.
- ♦ Check if you are covered for the pre-existing diseases or not.
- ♦ Know the sum insured for which you are covered, since it is the maximum that insurers will pay in case of a claim.
- ♦ Pay attention to the duration when pre and post hospitalisation expenses will be paid under the policy.
- ♦ In case of a planned hospitalisation, if you need to avail cashless facility, intimate the Third party Administrators well in advance to get the pre-authorization approval and not at the time of getting admitted.
- ♦ Ensure that you keep your health ID card ready for any emergency admissions.

Just placing the policy with the insurer is not enough to ensure that one gets maximum recovery at the time of a claim. There are certain steps that need to be followed from both sides to ensure full and fast settlement of claims.

Must dos following the disaster

- ♦ Take steps to minimize the loss.
- ♦ Make sure that immediate notice is given to the broker / insurer even if there is doubt about the coverage and ensure that all obligations set down in the policy are complied with. Remember, having the right coverage is not enough if you don't handle the claim properly.
- ♦ The Insurer may meet the claimant right after the loss and explain the exclusions or limitations that might apply, and the type of

Fulfilling the Promise of Insurance: Achieving Best Practices in Claims Settlement.....Contd. # 3

documentation needed to support the loss covered by the policy. It is better if communication to the client is channelized through a single point of contact from the insurer's side.

- ♦ Many deadlines are built into the policy, such as those for filing a proof of loss or a lawsuit. If necessary, it is possible to enter into written agreements with insurance companies to extend these deadlines.
- ♦ In case of damage to buildings / contents, the customer can make emergency repairs and document them.
- ♦ Keep all bills and receipts from repairs / bills and receipts paid at the hospital.
- ♦ Do not dispose of items you believe may be a complete loss until the insurance company representative has examined them.
- ♦ Instead of the claimant following up for the claim settlement, insurers need to be proactive and keep regularly updating him about the progress. A good example of this was the way in which the insurers handled the flood claims in Mumbai. They issued advertisements in print and television displaying the claim hotline numbers and the persons to get in touch with and did a good job in managing and settling the torrent of claims.
- ♦ Settle claims equitably and as quickly as possible in everyone's interest; or if it is rejected, clearly explaining the reasons, is a simple way to make customers feel that they are being treated fairly and prevent complaints being made.
- ♦ Customers need to maintain copies of all notices and correspondence related to any claims. These records will be important if any dispute arises and you need to proceed against the insurer.
- ♦ Cooperate in every way with the insurer for a speedy claim settlement.
- ♦ Customer feedback should be sought after the claim has been settled to know his/her level of satisfaction, what he liked about the way it has been settled or what caused him anguish.

Conclusion

It is easy to identify potential best practices in claims handling, but difficult to implement them at the time of a claim. If the customer is made aware of how to handle the claim, half the battle is won. Many disputes arise because of neglect or non-compliance. An insured's plea of ignorance of the policy conditions will not be a valid argument at the time of a claim. Policy holders tend not to read the policy until they have been affected by a disaster and too often, the coverage is insufficient to replace all the contents that have been destroyed. Most people who buy insurance think about what the insurance will cover – they seldom think about what it will not cover.

Retaining existing customers is always more cost-effective than acquiring new ones and for customer retention to happen, the claims experience is pivotal. Savvy customers expect nothing less than the highest-quality service from their insurance providers.

The insurance industry cannot exist without their customers and unless the industry takes action to regain customer confidence, insurance will spiral into a scenario of discounting premiums, denying claims, and losing both credibility and customers. As someone has rightly said "We need to change fundamentally the way we think, act, and treat each other and our customers. Without this transformation we will simply over-promise and under-deliver". So it's a wake up call for all the Insurers and the Insured to follow the required practices to ensure that it gives way to a win-win situation. Let us keep our fingers crossed and hope that navigating ones way through the claims labyrinth is going to be much quicker in the days to come!

Disclaimer

Nothing contained in this newsletter shall constitute or be deemed to constitute a recommendation or an invitation or solicitation for any product or services. The company makes no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same.

Contact us

India Insure Risk Management & Insurance Broking Services P Ltd.

Ahmedabad # 401-402 Aditya Arcade, Near Choice Restaurant, Off C.G Road, Navrangpura, Ahmedabad - 380009
Tel: + 91 79 40018500/40018400, Fax: + 91 79 30009664
Mr. Deepak Kwatra email : deepak.kwatra@indiainsure.com

Bangalore # 13, 3rd Floor, Mother Theresa Road, 1st Stage, Austin Town, Bangalore - 560047. Phone: 080 - 41128056 / 57 / 58 Fax: 080 - 41128597
Contact: Ms. Chetna Wasu
e-mail : chetna.wasu@indiainsure.com

Chennai Sri Valli Griha, Flat GA, Ground Floor, New # 34, (Old # 26), Raman Street, T Nagar, Chennai-600 017. Ph: 044-4202 3797/98 Fax: 044-42023799
Contact: Mr. V.G. Dhanasekaran
e-mail : dhanasekaran.vg@indiainsure.com

Coimbatore #1023 "Eureka Chambers" Avinashi Road, Coimbatore- 641 018
Telefax: 0422-4380539
Contact : Mr. T.R. Sridharan
email: sridharan.tr@indiainsure.com

Gurgaon # 519, Galleria Complex, DLF Phase IV, Gurgaon 122002 Haryana
Ph : 0124-4115254, TeleFax : 0124-4148348
Contact: Mr. Manikant email: mani.kant@indiainsure.com

Hyderabad # 405, Archana Arcade, St John's Road, Secunderabad - 500025
Ph: 040-27822989/90/91, Fax: 040-27822993
Contact: Mr. Anurag Bishnoi email: anurag.bishnoi@indiainsure.com

Mumbai **Branch & Corporate Office** : # 427/428 Chintamani Plaza, Chakala, Andheri-Kurla Road, Andheri (East) Mumbai - 400 093.
Ph: 022-66791416-20, Fax: 022-66791421
Contact: Mr. Rama Rao email: ramarao@indiainsure.com

New Delhi 5,6 & 13 ,Ground Floor, Tribhuvan Complex, Ishwar Nagar, Opp New Friends Colony, Mathura Road, New Delhi-110065
Ph: 011-42603445 /447
Contact: Mr. Manikant email: mani.kant@indiainsure.com

Pune # 101, Premium Point, Opp. Modern High School, J.M. Road, Shivajinagar, Pune - 411005, Tele Fax: 020-66030713
Contact: Ms. Deepali.A.Rao email : deepali.rao@indiainsure.com