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Claims handling – a key function in insurance business

## Life insurance claims handling – some general concepts

### Introduction

Claims handling is a key function in insurance business. The major aim is to pay valid claims and reject non-valid claim scenarios. However, often that's easier said than done since there are many shades of claims.

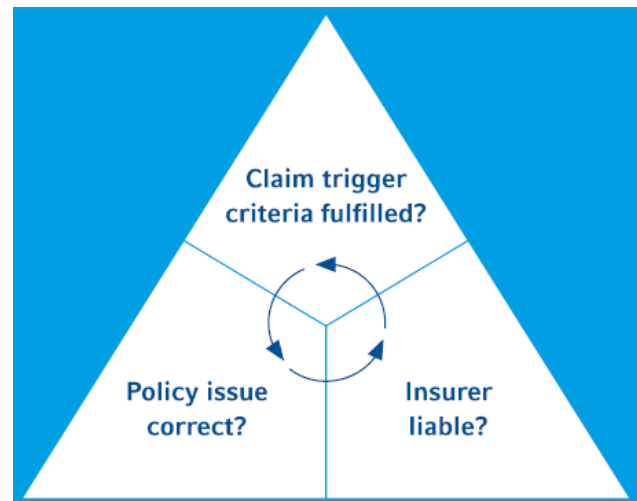
This ReCent News will focus on some general concepts and approaches which will be regularly encountered during structured life insurance claims handling. It is not meant to be specific for a given market or legal system but rather intends to give a short outline of some general aspects and views commonly taken into account in many claims handling situations.

### Important claims handling process areas – the claims triangle

During claims handling some major aspects should routinely be checked. Here the focus is on three general areas which are also depicted in figure 1 as the 'Claims Triangle'.

Fig. 1: Claims triangle

Important claims handling aspects



## Are claim trigger criteria fulfilled?

This important area includes checks whether the claimed event is covered according to terms and conditions of the underlying contract; this includes checking for any general or specific exclusion and possible deferred or waiting periods. For some products, such as income protection, regular follow-up checks on disability/disease status needs to be done to assess whether a person still meets the claim criteria. Reasonable concerns of possible non-disclosure, misrepresentation or fraud at claim stage need to be addressed too.

## Is insurer liable for this claim?

Here, different aspects/questions of a mainly technical nature should be verified, such as: Policy in force? Premiums paid? Prior partial/accelerated payments? Are other parties (partly) liable for this claim? What is your actual share?

## Was policy issue correct?

In this major area one looks back to the time around and before underwriting to evaluate possible non-disclosure, misrepresentation or fraud. If necessary, subsequent appropriate claims handling actions for the policy and/or attached riders may need to be initiated. At the same time (even in case of seemingly minor claims) other policies in force may be looked at to check whether findings in the current claim work-up would affect them too. Depending on market and product, additional aspects such as valid inclusion into a group cover or valid insurable interest aspects may also be evaluated.

A good example document that depicts instructive guidance on how to deal with misrepresentation is provided by the Association of British Insurers (ABI). It is a comprehensive 'Code' for fair treatment of misrepresentation that happened during the application process and that was discovered during claims handling for a number of insurance products. (1)

This document may serve as a valuable guide in day-to-day claims assessment and addresses a number of important claims handling aspects including misrepresentation categories and appropriate claims handling routes and remedies. It also includes a flowchart for easy visualisation

of assessment steps. If not already available, one can only heavily recommend to prepare a comparable guide and flowchart for every country and/or market – of course adapted to the locally valid legal and market circumstances.

It is worth noting that the guidance in the ABI Code 'goes beyond the current legal position in a number of material aspects. Compliance with those aspects is voluntary, although firms should be aware that the Financial Ombudsman Service may determine whether a firm has acted fairly by reference to this Code or its predecessors'. It also says that 'insurers should note that this Code does not purport in any way to replace the law; they must always comply with relevant legal obligations when applying this Code'. (1)(2)

## Misrepresentation and degree of culpability

Non-disclosure or misrepresentation may be divided into different culpability degrees that will qualify for different claims handling paths and remedy actions. For the UK the culpability degrees of misrepresentation are 'innocent', 'careless' and 'deliberate or reckless' (where the latter degree also includes fraudulent behaviour (3)). According to the ABI Code decisions may result in full payment, a proportionate payment or a decline (with policy cancellation/voidance).

Other markets have somewhat different definitions and degrees of culpability classifications and claims assessors must be familiar with the respective degrees and legal meanings for their markets and the appropriate claims handling remedy routes. In this respect it is for instance of note that, according to the ABI Code, innocent misrepresentation would typically not result in a negative claim outcome for the policy holder, but this is not necessarily the case in all jurisdictions/markets.

## Materiality

Typically, claim assessors have to evaluate whether a non-disclosure or misrepresentation was material. To check for materiality, the key question is: Would the policy have been issued 'at all' or 'in a different way' if the misrepresented/non-disclosed fact(s) would have been known to the insurer before policy issue? If the answer is no there is usually little room for contestation in an

otherwise valid claim. If the answer is yes, remedy actions may be further evaluated. Sometimes more consumer-friendly remedy routes may be chosen if the non-disclosed/misrepresented fact(s) would have resulted in a relatively low change of the originally offered terms; for instance, the ABI Code would regard a premium loading of not more than +50% to be of lower relevance and hence would rather allow for a proportionate remedy instead of a full decline. (1)

## Causality

In a number of jurisdictions another aspect needs to be checked in certain claims scenarios, namely: Is/Was there a causal connection between the misrepresentation and the claim that had arisen? If the answer is no, more consumer-friendly remedy routes may have to be taken. However, such causality check is not required in all markets or may only be relevant for selected claim scenarios and claims assessors need to be familiar with the concept and apply it where needed.

## Legal deadlines

Although claims handling actions should always be performed in a prompt manner, it is important to recognise that in many legal systems/markets there are strict (and sometimes also quite short) deadlines for certain claims handling actions. For example, in Germany within the first five policy years the insurer has to act on certain types of misrepresentation within only one month after the insurer became aware of it (4) - as one can easily imagine in administrative insurance structures such a month can run quite short.

Often, deadlines exist for a number of different scenarios, be it during standard claims handling or in dispute situations, and it needs knowledgeable and competent staff to meet them in any given market.

## Contestability period

In many jurisdictions and markets life insurance terms and conditions contain a contestability period. The length is typically 2 years (but shorter or longer periods are also seen). Within this period the insurer can usually apply the full spectrum of remedy actions on misrepresentation. After the period a claim is typically incontestable (or

indisputable) for the insurer but fraudulent claims would often still be contestable. In markets where contestability periods are applied, more care may be taken during underwriting to better avoid such claim scenarios. Other risk control measures may also have to be considered such as post-issue checks or appropriate pricing assumptions.

## Underwriting and wordings in claims assessment

Smooth claims handling relies on appropriate underwriting and solid product wordings. Loose or relaxed underwriting or product wordings will typically affect claim decisions but could be partly controlled by other measures such as pricing or general exclusions. Of course, errors at underwriting stage or wordings flaws may affect any claim outcome.

## Waiving of information

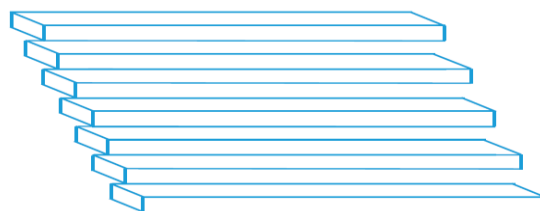
If information that could be obtained in principle was voluntarily waived at underwriting stage a claim may not be challengeable if it is related to such waived information. For instance, if it was decided not to ask for hazardous avocational activities during the underwriting process a claim resulting from say a hang gliding accident that happened to a hobby hang glider pilot would be difficult to challenge (unless such hazardous activity is effectively excluded in the general terms and conditions).

## Ambiguity

Product wordings and other material such as questionnaires have to be comprehensive and clear and should not leave room for ambiguity.

As a visualisation-example look at the following drawing (figure 2) and count the steps.

**Fig. 2: Ambiguity – how many steps do you count?**



So, how many do you count? Five? Seven? If an ambiguous situation like this would appear in a claims dispute ombudsman institutions or courts may tend to interpret 'against the offerer' i.e. against the party that has drafted the contract – which, in day-to-day business, is usually the insurer. This general legal approach, that is applied in many markets and business constellations, is also referred to as 'contra proferentem'.

## Other claims aspects

Of course there are many other important claims-related areas which may require additional review and investigation such as claims with recently reinstated policies, suspicious or unnatural causes of death, and other red flag warnings. Additional attention should be given to adequate claims information compilation, verification of correct beneficiary or ways of dispute resolutions to name only a few.

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Claims handling actions always have to be interpreted and decided in light of legal regulations and market practice in any given market or country.

Nevertheless, many concepts are at least similar or comparable from a broad general and principle point of view.

## Conclusion

This overview relates to some general life insurance claims concepts. Of course, claims handling actions always have to be interpreted and decided in light of legal regulations and market practice in any given market or country. Even within one country there are often differences from federal sub-state to sub-state. Nevertheless, many concepts are at least similar or comparable from a broad and general point of view.

Claims handling is among the top functions to successfully manage insurance portfolios. Also in light of ever more

complex product constellations it can be quite demanding to safely navigate at different process levels in an efficient way.

A wise and balanced decision between the contractual obligation and any given claim case scenario needs experienced and knowledgeable staff to support both, the insurer and the insured party, in a fair and transparent manner. Skilful claim assessment will lead to an objective review of all relevant information to reach a timely decision that is reflective of the evidence.

In general, the overall aim must be to follow the contractual policy obligations and to pay valid claims and at the same time deny non-valid claim payments where necessary.

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