CHARTA LEARNING · INTERVIEW PREPARATION

Claims and Loss Adjusting

Interview preparation summary · IN track

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INT.NC.1.a · The claims process

Walk through a claim from first notice to settlement, state the handling principles that apply, and set a sensible first reserve from the facts known on day one.

A claim typically moves through first notice of loss, where the facts are captured and urgent needs such as emergency repairs are met; a coverage check against the policy wording, excess and exclusions; an investigation sized to the amount and to any doubts; a reserve; repair, replacement or cash settlement; payment; and closure, with any recovery pursued afterwards. Common handling principles are to pay promptly and fairly where the policy responds, to keep the customer informed, to aim at indemnity (putting the insured back where they were, not better off), and to record the reasons for each decision. The case reserve is the handler's best estimate of the final cost of that one claim, built from heads of cost at first notice and revised as facts arrive. It is not a worst case and not a guess at the premium. Interviewers ask this to see whether you treat claims as both service and money: a late or careless reserve distorts the accounts and a slow payment hurts the customer. The usual mistake is to describe paperwork instead of decisions made under uncertainty.

WORKED EXAMPLE: SETTING A FIRST RESERVE ON A KITCHEN FIRE

A homeowner with an invented insurer, Tarnbrook Mutual, reports a kitchen fire on the day it happens. A contractor estimates 18,500 dollars to rebuild the kitchen, and smoke damage to the next room is possible but unconfirmed, so the handler adds a 15% contingency to the building estimate. Contents are put at 6,200 dollars. Alternative accommodation is expected to last 45 days at 110 dollars a day. The policy excess is 250 dollars. The fire brigade report on the cause is not yet in. Set the first reserve, then compare it with the final settlement: building 20,400, contents 5,300 and 38 days of accommodation. Conventions: ignore tax and any depreciation, and apply the excess once.

Answer: The first reserve is 32,175 dollars against a final cost of 29,630, an overestimate of 8.6%, which is acceptable for a day-one estimate.

> **Interview tip:** Say it in order: heads of cost, a stated contingency for the open point, the excess taken off, and a promise to revise as facts arrive. Add that a reserve is a best estimate, neither a worst case nor a target to hit.

INT.NC.1.b · The claims process

Explain what loss adjusters do, and show how subrogation and salvage reduce the net cost of a claim, with the costs of pursuing them.

A loss adjuster is an independent expert, usually appointed by the insurer, who investigates a loss, checks cause and cover, values the damage and often negotiates the settlement. Insurers typically use adjusters for larger, technical or complex claims, and for surges after a storm when their own handlers are stretched. Adjusters are paid fees, so appointing one on a small simple claim can cost more than it saves. Two routes reduce what an insurer finally bears. Salvage is the sale or reuse of what is left of the damaged property once the insurer has paid for it, for example a written-off vehicle. Subrogation is the insurer's right, once it has paid, to step into the insured's shoes and recover from whoever caused the loss, which often means that party's insurer. Both cost money to run, so the sensible measure is net recovery after costs and after the share of fault. The usual mistake is to treat recoveries as certain; they depend on proving liability, and an interviewer will ask what could reduce them.

WORKED EXAMPLE: THE NET COST OF A VAN TOTAL LOSS AFTER SALVAGE AND RECOVERY

A delivery van insured with an invented insurer, Halberd Motor, is written off after another driver ran a red light. Its market value is 14,800 dollars and the policy excess is 400 dollars, so Halberd pays 14,400 for the van plus 1,300 for a hire vehicle. The wreck is sold for 3,100 dollars with 250 dollars of fees. Halberd agrees with the other driver's insurer that the other driver is 80% to blame, and recovers 80% of its outlay after salvage. Halberd's recovery agent costs 12% of what is recovered. Find Halberd's net cost. Conventions: ignore tax and the handling of the customer's excess, which is settled separately.

Answer: Halberd's net cost is about 3,804 dollars, 24.2% of the 15,700 paid out, because salvage and an 80% recovery absorb most of the outlay.

Interview tip: Show the order: gross outlay, salvage, recovery by share of fault, then the cost of recovering. Close by saying that recovery depends on proving liability, so the number is an expectation, not a certainty.

INT.NC.1.c · The claims process

Describe how a large or complex loss is handled differently, including reserving in stages, underinsurance, business interruption and notifying reinsurers.

A large loss, such as a factory fire, is handled by senior handlers with an adjuster and often specialist advisers, because the amounts are big, the facts are technical and the first estimate is usually wrong. Common features are reserves raised in steps as the damage is surveyed, interim payments on account so the insured can keep trading, and early notice to reinsurers when a loss passes the threshold set in the treaty. Two policy ideas matter. Underinsurance: many property policies contain an average clause, so if the sum insured is below the true value, the claim is scaled down in proportion. Business interruption cover pays the lost gross profit for the period needed to recover, so the indemnity period and the gross profit figure drive that part. The usual mistake is to under-reserve early to look prudent on cost or to forget the reinsurance recovery, which changes the insurer's net result. Interviewers also listen for fairness: an underinsured customer needs the position explained clearly and early.

WORKED EXAMPLE: A WAREHOUSE FIRE WITH UNDERINSURANCE AND REINSURANCE

A food distributor insured with an invented insurer, Ardenmoor General, has a warehouse fire. The building sum insured is 2.400m but its true reinstatement value is 3.200m. Building damage is 1.100m. A building deductible of 50,000 dollars applies. Stock losses are 0.400m and fully covered. Business interruption is expected to last 6 months on annual gross profit of 1.200m, with adequate cover. Ardenmoor's excess of loss reinsurance pays the part of any one loss above 1.000m. Find the gross claim, Ardenmoor's net cost and the loss the customer bears on the building. Conventions: apply the average clause first, then the deductible; ignore tax, reinstatement premiums and reinsurer limits.

Answer: The gross claim is 1.775m, Ardenmoor's net cost is 1.000m and the reinsurers pay 0.775m. The customer bears a full building loss of 0.325m: 0.275m of shortfall from underinsurance plus the 50,000 deductible.

Interview tip: Give the gross claim, the net cost after reinsurance and the customer's shortfall as three separate numbers. Then add the human point: the underinsurance should be explained clearly at the start, and interim payments help the business keep going.

INT.NC.2.a · Fraud and fairness

Describe common claims fraud indicators, explain why most flagged claims are honest, and judge a screening process by its hit rate and cost.

Claims fraud ranges from opportunistic exaggeration, such as padding a genuine claim, to organised schemes, such as staged accidents or fabricated identities. Common indicators include a loss soon after the policy starts or the cover is raised, financial pressure, inconsistent accounts, missing documents, repeated claims, links between claimants or repairers, and late reporting of an event with no witnesses. No indicator proves fraud; each only justifies a closer, proportionate look. Because genuine claims greatly outnumber fraudulent ones, most flagged claims are honest, a base-rate point interviewers like to hear. A screening rule should therefore be judged by its hit rate (the share of flagged claims that prove fraudulent), by the fraud it misses, by the cost of investigating, and by the delay it imposes on honest customers. Good practice is to investigate fairly, tell the customer what is needed, and never refuse a claim on suspicion alone. The usual mistake is to praise a rule for its hits while ignoring how many honest people it troubled.

WORKED EXAMPLE: IS THE FRAUD SCREEN WORTH ITS COST?

An invented insurer, Quillon Direct, screens 2,000 new motor claims with a set of indicator rules. The rules flag 120 claims. After investigation, 30 of the flagged claims prove fraudulent, and a later review finds that the rules missed another 10 fraudulent claims. Each investigation costs 400 dollars and each confirmed fraud saves 6,000 dollars. Find the hit rate, the share of all fraud caught, the net financial benefit, and the number of honest customers investigated. Conventions: ignore the cost of the missed frauds beyond counting them, and ignore tax.

Answer: The hit rate is 25%, the screen catches 75% of fraud and the net benefit is 132,000 dollars, but 90 honest customers were investigated.

> **Interview tip:** Say both numbers: the hit rate and the share of fraud caught. Then say the honest-customer count aloud, and finish with how you would keep checks proportionate and fair.

INT.NC.2.b · Fraud and fairness

Define claims leakage, measure it from an audit sample, and explain fair treatment, disputes and complaints in general terms.

Claims leakage is the gap between what was paid and what should have been paid under the policy: overpayments from missed excesses, duplicate payments, inflated repair bills, unchallenged fraud and weak supplier control. It is usually measured by auditing a random sample of closed files and scaling the error rate to total claims paid. A good audit also records underpayments, because paying too little is a fairness failure, not a saving. Insurers in many places are expected to treat customers fairly, which in claims typically means clear explanations, reasonable timeliness, consistent decisions, and a route to challenge a decision. Disputes usually go first to a complaints process within the insurer and, where unresolved, in many markets to an independent ombudsman-type service, though practice varies. Complaint volumes, upheld rates and time to resolve are common measures. The usual mistake is to cut leakage by tightening everything, which raises complaints and delays honest claims. Interviewers ask this to see that you balance cost control with fairness.

WORKED EXAMPLE: SCALING AN AUDIT SAMPLE TO ESTIMATE LEAKAGE

An invented insurer, Pellham Home, audits 400 closed household claim files that paid 1,600,000 dollars in total. The audit finds 31 files overpaid by 38,400 dollars in total and 9 files underpaid by 5,760 dollars in total. Annual claims paid are 140m dollars. Find the error rate by file, the overpayment and underpayment rates, and the annual amounts if the sample is representative. Conventions: treat the sample as random and representative, and ignore the sampling margin.

Answer: Leakage is about 2.40% of claims paid, or 3.36m dollars a year, and underpayments are 0.36%, or 0.50m dollars, which must be corrected.

> **Interview tip:** Always report underpayments next to overpayments. Say that leakage control must not push honest customers into disputes, and that the sample must be random for the scaling to mean anything.

INT.NC.2.c · Fraud and fairness

Explain claims inflation, show how it erodes margin when rates lag, and say where data and automation help or harm in claims.

Claims inflation is the rise in the average cost of a claim over time, driven by repair parts and labour, medical and care costs, legal costs, and in some lines by changing court awards and customer expectations. Frequency is separate: a book can have fewer claims that each cost more. If average claim cost rises faster than the premium per policy, the loss ratio drifts up even when underwriting is unchanged, which is why pricing must trend costs forward. Data and automation help claims in several ways: triage routes simple claims to fast payment, models flag unusual claims for review, image tools estimate repair costs, and analytics spot supplier overcharging. They also carry risks: automated decisions can be wrong or biased, customers may be unable to reach a person, and speed can let fraud through. Interviewers ask this to test commercial awareness and numerical comfort. A strong answer states the trend, the arithmetic effect on margin, and the safeguards, such as human review of declines and sampling of automated payments.

WORKED EXAMPLE: CLAIMS INFLATION AGAINST RATE INCREASES

An invented insurer, Wexcombe Motor, has a motor book with a loss ratio of 62% and expenses of 30% of premium. Claims cost per policy rises 7% a year while premiums per policy rise 4% a year, and frequency is unchanged. Find the loss ratio and combined ratio after one and two years, and the yearly rate rise that would hold the loss ratio at 62%. Conventions: expenses stay at 30% of premium, and ignore investment income and tax.

Answer: The loss ratio drifts from 62% to 63.8% and then 65.6%, taking the combined ratio from 92% to 95.6%. Holding 62% needs rate rises equal to the 7% claims inflation.

Interview tip: Say the idea first: margin falls when claims cost grows faster than premium. Then give the two-year figures and name one lever beyond price, such as supplier management or better claims triage.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.