

## **CHAPTER II**

### **CLAIMS AND RECOVERIES**

#### **The Singapore Approach - Philosophy and Practice**

##### **CLAIMS**

Claims is one of the pillars in the insurance industry and if there are 2 pillars the other is underwriting. The former can influence the latter as claims experience is indispensable to future underwriting philosophy and criteria for an insurance company.

Claims can also be used as a marketing tool to promote sales. A relaxed and flexible claim policy will promote sales as no one buys a policy with the wish of not ever making a claim.

Many exporters who perceive and appreciate the risks in selling on credit overseas may buy a credit insurance policy for credit protection, to institutionalise their credit and political risks and to maintain cash flow. The last objective cannot be attained when a risk crystallises unless a claim is filed.

There is, therefore, a need and an important one for any export credit agency (ECA) to decide and adopt a Claim Policy or Claim Philosophy.

Should an ECA adopt a strict philosophy to pay claims strictly on terms and conditions of the Policy or to adopt a flexible and marketing oriented philosophy.

What will be your decision in one of the following instances:

- (i) Claim filed was declared late
- (ii) Claim filed was not declared
- (iii) Claim filed where premium was paid late

- (iv) Claim filed where premium is not paid and still outstanding
  
- (v) Claim filed where premium was paid but there is substantial premium outstanding under the Policy

Your answers to the above will decide the kind of claims philosophy which you wish to adopt. Will your answers be different if the claims payment had been assigned to Banks under Letter(s) of Authority.

Further how would you deal with disputes will also determine your claims philosophy. Are you prepared to be involved in settlement of disputes, pay a conditional claim or defer claim settlement until the exporter resolves the dispute.

Finally will you adopt a philosophy to pay claims so long as the underlying transaction is genuine. The trade promotion policy of an ECA is to help the cash flow of exporters in addition to support and protect the exporting community against the uncertainties of export trade so long as the transactions are genuine. If we adopt this philosophy then we must know our exporters well -- their integrity, standing in the industry and their credit control policy. These will be useful in assessing the manner in which we will assess the claims filed.

In ECICS we are strict in our claims assessment but for exporters who we know well we are prepared to recommend to the Board claims payment when there is noncompliance under the terms of the Policy eg. we have made conditional claims payment for dispute cases where the genuineness of the transactions were not in doubt; claims payments have been made for exports declared late or where premiums were not paid but the outstanding premium did not relate to the transaction under claims examination.

In Singapore, which is a small country, it is essential for us not to have a bad image as a company that does not pay claims. Hence the role of claims in public relations is quite important.

## **RECOVERIES**

Recoveries is a unit in the insurance company which tends to be forgotten. This can be a grave error as recoveries can be an important resource and cash source for an insurance company especially ECAs involved in lumpy transactions. So while claims payment may create a hole in the pocket (or balance sheet) recoveries can be a major contributor to net surpluses or profits. We experienced this in ECICS last year when the sale of a common stock in a US company (which was received in 1988 as part of a recovery settlement) was sold for a very substantial surplus.

One must, therefore, not pay a claim and forget to recover; then we will become a charitable organisation!