

Advanced Claims Management Examination

5th September 2021

Instructions to candidates

Read the instructions below before answering any questions

Three hours are allowed for this paper which carries a total of 160 marks, as follows:

Part I

1 compulsory question (case study) 80 marks

Part II

2 questions selected from 3 (scenarios) 40 marks each for a total of 80marks

- You should answer the question in Part I, and two out of the three questions in Part II.
- You are advised to spend no more than 90 minutes on Part I and 45 minutes on each question selected in Part II.
- It is recommended that you spend 15 minutes reading and planning your answer to the case study and 75 minutes answering it, and that you spend 10 minutes reading and planning your answer to each scenario and 35 minutes answering it.
- A case study tests extensively across syllabus learning outcomes, whilst a scenario will be more focused on specific learning outcomes.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Case study

This question is worth 80 marks

You should include relevant examples and further reading in your answer where applicable

QUESTION 1

CASE STUDY

ABC insurance company Ltd is a successful African company that has registered increased premium in the past years. It is managed by an experienced underwriter who takes great care in maximising profits by controlling expenses and focusing on direct sales to save on commission costs.

Notwithstanding a positive underwriting performance, ABC insurance company Ltd is not registering an increase in profit levels which have remained static for the past 5 years. It transpires that claims costs have been climbing and expenses to run the claims department have been increasing too. The Claims Director reports that such increases are inevitable and claims cannot be controlled.

The Board of Directors is not convinced and feels that the Claims Director is not making an effort to be cost-effective. The Board of Directors decides to hire a Claims Cost Controller who will be asked to look at the technical and administrative costs and who is expected to reduce these costs by 15% within the forthcoming 5 years.

QUESTION

If you were employed as the Cost Controller, discuss how you would evaluate the management of the claims function and technical claims payments. Also, discuss how you would analyse the financial aspects of the department to identify expenditure and leakage.

Moreover, report how you will be designing operations to control claims and expenses, outlining your five-year strategy to achieve the expected 15% reduction in claims costs and expenses.

(80 marks)

PART II Scenarios

Answer TWO of the following THREE questions.

Each question is worth 40 marks

QUESTION 2

SCENARIO

John Smith is the owner of a \$16 million boat, two Ferraris valued at \$350,000 each, a house worth \$8.5 million and a few other properties in a number of locations and which together cost \$50 million.

He insures all of the above assets through your broking firm and has never, for the past 10 years, made a claim especially since the excesses imposed on the respective policies are high.

On one occasion he damages the rear of one of the Ferraris as he was reversing his boat into his garage, damaging the boat and the façade of his house in the process. He calls your office and after a delay in trying to get through, he was greeted by a receptionist who promised that a member of the claims department would call him back. The promised call never reaches John.

Therefore, John Smith goes to the office and makes a claim which is then submitted to the insurers. After several weeks, John calls the broking office to find out that the insurers are refusing to pay since an "own property damage" exclusion applies. John Smith is furious at the way the broker handled his claim and the poor service he received. He is also disappointed on the way the insurers have refused to pay his claim notwithstanding the high profile of risks insured.

QUESTION

If you were handling John Smith's complaint, analyse the circumstances that led to poor service by referring to a typical customer expectations charter and explain how would you manage the situation to retain the client and to advise him of his rights with respect to the claim.

(40 marks)

QUESTION 3

SCENARIO

Claims outsourcing is the function of assigning resources outside the company to carry out tasks or projects that are part of the claims management function or claims handling process.

The advantage enjoyed through outsourcing is the management of time and space. It also releases human resources from inefficient handling of processes and utilises these to more vital and core activities of the firm.

QUESTION

In the context of the above, discuss how in practice, a company benefits (or otherwise) from outsourcing. Explain when it is viable to outsource and to what extent.

Also discuss typical functions that may be outsourced, to whom and what procurement process this would entail.

(40 marks)

QUESTION 4

SCENARIO

HMS Titanic II is sailing from Southampton to New York on its Maiden voyage. In the US territorial waters, it hits an iceberg and sinks, resulting in heavy loss of life.

QUESTION

If you were the Claims Director of the fronting UK insurer that has underwritten this voyage, discuss the issues associated with the handling and settlement of the claims, given the catastrophic event and huge liability incurred.

Your discussion has to assess the technical and legal issues associated with dealing with a huge overseas claim.

(40 marks)
