

Types of Claims Audits

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A claim audit can be done as a standalone audit or in conjunction with another type of audit. Here are examples of several types of claims audits:

Large Loss claim audit: This is usually performed in conjunction with an underwriting audit on a risk excess or quota share treaty. The goal of this audit is to determine if the risk was underwritten properly, and to check the claims response. I will review several large loss files for the following:

Underwriting:

- Did the underwriter understand the risk and did it meet underwriting guidelines;
- Was there a current loss control report, and did it identify any deficiencies that were material to the loss;
- Were values current and accurate;
- Were there any unusual terms and conditions that increased the size of the loss;

Claims Handling:

- Is the claims response timely, and are proper resources being used based on the size of the claim (i.e. cause and origin investigators, subro, salvage, outside counsel);
- Does the ultimate reserve appear reasonable?

Operational Audit-Claims and Litigation: The goal of this audit is to understand their approach to claims and litigation, and then audit a number of files to evaluate the execution. I meet initially with the head of Claims (and in-house claim counsel, if they have one) to understand the following:

- Size of claims staff and expertise;
- Use and management of TPA's for daily and cat claims;
- Levels of claim authority for staff and TPA's;
- Catastrophe claims response plan;
- Reserving philosophy;
- First Notice of Loss (FNOL), for daily and cat claims;

- Use and management of direct repair resources;
- For Florida homeowners, their approach to Assignment of Benefits (AOB) claims;
- Litigation philosophy, use of outside counsel, approach to mediation.

I then will do a file review of selected claims. I obtain a list of open and closed claims for the past 24 months, including incurred amounts and cause of loss (peril). I get a similar list for litigated claims. In addition to checking on the above items I look for the “tone” of the claims handling process in the correspondence.

Commutation Audits: The goal of this audit is to put an ultimate value on the remaining open claims from a closed treaty contract. Usually these open claims are in some phase of mediation, arbitration, or litigation. I start by interviewing the head of Claim and Litigation to understand their philosophy and process. Then I review similar claims that have been recently been closed. I then review a large number of the open claims, and using the trends from the recently closed claims, I place a value on the ultimate payout of those claims. I then apply a development factor to the remaining open claims that I did not review.