

C112 PRACTICAL ISSUES IN CLAIMS MANAGEMENT

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

DO NOT MARK THE ANSWERS ON THESE PAGES.

USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. Mission statements often focus on an insurance company's
 - (A) core strengths, values or culture, and an approach towards handling of claims.
 - (B) customer service and claims handling procedures.
 - (C) attitude towards their customers.
 - (D) goals and strategic plan.

2. Identify a strategy used to ensure that goals and objectives of the claims department are being met.
 - (A) Supervisor reviews the closed loss files of newly hired loss adjusters
 - (B) Internal claims audit
 - (C) Management arranges to contact claimants on closed files to verify payments
 - (D) All of the above

3. In loss adjustment, a specialist is an adjuster who
 - (A) deals with multiple lines of business.
 - (B) deals with one line of business.
 - (C) has a basic skill set in the adjudication of losses.
 - (D) deals only with field losses.

4. When a claim is reported, the response to emotionalism can be confused with
 - (A) urgency.
 - (B) intuition.
 - (C) collaboration.
 - (D) possibility of a fraudulent claim.

5. Once an independent adjuster has been assigned to a claim, who will oversee his or her work?
 - (A) Staff adjuster
 - (B) Telephone adjuster
 - (C) Broker
 - (D) Examiner

6. Ideally, the claims handling process is a(n)
 - (A) way for the insurer to deny claims.
 - (B) collaborative effort between the broker and vendor who assists the insured.
 - (C) collaborative effort between the insured and the loss adjuster.
 - (D) investigation of the insured on behalf of the broker and the insurer.

7. The purpose of claims triaging by the insurer is to allow
 - (A) for an adjuster to handle the claim directly.
 - (B) claims personnel the opportunity to properly assess the loss to determine who should handle the claim.
 - (C) the claim to be reported directly to the repair facility by the broker.
 - (D) the manager to assess the skills and experience of the adjuster handling the claim.

8. The importance of a budget is to
 - (A) ensure that losses do not exceed the amount of budget allocation.
 - (B) allow capital and expenses to be incurred by the company under privacy regulations.
 - (C) allow the company to justify each expenditure.
 - (D) allow a company to be in control of its finances.

9. Expenses not allocated to individual files but rather charged to the operating budget of the claims department are referred to as
- (A) unallocated expenses.
 - (B) allocated expenses.
 - (C) adjustable expenses.
 - (D) definable expenses.
10. Outcomes are often characterized by the
- (A) quality of work produced.
 - (B) amount of work produced.
 - (C) audit results of work produced.
 - (D) employees' moral based on work produced.
11. A combination of case loss reserves and aggregate reserves is often referred to as
- (A) loss ratio.
 - (B) total reserve amount.
 - (C) under-reserving.
 - (D) unearned premium reserve.
12. Tabular reserving is
- (A) assessed on a case by case basis.
 - (B) generally not used for structured settlements.
 - (C) done automatically.
 - (D) done by underwriters by using appropriate rating tables.
13. The present value and the accrued interest calculated that will together meet a financial obligation at some later date is its
- (A) discounted sum.
 - (B) aggregate sum.
 - (C) calculated percentage of loss.
 - (D) future value.
14. Reserving and payment practices reflect on a company's
- (A) staff and their ability to follow reserving practices.
 - (B) liabilities and thus its financial stability.
 - (C) organizing ability and control its pleadings.
 - (D) ability to bifurcate its exposures.
15. An audit that is done with limited or no notification may be required to assist in
- (A) the detection of fraud practices.
 - (B) confirming that reserving practices are done accurately.
 - (C) confirming that loss adjusters are following investigation, evaluation, negotiation and settlement practices.
 - (D) analyzing the benchmarks the company has established.

16. The purpose of the executive summary after an audit is to
- (A) outline all the inefficiencies within the claims department.
 - (B) focus on the financial transactions and the credibility of the company.
 - (C) share with the management team how the company's claims department is being managed and the nature of its problems.
 - (D) assist the management team in setting up follow up audits.
17. An insurer is not entitled to recover under subrogation when
- (A) a bona fide claim has been paid.
 - (B) the insured commences proceedings on his or her own.
 - (C) the insured has paid their deductible.
 - (D) a voluntary or ex gratia payment has been made to the policyholder.
18. In subrogation, a compromise settlement is
- (A) often a cost effective choice.
 - (B) often an expensive choice.
 - (C) a mutual agreement between the insured and the insurer.
 - (D) a mutual agreement between the insured and the third party.
19. In certain provinces, legislation restricts subrogation in some lines of business such as
- (A) builder risk.
 - (B) no fault automobile insurance.
 - (C) professional liability.
 - (D) surety bonding.
20. Lawyers retained by insurers in a lawsuit are predominantly responsible for
- (A) quick trials but high costs.
 - (B) conducting and supervising litigation carefully and skilfully.
 - (C) controlling the claims file and directing litigation.
 - (D) directing insurance expense costs in litigation.
21. To select a legal firm, some companies tender jobs by issuing
- (A) bid bonds.
 - (B) litigation plans.
 - (C) requests for proposals.
 - (D) bid proposals.
22. Often, service of a statement of claim is
- (A) an outline of the insurer position in defence to a claim.
 - (B) a counter demand made by the plaintiff.
 - (C) a waiver to extend a proscription period.
 - (D) the insured's first notice of the event.

23. A catastrophe is defined as a(n)
- (A) sudden disaster of immense proportions that causes havoc to people, property, and the natural environment.
 - (B) sudden and unexpected event causing many insured claims.
 - (C) event that gives rise to a loss as a result of the physical conditions of the risk.
 - (D) large number of losses of the same nature that occur over a period of time.
24. Because quick settlements are important in a catastrophe, certain insurance companies will entrust independent adjusters to
- (A) authorize repairs.
 - (B) negotiate with counsel on behalf of the insurer.
 - (C) issue loss payments to policyholders on the spot.
 - (D) make recommendations to expedite the loss.
25. Which of the following is NOT true of slander of goods?
- (A) A statement was made about the plaintiff's goods.
 - (B) The statement was true.
 - (C) The plaintiff suffered special damage.
 - (D) The statement was published maliciously.
26. A qualified privilege is
- (A) when an individual may speak freely without fear of incurring liability.
 - (B) when the law presumes the statement is false.
 - (C) a partial immunity the attaches itself to certain conditions.
 - (D) when an individual with a poor reputation cannot be impugned.
27. The legal concept that imposes liability solely on the basis of a special relationship with the wrongdoer is known as
- (A) host liability.
 - (B) parental liability.
 - (C) strict liability
 - (D) vicarious liability.
28. Substantive law
- (A) defines, describes, regulates and creates legal rights and obligations.
 - (B) establishes the methods for enforcing the rights established.
 - (C) is a civil procedure used to secure judicial remedy.
 - (D) is a previous law that is used to support future legal decisions.

29. PIPEDA sets out that the Privacy Commissioner of Canada is responsible for
- (A) providing information to the general public about insurance needs.
 - (B) ensuring that companies in the private sector collect, use or disclose personal information in a responsible and transparent manner.
 - (C) lobbying for better safety standards and regulations to protect the consumer.
 - (D) ensuring that companies divulge information accurately and in a timely way.
30. According to PIPEDA, personal information is
- (A) information received from one person that could discredit another.
 - (B) Associated with such factors as job title, telephone number, and address.
 - (C) any factual or subjective information, recorded or not, about an identifiable individual.
 - (D) information that can be used or disclosed for any purpose without consent of the individual.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Employee motivation is often the result of well-trained employees. What other by-products can result if employees are properly trained? (5 marks)
- (b) Decision-making often requires a team effort. Group sessions where brainstorming is encouraged can create the right environment for producing ideas. Describe how the appropriate atmosphere can be created. (5 marks)
- (c) Personal visits to claimants are encouraged to assist in the claims investigation. State other reasons why personal visits may be required. (5 marks)
- (d) There are situations that will arise where management will need to consider the use of independent adjusters. What are the various situations where outsourcing may be needed? (5 marks)
- Question 3. (a) Define the following terms:
- (i) Baseline budgeting (5 marks)
 - (ii) Zero-base budgeting (5 marks)
 - (iii) Performance-based budgeting (5 marks)
- (b) Contrast the effects of assigning independent adjusters or staff adjusters to handle claims. (5 marks)

- Question 4. (a) Reserving for claims is very important for insurance companies. As a result, different reserving philosophies have emerged. What are the TWO (2) basic theories? Explain how each one works. (15 marks)
- (b) Explain the THREE (3) elements that must be proven to establish liability for defamation. (5 marks)
- Question 5. (a) Insurance companies have been performing audits for many years, to serve many purposes. Ultimately, this function ensures that claims are performed to the companies' standards. What are the benefits of a claims audit? (15 marks)
- (b) Contrast a full review audit with a specific audit. (5 marks)

Section C: Application Questions

- Question 6. (a) The City of Calgary has been hit with a sudden hail storm. The event has caused excessive damage to both cars and homes. As a result, Credit Insurance Company has contacted all its team managers to come together to formulate an action plan. Logistics plays a key role in their success. What other processes may be included in the development of a plan to deal with this? (10 marks)
- (b) Mary Beth, a senior claims examiner, has received a statement of claim on one of her large environmental losses. The file in question is a very complex oil spill. Mary Beth believes that this file will go to trial. She has retained counsel with expertise in environmental losses. Mary Beth has worked closely with appointed counsel in the past and is confident that they will be successful in defending this claim. The case is now being prepared for trial. What must counsel and Mary Beth do to prepare this case for trial? (10 marks)
- Question 7. A 10-car pile up occurred on a major interstate in the U.S. The cause of the loss relates to faulty roadwork by the original road-building contractor. The insurance company for the contractor has received many claims, however the policy has a 5 million dollar limit. Claims total \$7.5 million to be shared among all claimants. Based on priority rules applied by U.S. courts, how might the claims be settled? (20 marks)
- Question 8 Insurance companies often create many business relationships both with internal and external partners. These relationships help in promoting the company and can provide cost savings to improve the overall profitability of the organization. Discuss in full the benefits of preferred vendors and service provider agreements and any other service criteria that may be imposed on the vendors as part of such agreements. (20 marks)

