

THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

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*Independent Captive Associates, LLC, 6900 Jericho Turnpike, Suite 300 Syosset, NY 11791
www.independentcaptiveassociates E-mail address promano@independentcaptiveassociates.com
Offices located in Boca Raton, Florida; Richmond, North Carolina; Simsbury, Connecticut; Syosset, New York*

CLAIMS AND THE CAPTIVE – BEST PRACTICES IN HANDLING CLAIMS

By, Pamela Romano / ICA National Coordinator

The decision by a corporation(s) to form a captive insurance company is typically dependent on many factors. Numerous times, it is helped along by current insurance market conditions, and/or by a desire to reduce overall insurance costs. Increasingly, however, one of the primary goals noted by many prospective owners is to control their own destiny. And nowhere is this control issue stronger than in the claims management process. This stands to reason, since claims are the largest portion of the cost of any risk transfer mechanism, and they are typically the most visible aspect as well. Success of a captive depends largely on its approach to the claims process. As with all insurance companies, captives are expected to and will pay claims.

WHAT IS A CLAIM?

A claim is a demand for something due or believed to be due. Often times a demand is made upon the insured and in turn, the insured makes a demand to its own insurance company.

THE LIFE CYCLE OF A CLAIM

There are by and large three stages in the life of a claim:

- 1) **The notice stage** - This is the process through which an insurance company is notified of a claim; the claim is set up so that an investigation of the claim can begin.
- 2) **The evaluation stage** – This stage encompasses the investigation of the claim (with an adjustor) and determines whether the claim is covered or not. A claim is considered “open” if it has not been fully paid and all liabilities associated with that claim continue.
- 3) **The closure stage** – A captive can only close a claim when all liabilities associated with the open claim no longer exist. Then and only then, can a claim be earmarked for closure.

DOCUMENTING THE CLAIM

- Every claim begins with a report that is typically used to notify the captive. Notice documentation should include information on how the claim/loss was reported, when it was reported and who reported it; as well as confirmation that the claim was reported in a timely manner (within the policy reporting period).
- Proper claim documentation is at the center of strong and effective claims reporting. Ensuring the complete and accurate documentation is itself a best practice that all captive owners should remember whenever a potential claim arises. The documentation required includes all notes, correspondence, invoices, receipts (checks and/or credit card payments), and current commercial insurance relevant to the claim.
- Investigation of the documentation becomes the factual foundation for the evaluation of the coverage. The adjustor will review all material provided in order to substantiate the loss thereby, assigning a dollar value to the loss. Should the claim/loss be assigned to a reimbursement policy, then the claim amounts are simply reimbursed to the insured that has already made payment to the claimants.

THE NEED FOR DOCUMENTATION AND CLAIMS SUBMISSION

Artful and strong claims adjusting starts with and has an emphasis on proper claims documentation. Every aspect of the claim is dependent upon the documentation; from intake to investigation to evaluation to the final coverage determination. After all, there are two primary reasons why captive insurance companies exist; the first reason, in a general sense, is to protect the insureds assets. The second reason is to pay claims. Claims are needed to substantiate the legitimacy of the captive. It could happen that the captive’s entire claims history involves only claims that have been submitted for coverage but ultimately denied. This claim scenario still amounts to an active claims history; it is showing that the captive is being used. Submitting claims is deemed to be using your insurance.

Captive Insureds are unlike commercial insureds in that when insurance is purchased from a captive, it should be used if there is a claim **or** the potential for a claim. With commercial insurance, the insured often decides whether they should submit a claim or not for several reasons. Often, they do not want to deal with the demanding claims process with the carrier, or the loss of control, or they fear that their premiums may go up. But with a captive, if an insured experiences a loss, a claim should *always* be submitted so that there is never a question as to whether the coverage was not needed or there was never intent to use the captive program.

EXAMPLE OF AN EFFECTIVE CLAIMS SUBMISSION:

As a result of the loss history of a privately held food distributor, the traditional insurance market was unwilling to extend reasonable terms, conditions, and premiums to insure product exposure in the event of a future claim. In response to this underinsured risk, ICA created a captive insurance company exclusively owned by the food distributor to insure their exposures, including product recall, product liability, and contingent business interruption.

During their first policy year, as a precautionary measure, the food distributor conducted a product recall and pulled a product off of grocery store shelves after a foodborne illness outbreak was linked to an ingredient within their product. The client incurred the cost to remove the product and also incurred an interruption in revenue while managing relationships with their valued customer base, publicity issues, and legal expenses.

The client was able to provide all needed documentation to show the loss of revenue through the additional manpower to retrieve all items from store shelves, the invoiced amounts for the products that were not paid as well as the cost of the contaminated product that caused the recall. ***This claim was paid in full.***

In the overregulated, over-litigated world of business today, it is imperative to address these potential issues as they are real, have occurred, and will occur again. They are largely avoidable but are manageable.

Not addressing them in advance can become a very expensive, time-consuming, and destructive option.

To all captive owners – Even if you believe that a claim may not be covered, submit the claim and allow your insurance company to work for you!

For more information, please contact:

Contact: Pamela Romano

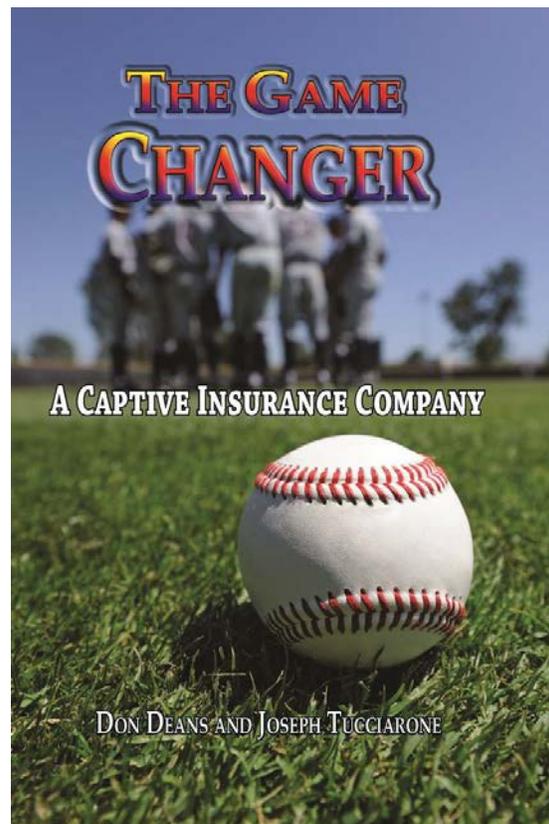
Ph: 516-629-9045

Email: promano@independentcaptiveassociates.com

Independent Captive Associates, LLC

6900 Jericho Turnpike, Suite 300 Syosset, NY 11791

www.independentcaptiveassociates.com



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