

Audit & Forensic Accounting

# Claims Closure

## Service Overview

The Claims Auditing Services practice of Alan Gray LLC (AG) has extensive experience working on claims closure projects. Individual claims and books of casualty business that are allowed to languish without a game plan for resolution can end up costing corporations and insurers significant dollars relating to extra indemnity and expense payments. Normally, claims closure requests are made by self insured clients in need of accelerating closure on specific lines of business like workers' compensation and general liability, which are traditionally handled by TPAs. Unfortunately, claims may languish due to a number of reasons such as inexperienced adjusters, TPAs handling large volumes of claims simultaneously, high staff turnover rates, and/or the movement of books of business from one TPA to another. It is critical for self insured's that their claims be closed in a timely manner due to the need for posting letters of credit to fund any claims they may incur. These letters of credit or the cash amount is calculated by determining case reviews and an IBNR multiplier. If reserves stay unnecessarily inflated, the self insured's access to cash will diminish greatly. AG has successfully worked with clients to decrease case reserves, thus lowering IBNR and significantly reducing the amount of collateral required. This serves to release cash for investments and other corporate purposes.

## Workflow and Process

After reviewing the analytics and loss run, AG and their experienced associates, collaborate with the client, creating a client strategy. A client advocate is assigned to each client at the start of the engagement.

Assembling a team of experienced auditors, each claim in the closure project will be closely reviewed and an action plan will be devised based on the findings.

Working with the client, the action plan will include a diagram showing the breakdown of the claims closure strategy into four buckets. Each bucket represents how quickly AG believes the claims can closed.

- Phase 1 — close within 90 days
- Phase 2 — close 91 – 180 days
- Phase 3 — close 181 – 270 days
- Phase 4 — close 271 – 365 days

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## Sample Engagements

- Retained by an international property and casualty carrier to conduct a thorough review of its open files, AG determined that over 30% of the files could be closed. These findings resulted in related reserve reductions of \$9,800,000. In addition, the audit identified multiple files requiring immediate attention due to unrecognized coverage or litigation issues.
- AG reviewed a book of property claims, with total reserves of approximately \$500,000,000 for a major domestic property and casualty carrier. Due to the proactive handling and recommendations of the team, the client was able to see a reserve decrease of approximately \$75,000,000.

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