



Minnesota FAIR Plan

Plan of Operation

Appendix B

Claim Guidelines

June 30th 2003

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Section 1 General Conduct

1.00 Compliance with Statute

The Minnesota Fair Claims Practices Act will be followed on all losses handled by the FAIR Plan and its vendors.

In addition to compliance with the Minnesota Fair Claims Practices Act, all losses handled by the FAIR Plan and its vendors will comply with the following guidelines, as well as the provisions of the FAIR Plan anti-fraud plan.

1.1 Misrepresentation of facts or coverage

No employee of the plan, or its vendors, will knowingly misrepresent pertinent facts or insurance policy provisions relating to coverages at issue.

1.2 Investigations

No claim coverage decisions will be made until a reasonable investigation has been performed.

1.3 Good Faith Handling

All claims will be handled in good faith. All claims will receive prompt, fair and equitable settlements once liability for the loss is reasonably clear.

1.4 Redundant information

No claim investigation will be delayed due to requiring the submission of redundant information.

1.5 Independent Adjusters

The FAIR Plan will use only properly licensed independent adjusters for the conduct of its claims business. A copy of the license for each independent adjuster used will be on file in the FAIR Plan offices. The FAIR Plan will not provide payment to any independent adjuster that does not meet this requirement.

Section 2 Handling Procedures

2.1 Acknowledgment of claims

All claims reported to the FAIR Plan will receive written acknowledgment of the loss, within 10 business days of our receipt of the loss report. This acknowledgment will include all necessary forms and instructions to process the claim. The acknowledgment will include the name and phone number of the representative who can assist the insured. The acknowledgment will include an explanation of all possible benefits that may be available to the insured, under the contract of insurance in force at the time of loss.

2.2 Proofs of loss

If it is determined that a proof of loss document will be necessary for the completion of the claims investigation, one will be provided to the insured within 10 business days of the receipt of the loss report. The proof of loss document will be sent to the insured with instructions for its completion. If the claims investigation shows that coverage should be granted for the loss, the FAIR Plan will reserve the right to waive the requirement that a proof of loss document be completed and submitted. Such a waiver will be communicated to the insured verbally, followed by a letter to confirm that the proof will not need to be completed.

2.3 30 day notices

Whenever reasonably possible, coverage decisions will be made and communicated to the insured within 30 business days of the receipt of the loss report. The coverage decision will be supported by the information obtained from a reasonable investigation of the claim. This information will be clearly documented in the claim file. If for some reason, the investigation cannot be concluded in the 30 days allowed, the insured will be informed of the reasons for the delay in the completion of the investigation. The insured will also be instructed as to the expected completion of the investigation. This information will be provided to the insured before the 30th business day after the report of the claim.

2.4 Pay or deny within 60 days

In all cases, coverage decisions will be made and communicated to the insured within 60 business days of the receipt of all the information needed from the insured.

2.5 Denials

If the investigation of the claim shows that there is no coverage for the loss claimed, the insured will be instructed of this fact verbally. A letter of denial will follow the verbal denial of coverage. Both explanations of the decision will include

the reasons why no coverage applies to the loss. The denial letter will also include copies of the pertinent parts of the insurance contract that apply to the loss at hand. Losses that fall under the policy deductible will receive the same handling, as they are considered denials of coverage. Losses that are restricted by policy limits or conditions will receive similar handling as well. In any case where the coverage provided by the Plan falls short of the amount claimed by the insured, the insured will receive an explanation for the difference.

2.6 Explanation of payments

If the investigation shows that there is coverage for the loss claimed, all payments made under the policy will be accompanied by an itemization and explanation of loss. Delivery of this information to the insured will be documented in the claim file. The explanation will include the policy coverage(s) under which the payment is made. The itemization will show each amount that was included to arrive at the total owed. This itemization will include the application of the insured's deductible if appropriate.

2.7 Depreciation

Depreciation, if appropriate under the contract wording present, will be taken only on items that are adversely affected by age and deterioration. In the case of depreciation of real property, the replacement cost of the property will be considered to be the cost of the final job, completed and in place. This corresponds to normal accounting methods. In all cases where depreciation or betterment is appropriate, the application of such depreciation will be explained to the insured verbally, as well as on the itemization of loss that will accompany all payments made by the Plan. The amount of depreciation charged will reflect the application of the broad evidence rule. The depreciation charged shall take into account all factors that may effect the valuation of the property in question, in addition to the age of the item.

2.8 Payments within 5 business days

All agreed amounts of loss will be paid within 5 business days of the day such an agreement is reached. All undisputed amounts will be paid within 5 business days of the determination of the undisputed amounts.

2.9 Response to communication

All communication reasonably requiring a response will receive one within 10 business days of receipt of the communication by either the vendor or the FAIR Plan. Documentation of the receipt of and response to such communication will follow the guidelines outlined in section 3.

Section 3 Documentation Requirements

3.1 Documentation of written correspondence

All documents received will be date and time stamped when received in the vendor's office, if one has been engaged, as well as upon receipt in the FAIR Plan office. All documents received regarding a claim will be retained in the claim file. If the information is supplied by the insured, upon request of the insured, the FAIR Plan will return the original documents to the insured, and retain photocopies of the materials in the claim file. In cases where Plan employees or vendors make copies, it will be duly noted in the claim file.

3.2 Documentation of outgoing phone calls

All outgoing phone contacts made will be properly documented in the file. Such documentation will include the first initial and last name of the caller, the date and time of the call, and the number called. The documentation will include a record of all that was discussed, and the name of the person with whom it was discussed. If a message is left with a coworker or voice mail system, the documentation of the phone call will reflect this.

3.3 Documentation of incoming calls

All incoming calls will be documented showing the date, and time of the call. The first initial and last name of the person receiving the call will be documented. The subject matter of the call will also be documented in such a way that the documentation speaks for itself. As a matter of customer service, it is every employee's duty to try their best to answer all questions asked during the call. If it is impossible to provide an answer, it then becomes the employee's duty to document the question in such a way that the person who returns the call can be prepared to answer the question for the caller.

3.4 Documentation of other activities

All activities performed by the handling adjuster will be documented in the file as to the date and time of the action, and the action performed. The activities represented on the billings of any independent adjusting firm used, will correspond directly to the entries made in the claim file records, in terms of the activities performed, the date of the activities, and duration of the activities. Activities billed that do not show corresponding documentation in the claim file of such activities, will not be payable to the vendor.

3.5 File content

All claims handled by the FAIR Plan staff, or its vendors, will be documented in such a way to allow the claim file to stand alone, as a complete record of all handling activities. Each file will document the following aspects of the loss:

1. The policy form present, limits and term.
2. The cause and origin of the loss.
3. The policy wording present that provides or restricts coverage.
4. The exposure, and amount of total loss suffered.
5. The subrogation, salvage or contribution potential of the loss.
6. The adjuster's future plans, and suspense or anticipated completion date.
7. The adjuster's opinion as to whether the risk is properly underwritten, or if the risk is a candidate for the FAIR Plan Depopulation Program.

Whenever appropriate, the file will include photos of the damage, as well as underwriting photos of the risk. The above information is the minimum requirement for all claim files. The file supervisor retains the right to require additional documentation as the circumstances of the loss dictate. The file supervisor will also determine the timetable for submission of reports to the file, as circumstances of the loss dictate.

3.6 Complaint documentation

All complaints will be logged on a complaint register designed for such purposes. This register will include the insured's name, policy number, the nature of the complaint, and the action taken to resolve the complaint.

Section 4 Claims Authority

4.1 Employee Authority

The Executive Director will set the authority level for the Claim Manager. The authority level will be based upon the knowledge, experience and performance of the Claim Manager. The FAIR Plan Claim Manager will set the authority levels for FAIR Plan claims personnel. The authority granted will reflect the employee's knowledge, experience and performance. Authority levels will be reviewed yearly. Authority levels of FAIR Plan employees are not public information.

Losses that fall within the authority of the employee can be self-supervised at the discretion of the Claim Manager. The Claim Manager will supervise all losses in excess of the employee's authority. All authority amounts will be stated in terms of total exposure under the coverage present. Any loss in excess of the employee's authority will require review and approval of the Claim Manager prior to the granting or denial of coverage. Once authority is granted for a loss, it will be the

employee's duty to control loss dollars paid. The authority to deny claims can be modified at the discretion of the Claim Manager.

4.2 Vendor Authority

The Claim Manager will supervise all files handled for the Plan by independent adjusting firms. Losses in excess of \$5,000.00 will require the review and approval of the Claim Manager prior to the granting or denying of coverage. Once authority to extend coverage is granted for a loss, it will be the vendor's duty to control the loss dollars paid.

4.3 Draft Authority

Authority to issue drafts will reside with the staff of the FAIR Plan. No independent adjusting firm will have the authority to issue FAIR Plan claim drafts. Once authority to extend coverage is granted and documented by the file supervisor, authorized Plan employees have the authority to sign claim drafts even if the amount of the draft exceeds their personal claim authority level.

Section 5 Record Retention

5.1 Claim record retention

Master Claim files will be retained in the office of the FAIR Plan. Master files will be permitted to leave the FAIR Plan office for only short periods as required by the circumstances of the loss. FAIR Plan claim files may not remain away from the premises for more than 24 hours at a time however, unless a photocopy of the entire file is made for safekeeping in the FAIR Plan office. Claim files will be retained as set forth in the FAIR Plan Record Retention Policy.

5.2 Adjuster files

Nothing in section 5.1 prevents the handling adjuster from maintaining their own field file, as need dictates. It is mandatory however that all information present in the field file also be found in the master file. In cases where a field file exists, at time of closing, a review of the field file and the master file will be done to assure that all materials have arrived in the master file. Once it is reasonably assured that the master file is complete, the field file will be destroyed, leaving a single and comprehensive record of the loss.

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