## ANSWERS TO THE QUESTIONS IN THE COURSE GUIDE

**AIC 30**  
**Claim Handling Principles and Practices**  
1st Edition  
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Assignment 1

The Claim Function and Professional Ethics

Educational Objective 1

The claim function of an insurer enables it to achieve its primary goals in the following ways:

Keeping the insurer’s promise to pay – the claim function is the insurer’s front line – the department which executes the promise provided by the contract between insured and insurer. When the claim department provides fair (not too much and not too little, and only on losses covered by the contract) and timely settlement of this promise, the contract is fulfilled.

Supporting the insurer’s profit goals – the claim function is a vital part of the operational profit of an insurer. By using best practices which ensure that departments and claim offices are run economically, and that loss administration and payout are optimized by accurate loss pricing and use of reasonably priced service providers, the claim function helps regulate insurer cost. Profitability is also enhanced when the claim function earns for the insurer the reputation of fair, prompt loss settlement. This leads to customer retention and new business as well.

Key Words and Phrases

1. A first-party claim is the demand made by the insured against his/her insurer for a loss payable to the insured.

2. A third-party claim is the demand made by someone other than the insured, against the insured’s carrier for a loss payable to that party.

3. Claimant – any party asserting a claim against an insurer.

4. Claim representative – an individual who investigates, evaluates, and settles claims.

Review Questions

1-1. The claim function executes two goals of the insurer: to keep the insurer’s promise to the policyholder to pay losses per the insurance contract, and to support the insurer’s goal of operating profitably. Using a number of claim operation and settlement best practices, the second can be done while still satisfying the first.

1-2. The contractual promise which an insurer must fulfill is to pay losses as the terms of the policy specify (either first party or third party losses), and to defend the insured against suits arising from claims. This promise is fulfilled by the insurer providing fair, timely, and equitable service in the settlement of either type of loss.

1-3. (a) Claim managers enable underwriting profit when they efficiently manage claim function expenses, set responsible spending policies, and use appropriately priced service providers.

(b) Claim staff contributes to underwriting profit when they avoid overspending on claim handling costs and other operational expenses.

(c) Claim representatives contribute to underwriting profit when they use practices that ensure fair claim settlement. This contributes to lower costs now and accurate data for ratemaking in the future.

Application Question

1-4. The claim representative plays an important part in both functions. By consistently working towards timely and fair settlement, the goal of meeting the contractual obligation is met. These actions also add to profitability because they ensure that losses are paid at fair but not more-than-deserved amounts. This primarily prevents higher-than-deserved loss costs. It also, however, lowers the likelihood of lawsuits (which increase cost and decrease profitability) from claimants who don’t think their losses were settled fairly.
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Assignment 1

The Claim Function and Professional Ethics

1. Which of the following represents the two primary goals of the claim function of an insurer? (Text 1.3)
   (A) Keeping the insurer’s promise, supporting the insurer’s profit goal
   (B) Keeping the insurer’s promise, reducing claim payout to the minimum possible
   (C) Supporting the insurer’s profit goal, reducing claim payout to the minimum possible
   (D) Keeping the insurer’s promise, operating claim operation with lowest possible expense

2. The claim operation can support the insurer’s profit goal by which of the following? (Text 1.4)
   (A) Claim staff can avoid overspending on claim handling costs
   (B) Claim managers can use appropriately priced service providers
   (C) Claim representatives can take steps to ensure fair claim settlement
   (D) All of the above

3. Inappropriately settled losses affect current profitability. How can they affect future profitability? (Text 1.4)
   (A) Unsatisfied insureds will seek coverage elsewhere
   (B) The inaccurate loss data produced by the inappropriately paid losses will be used to create future rates which will be inappropriate and may restrict capacity to write more business
   (C) The unsatisfied insureds from answer A will discourage other potential customers from purchasing coverage
   (D) Losses which are settled for too high an amount will encourage other insureds to come up with losses

4. Which statement best describes a typical insurer claim department structure? (Text 1.5)
   (A) Multiple branch offices in various locations, answering to regional offices and then a central home office
   (B) Multiple branch offices in various locations, answering to a central home office
   (C) Few regional offices handling a large geographic area, reporting to a central home office
   (D) None of the above

5. Which statement best describes what a home office claims department does? (Text 1.5)
   (A) Bears responsibility for settling large losses
   (B) Hires representatives
   (C) Technical and management specialists provide assistance to remote claim offices and personnel
   (D) Negotiates rates with service providers

6. Which claim adjuster handles claims for a fee? (Text 1.7)
   (A) Staff claim adjuster
   (B) Independent adjuster
   (C) Third-party administrator
   (D) Producer

7. Which of the following persons represents the insured in presenting, negotiating, and settling claims with insurance companies? (Text 1.8)
   (A) Independent adjuster
   (B) Public adjuster
   (C) Staff adjuster
   (D) Third-party administrator
**Assignment 1**

*The Claim Function and Professional Ethics*

1. A is the answer. The second phrase in each of the other responses could be had at the expense of proper claim handling.

2. D is the answer. Fulfillment of the insurer’s promise to pay can be accomplished at the same time as enabling profitability with these and other prudent operational practices.

3. B is the answer. The other three may happen, but B will have the most direct effect on future financial results.

4. A is the answer. This may vary by insurer, but it is a typical structure.

5. C is the answer. Although the text does not develop this further, home office claim staff perform many other functions, such as claim procedure development, training, auditing, and others.

6. B is the answer. These independent contractors do not work directly for the insurer, but provide their services as needed.

7. B is the answer.