

THE CLAIMS HANDLING PROCESS OF MOTOR VEHICLE INSURANCE

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Abstract

This paper focuses on the claims handling process of motor vehicle insurance where a number of factors are considered by insurers. Some of the claims handling *factors* may be more important than others when insurers are assessing the claims submitted by the policyholders. The responding insurers also identify important *problem areas* in the claims handling process, and *solutions* that alleviate the different problems should be welcomed by the insurers. The empirical study is based on the perceptions of the *leading South African* short-term insurers, who represent 82.6% of the total gross premiums written for motor vehicle insurance in 2006. The *objective* of this research embodies the improvement of financial decision-making by insurers when occupied in the claims handling process of motor vehicle insurance.

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1. INTRODUCTION AND OBJECTIVE OF RESEARCH

A policyholder essentially buys *peace of mind* when acquiring coverage from a short-term insurer. The insurer undertakes (or in fact promises) to indemnify the insured against financial losses to a specified extent when particular detrimental events occur. The actual value of short-term insurance is only assessed when a claim is submitted, as the claims handling process will prove whether the short-term insurance policy holds any financial indemnity to the policyholder or not. It should be emphasised that the insurance policy is the legal contract concluded between the insurer and the insured, and that the

stipulations thereof should be adhered to by both parties to the contract.

This paper focuses on the claims handling process concerning motor vehicle insurance where various factors play a vital role. It is expected that some of the claims handling *factors* are more important than others when insurers are handling claims which are submitted by policyholders. The claims handling process has without any doubt some important *problem areas* which should also be addressed. *Solutions* that alleviate the various problem areas will be welcomed by insurers. Throughout this paper there will be reference to *incidents* which cause motor claims, as it is a much wider concept than just accidents, where hijackings, break ins and theft of motor vehicles are excluded.

The *objective* of this research embodies the improvement of financial decision-making with reference to the claims handling process of motor vehicle insurance. In order to achieve the research objective, a literature study represents the starting phase, after which an empirical survey is conducted. The empirical study focuses on the perceptions of the *leading* insurers of motor vehicle insurers in South Africa with reference to the claims handling factors, the problem areas experienced by the responding insurers, and the solutions to alleviate the problem areas.

2. CLAIMS HANDLING FACTORS

There are various factors which an insurer should consider when settling a motor vehicle insurance claim. The factors may focus on the details of the driver of the covered motor vehicle, as well as other factors concerning the detrimental incident as a whole. The following sections contain a brief description of the main claims handling factors.

2.1 The place where and the date when the incident happened

This claims handling factor focuses on the place where and date when the detrimental incident happened. The *place* may be well-known to the insurer as an identified location where many disadvantageous incidents had occurred in the past. It may also draw the insurer's attention to the possibility of a gravel road or dangerous mountain pass, and may point to the driver not exercising due precaution in this regard.

A motor insurance policy usually stipulates that a condition for cover is that the detrimental incident must happen in a particular country or countries (Davis, 1993:449-450). If the incident occurs in other geographic regions, the insurer will not provide any cover to the policyholder. This aspect emphasises the importance of the place where the incident happened as a claims handling factor.

The *date* of the incident is also important, indicating the time and the day of the week, perhaps used for business activities, holiday trips, a festive season or weekend excursions. This information is vital in order to assess the mood and attitude of the driver, being under a lot of stress or perhaps being over-relaxed. Of even more importance is that the date of the incident will show whether the insurance policy was actually in force when the unfavourable incident happened.

2.2 The prevailing circumstances when the incident happened

The prevailing circumstances refer to the specific weather situation at the time of the unfavourable incident and the impact thereof on general driving conditions. Technology may sometimes be of

assistance to estimate possible damage to motor vehicles due to particular risks and to adjust insurance policies accordingly (Hohl, Schiesser & Knepper, 2002:215-238). As the prevailing circumstances may represent factors which aggravate the cause of the incident, this claims handling factor is not only important to assess the current claim, but also to consider when formulating insurance policies in future.

2.3 The age of the driver of the covered motor vehicle

Younger drivers are usually viewed as higher risks than older people (Yeo et al., 2002:1198). This claims handling factor is however not a controllable factor as drivers do not have any power over their age (Gardner & Marlett, 2007:49). If an insurer perceives age as a proxy for responsibility, this claims handling factor should be included in the motor vehicle insurance policy *in advance* instead of forwarding it during the settlement of a motor claim (Wieggers, 1989:172). It is therefore obvious that when insurers mention age as an important claims handling factor, a stipulation concerning age must *already* be embodied in the existing insurance policy.

2.4 Whether the driver of the covered motor vehicle was duly and fully licensed and for how many years

In order to be able to enforce this claims handling factor when settling a motor vehicle insurance claim, an insurer must stipulate at the inception of the contract that the driver must be duly and fully licensed (Davis, 1993:450). When concluding the insurance contract the insurer may also specify that any driver of the motor vehicle must be duly and fully licensed for a particular number of years. A stipulation on this claims handling factor must therefore be embedded as part of the current insurance policy *before* an insurer can indicate it as an important factor when settling motor claims.

2.5 Whether the driver of the covered motor vehicle caused the incident

A knock-for-knock agreement between insurers binds only the parties that concluded the contract, and the various insureds are not bound by the agreement (Davis, 1993:459). According to a knock-for-knock agreement every insurer is liable for the damages to motor vehicle he has insured, and it is irrelevant which party caused the detrimental incident.

When a knock-for-knock agreement does *not* exist between the insurers who are involved in the disadvantageous incident, the fact whether the driver of the covered motor vehicle is guilty or not, is important. In such a situation the insurer of the innocent party may apply subrogation against the insurer of guilty party to recover the damages to the

property of the innocent party (Dinsdale & McMurdie, 1987:248; Hansell, 1987:170; Vivian, 2006:20, 22, 24 & 25). This claims handling factor is therefore important in the absence of a knock-for-knock agreement between the insurers of the various parties to the disadvantageous incident.

2.6 Whether the incident was reported to and/or the scene visited by the police service

The involvement of the local police service by either reporting the incident and/or the police service visiting the scene of the incident, are important claims handling factors in order to bring the incident to the attention of the governing authority. The testimony of the police service is important when civil and/or criminal charges are laid afterwards.

2.7 Particulars of the other driver(s) involved in the incident

The implication whether the driver of the covered motor vehicle *caused* the incident, was previously discussed. *Irrespective* of which driver is guilty and who is innocent, insurers always want to know who the other drivers were, should any type of litigation follow afterwards. That is the reason why the particulars of the other drivers are important as a claims handling factor.

2.8 Particulars of all persons who are injured or dead due to the incident

Possible future litigation is also the rationale why insurers perceive the details of all persons who are injured or dead as a result of the incident, as important for the claims handling process. An unfavourable motor vehicle incident may lead to extensive civil and/or criminal charges.

2.9 Whether the driver of the covered motor vehicle was under the influence of intoxicating liquor or drugs

When the driver of the covered motor vehicle was under the influence of intoxicating liquor or drugs, an insurer usually excludes any cover based on the stipulations of the insurance policy (Davis, 1993:450). The driver may be the policyholder, or any other person who drives the motor vehicle with the permission and knowledge of the policyholder. It is therefore important for an insurer to know whether the driver of the covered motor vehicle was intoxicated or not.

3. RESEARCH METHODOLOGY

As stated previously, the objective of this research embodies the improvement of financial decision-making regarding the claims handling process of motor vehicle insurance. A literature study consisting of secondary data, formed the starting phase of this research. In order to obtain primary data, an empirical study represents the subsequent phase of this research, focusing on the leading short-term insurers in South Africa. The empirical study focuses on the factors used in the claims handling process, the problem areas of the claims handling process, and possible solutions to alleviate the problem areas.

Santam Limited compiled a confidential report according to which it is clear that the nine leading short-term insurers (in the general segment) in the South African motor vehicle insurance market represented 82.6% of the total gross premiums written for motor vehicle insurance in 2006 (2007:6, 11 & 21). It should be mentioned that the remaining part of the motor vehicle insurance market was serviced by large number of smaller insurers. The nine selected short-term insurers are therefore without any doubt the market leaders of motor vehicle insurance in South Africa.

As the nine short-term insurers were defined as the universe of this empirical study, their claims managers were requested to complete the previously drafted questionnaire. The claims managers were engaged as they should have extensive experience of the related topic. After mailing the questionnaires together with invitation letters to the various claims managers, and following up several times, the nine completed questionnaires were eventually available.

4. EMPIRICAL RESULTS

The following empirical results focus on the importance of the various factors which are used when handling the claims of motor vehicle insurance, the problem areas experienced in the claims handling process, and feasible solutions to ease the problem areas of the short-term insurers.

4.1 Factors used in the claims handling process

The importance of the factors used in the claims handling process, as perceived by the leading short-term insurers of motor vehicles, appears in the following table. A Likert scale with five intervals, ranking from extremely important to not important, is used.

Table 1. Responses of the short-term insurers regarding the importance of the factors used in the claims handling process

Claims handling factors	Extremely important	Highly important	Moderately important	Little important	Not important
Place where the incident which led to the motor claim occurred	5	2	2		
Date of the incident which led to the motor claim	9				
Circumstances when the incident which led to the motor claim occurred (e.g. at night or in rainy weather)	6		3		
The age of the driver (of the motor vehicle which is covered)	6	1	1	1	
Whether the driver (of the motor vehicle which is covered) was <i>duly</i> and <i>fully licensed</i> when the incident which led to the motor claim occurred	8	1			
The number of years which the driver (of the motor vehicle which is covered) has his/her driver's license	4		4	1	
Whether the driver (of the motor vehicle which is covered) <i>caused</i> the incident which led to the motor claim	3	4	1	1	
Whether the incident which led to the motor claim was <i>reported</i> to the SAPS and the detail thereof	2	6	1		
Whether the SAPS <i>visited</i> the scene where the incident which led to the motor claim occurred	1	1	6		1
Particulars of <i>other driver(s)</i> involved in the incident which led to the motor claim	6	3			
Particulars of <i>all persons</i> who are <i>injured or dead</i> due to the incident which led to the motor claim	9				

Note: A few other factors were each mentioned by only one or two of the respondents.

In order to clearly establish which claims handling factors are more important than others as perceived by the responding insurers, a weight (in terms of points) is assigned to each particular response and the total score of each claims handling factor is then calculated. The following points are given to the different responses:

- “Extremely important” receives five points,
- “Highly important” receives four points,
- “Moderately important” receives three points,

“Little important” receives two points, and
 “Not important” receives one point.

It must be emphasised that in order to enable the calculation of weights, it was explicitly mentioned on the questionnaire that the intervals of the Likert scale form a continuum (Albright, Winston & Zappe, 2002:224-229 & 245). Table 2 shows the factor analysis of the importance of the factors used in the claims handling process in a declining order of importance.

Table 2. Factor analysis of the importance of the factors used in the claims handling process, in a declining order

Total score calculated	Declining order of importance	Factors used in the claims handling process
45	1	<i>Date of the incident which led to the motor claim</i>
45	1	Particulars of <i>all persons</i> who are <i>injured or dead</i> due to the incident which led to the motor claim
44	3	Whether the <i>driver</i> (of the motor vehicle which is covered) was <i>duly and fully licensed</i> when the incident which led to the motor claim occurred
42	4	Particulars of <i>other driver(s)</i> involved in the incident which led to the motor claim
39	5	<i>Place</i> where the incident which led to the motor claim occurred
39	5	<i>Circumstances</i> when the incident which led to the motor claim occurred (e.g. at night or in rainy weather)
39	5	The <i>age of the driver</i> (of the motor vehicle which is covered)
37	8	Whether the incident which led to the motor claim was <i>reported</i> to the SAPS and the detail thereof
36	9	Whether the <i>driver</i> (of the motor vehicle which is covered) <i>caused</i> the incident which led to the motor claim
34	10	The <i>number of years</i> which the <i>driver</i> (of the motor vehicle which is covered) has his/her driver's license
28	11	Whether the SAPS <i>visited the scene</i> where the incident which led to the motor claim occurred

The two most important factors that are used in the claims handling process, are also perceived by the responding insurers to be equally important. They are the *date* of the incident which led to the motor claim, and the particulars of all persons who are *injured or dead* due to the incident. All nine of the insurers indicated that these two factors are extremely important to the claims handling process. Whether the insurance policy was actually in force at the *date* when the unfavourable incident happened, as well as the extensive civil and/or criminal charges for *injuries and deaths* which may follow the detrimental incident, are perceived as extremely important factors in the claims handling process.

Whether the driver of the covered motor vehicle was *duly and fully licensed* when the unfavourable incident occurred, is considered by the respondents to be the third most important claims handling factor. It is therefore clear that a stipulation requiring that the driver should be duly and fully licensed, was part of the insurance policies when the insurance contracts were incepted.

The particulars of *other driver(s)* who are also involved in the incident which led to the motor claim, are regarded as the fourth most important factor of the process for handling claims. The rationale is that the insurers want to have the details should any type of litigation follow afterwards.

The next three factors had the same level of importance according to the perception of the responding insurers. They are the *place* where the detrimental incident happened, the prevailing *circumstances* when the incident occurred, and the *age* of the driver of the covered motor vehicle. It is obvious that stipulations about the particular countries

in which the detrimental incident should occur, and conditions relating to the age of the drivers, must already be embedded in the insurance policies of the responding insurers before the disadvantageous incident happened.

According to the results of the empirical survey, the claims handling factors which are of lesser importance focus on whether the incident was reported to the South African Police Service (SAPS), whether the driver of the covered vehicle actually caused the incident, the number of years which the driver (covered by the insurer) has his/her driver's license, and whether the SAPS has visited the scene where the disadvantageous incident occurred.

This particular section of the questionnaire did *not* explicitly mention the following claims handling factor as an alternative: *Whether the driver of the covered motor vehicle was under the influence of intoxicating liquor or drugs*. This question was however an open-ended one which provides the opportunity to the respondents to add this factor if they want to. It is interesting to note that only two of the nine responding insurers mentioned this claims handling factor.

4.2 Problem areas of the claims handling process

The claims handling process is a source of significant problems to insurers, as it appears from the reaction of the responding insurers. The respondents were asked to mention the three most important problem areas which they experience. Table 3 shows the empirical results.

Table 3. Responses of the short-term insurers regarding the three most important problem areas in the claims handling process

Problem areas	The <i>three</i> most important problem areas according to each insurer's perception.
When the insured committed a <i>breach of utmost good faith</i> by not providing the correct information <i>before the incident</i> which led to the motor claim	6
When the <i>claim</i> submitted by the insured was <i>fraudulent</i>	6
When the motor vehicle (which you cover) was <i>hijacked</i>	0
When the <i>alarm system and/or gear lock</i> of the motor vehicle (which you cover) were not activated as required by the stipulations of the insurance policy <i>when</i> the incident which led to the motor claim occurred	1
When the motor vehicle (which you cover) was not <i>stored in a safe place over night</i> as required by the stipulations of the insurance policy <i>when</i> the incident which led to the motor claim occurred.	0
When the insured did not have an <i>insurable interest</i> in the motor vehicle (which you cover) <i>when</i> the incident which led to the motor claim occurred	5
The <i>extent</i> of the quote received from the repairer/panel beater	1
The <i>quality</i> of the repairs done by the repairer/panel beater	0

Note: One of the nine insurers did not complete this question. A few other problem areas were mentioned by only one insurer each.

According to six of the eight responding insurers, one of the most important problem areas is the *breach of utmost good faith* as the policyholders do not provide the material information before the detrimental incident (Viaene & Dedene, 2004:314). Material information is the class of information which will put an insurer in the position to decide whether to underwrite and to provide further cover, and should he decide to cover the insured, under which conditions and at what premium.

It is also clear that *fraudulent claims* are a major problem area to six of the eight respondents and to South Africa in general (Derrig, 2002:271-287; Israelson, 2000:54-55; Jacks, 2007:5; "SA battling", 2004:23). Insurance fraud often consists of two categories, viz.:

- when a claim that does not exist, is fabricated by a policyholder, or
- when a policyholder who experiences a real loss, claims for more expensive possessions, or items which he does not possess (Robertson, 2007:17).

Another problem area which was mentioned by more than 60 per cent of the respondents relates to the situation where the policyholder does not have an *insurable interest* in the motor vehicle when the disadvantageous incident happens (Hansell, 1987:135). It is important to emphasise that the basic principles of utmost good faith and of insurable interest are two of the cornerstones of the short-term insurance industry, and when they are not adhered to, the very essence of the whole industry is violated by the policyholders. It is logic that insurers will not tolerate such behaviour of the insureds.

While two other problem areas are indicated in the preceding table by only one insurer each, it is quite interesting to note that no responding insurer has cited the following aspects as important problem areas:

- when motor vehicles are hijacked;
- when motor vehicles are not stored in a safe place over night; and
- the quality of the repairs done by the repairer/panel beater.

It can therefore be concluded that the three aspects mentioned seem to produce no important problem areas to insurers.

4.3 Possible solutions to alleviate the problem areas

The following solutions are presented by the responding insurers for the three most important problem areas (as it appears in the preceding table):

- (1) The *breach of utmost good faith* by the policyholders when they are not providing the correct information before the detrimental incident, should be solved by emphasising to the brokers as well as the policyholders that this basic principle is a pillar of short-term insurance. Without adherence to the basic principle of utmost good faith no indemnity will be provided by the insurer.
- (2) In order to avoid *fraudulent claims*, an effective database is needed by the insurer which should provide all the particulars of the insureds (Murray & Whiteing, 1995:22-29). The details must be thoroughly checked by the investigators (including loss adjusters) to see whether any fraud was committed, which should act as a deterrent to the submission of fraudulent claims.
- (3) Not having an *insurable interest* in the motor vehicle when an unfavourable incident leads to a motor claim, should be prevented by stressing to the brokers and policyholders that

without an insurable interest no cover will be available.

- (4) The *ultimate* solution to the preceding three main problem areas boils down to the conclusion that brokers as well as policyholders should be *educated* in insurance matters, while both parties to an insurance contract should apply an *honest* approach.

5. CONCLUSIONS

Based on the literature study and the perceptions of the leading short-term insurers in South Africa, the preceding research provides the following important conclusions:

- (1) The seven most important factors of the claims handling process (in a declining order of importance) are as follows:
- The *date* of the incident which led to the motor claim.
 - The particulars of *all persons* who are *injured or dead* due to the incident which led to the motor claim.
 - Whether the *driver* (of the motor vehicle which is covered) was *duly and fully licensed* when the incident which led to the motor claim occurred.
 - The particulars of *other driver(s)* involved in the incident which led to the motor claim.
 - The *place* where the incident which led to the motor claim occurred.
 - The *circumstances* when the incident which led to the motor claim occurred.
 - The *age* of the *driver* (of the motor vehicle which is covered).
- (2) The three most important problem areas according to the insurers' perceptions are the following:
- The breach of utmost good faith by not providing the correct information before the detrimental incident occurred.
 - The submission of fraudulent claims.
 - The situation where the policyholder does not have an insurable interest in the motor vehicle when the unfavourable incident happens.
- (3) The solutions presented by the responding insurers to alleviate the problem areas include the following:
- The breach of utmost good faith by the policyholders should be solved by emphasising to the brokers and the policyholders that, as this basic principle is a pillar of short-term insurance, no indemnity will be provided by the insurer without adherence to the principle.
 - An effective database which contains all the particulars of the policyholders, together with investigators checking the details

thoroughly to see whether any fraud was committed, should act as a deterrent to the submission of fraudulent claims.

- It should be emphasised to brokers and policyholders that without an insurable interest no cover will be provided by the insurers.
- The ultimate solution embodies that brokers and policyholders should be *educated* in insurance matters, and that insurers and policyholders should apply an *honest* approach.

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