

# Mitigating Your Risk

## understanding the insurance claim process

**When you think about the insurance claim process, John Grisham's 1995 bestseller "The Rainmaker" may be the first thing to pop into your head. His is a modern-day David versus Goliath story – fictitious, of course, but still...**

**T**he lead character in the novel, Rudy Baylor, is a recent graduate from law school, hired to represent Donny Ray Black, a 22 year old who is dying of leukemia and in the middle of a lawsuit against an insurance company that has flatly refused to pay for his medical treatment.

At the end of the novel, Rudy beats that all-powerful insurance company but only after his client has died.

At one of your annual review meetings with your public accountant, he or she will more than likely make some risk management recommendations for the prudent operation of your business and the protection of your family. These will include the purchase of life insurance, disability or maybe critical illness insurance to guarantee you can perform on your shareholder/partnership agreements, mitigate your family's income risk or to reduce or defer taxes that must be paid at the time of your death.

You then go off and, following your accountant's advice, purchase the appropriate insurance policies. The mystery to most public accountants and policyholders is this: They don't know if the insurance contracts that they just signed are worth the paper they are written on. The rubber only meets the road when an insurance claim is actually made, processed and paid. Until that time, no one will really

know if these insurance policies were properly underwritten.

Our primary aim is to demystify the insurance claim process, point out some very real hazards that may prevent you from receiving your insurance benefit and present solutions that will protect you and your family from being denied at the time of claim.

Life insurance, disability, critical illness, long-term care, or medical and dental policies are referred to as contracts of *uberrima fides*, a Latin phrase meaning "in utmost good faith." An insurance company depends on the applicant for complete disclosure. The range of negative consequences that can result from making misrepresentations on an insurance application can range from a delay in the approval to the voiding of the policy altogether.

The final requirement in creating a legal contract between the policy owner and an insurance company is delivering the policy to the applicant. The policyholder is only bound to the contract after receipt, examination, verification of facts and acceptance of the policy. The prompt delivery and proof of delivery of the policies are very important; if delivery is delayed, there is the danger that there will be a change of the person's insurability from the underwriting to the delivery of the policy.

A signed delivery receipt with a health statement that certifies no

change in insurability status must be signed by the insured before the policy is in force. If there is a change in the insured

person's health, but the insurance company is not notified, then it can legally deny the claim and may only be required to return the premiums paid. The full insurance benefit will not be paid to the beneficiaries.

The agent's role in the insurance claim process is to help you – the claimant – or your beneficiaries prepare and file the claim. Often, problems arise when the agent lacks experience. A British study of the insurance industry found that 93 percent of agents who entered the insurance business left the profession within three years.

In Grisham's novel, the insurance agent who sold the policy to Donny Ray Black was nowhere to be found when his client was denied his claim.

Beware: The agent who sold you your insurance policies may not be in the business at the time of claim to help you through the claim process. This reality makes it even more imperative for you to understand the insurance claim process yourself, to avoid the damaging pitfalls of faulty insurance underwriting.

### The Claims Process

In a perfect world, the claims process is similar for all types of insurance: life, disability, critical illness, long-term care and health insurance. It is a five-step process.

1. Claim forms must be submitted

- with supporting documentation.
2. The claims department at the insurance company will review claims for accuracy and completeness.
  3. The claims department may contact you and/or your physician if more information is needed.
  4. If the claim is approved, the insurer must pay the claim within 30 days from proof of claim.
  5. The insurer pays the claim.

When a life insurance death claim is made by a beneficiary or the trustee of the deceased's estate, some of the typical requirements to process a death claim will include the deceased's death certificate, proof of age, beneficiary claim form and the attending physician's statement. There is no time limit to file a life insurance claim. If the claim is not paid for a long time, the death benefit is paid with interest.

Be mindful that an official death certificate is required versus one issued by a funeral director when the policy is for a large amount or has been recently issued. If the insured dies within two years after the policy has been issued, the insurance company will want information about the cause of death so it can rule out suicide. Life insurance policies prohibit a benefit being paid for two years after a life insurance policy has been issued when the insured has committed suicide. If this is the cause of death, only premiums will be paid out to the insured's estate or beneficiaries.

To process a disability, critical illness or long-term care insurance policy claim, an insurance company needs the name of the physician as well as the nature of, the date of and the details surrounding the disability or illness.

With these types of insurance claims, the insurance company must be notified within 30 days of the insured becoming disabled or ill, and these claims must be filed within 90 days after the insured has become ill or disabled.

At your next annual review of your financial affairs, we recommend that you review your insurance policies that honor shareholder/partnership agreements, for income replacement, tax or estate planning purposes, accident, sickness and long-term care.

It is absolutely imperative that you receive the right advice and be sold the right policy. It is wise that you work closely with a qualified agent who is experienced and has the recognized professional designations.

Certified Financial Planners and Chartered Life Underwriters are technically competent in the area of life, disability, critical illness, long-term care and medical and dental insurances. Individuals who have attained either the CFP or CLU designations must continually meet education, examination, experience and ethical standards.

Under statutes and laws in both the United States and Canada, if the insurance company can prove pertinent information was left off the application

– information that would have precluded the insurance company from insuring that person – that claim can be denied. To mitigate this risk and to make sure that an insurance policy has been properly underwritten, it is wise and recommended that you consult a professional who specializes in reviewing insurance contracts.

Imagine that you have purchased a \$10 million life insurance policy to meet your estate planning needs. You follow your public accountant's recommendation to purchase such a policy, and over a 10-year period, you pay more than \$1 million in insurance premiums. At the time of the claim, your beneficiaries or estate are expecting the \$10 million death benefit. But through an innocent material misstatement of facts, the beneficiaries or estate are only entitled to receive the premiums paid. How unhappy would your family be? •

*Peter J. Merrick is president of MerrickWealth.com, a fee-for-services financial planning and executive benefit advisory firm in Toronto. He is author of "The Essential Individual Pension Plan Handbook" and the Canadian Securities Institute's Individual Pension Plan Course. He can be contacted at 416-854-1776 or peter@merrickwealth.com.*

*Charles L. Stanley is a fee-only financial planner with Capital Financial Advisors in San Diego. He can be reached at 800-620-4232, Charles@CFAFeeOnly.com or by visiting www.cfafeeonly.com.*

## Preneed Funeral Policies

### The "e" Series Plans



- Guaranteed Issue Single Premium
- 3-, 5-, 10-Pay / Full Benefit
- 3-, 5-, 10-Pay / Graded Benefit
- Internet Application Entry
- Print Policy at Funeral Home
- Increasing Death Benefit Credited Daily
- Attractive Commissions
- Away From Home Rider
- Internet Policy Values
- Internet Claims
- Casket Protection Program

NOT INTENDED FOR DISTRIBUTION TO THE GENERAL PUBLIC. NOT AVAILABLE IN ALL STATES

© COPYRIGHT UNITED HERITAGE LIFE INSURANCE COMPANY 2008

**P.O. Box 7777 • Meridian, Idaho 83680 • [unitedheritage.com](http://unitedheritage.com) • (800)657-6351**