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The Forensic Accountant in the Property and Casualty Insurance Claim Industry—Expense or a Cost Benefit

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Abstract

This paper describes how the insurance companies recognize and control the costs for loss payments and loss adjustment expenses (LLAE) while trying to be profitable. This discussion will concentrate on these costs and expenses within the property and casualty (P&C) insurance sector. Categorization as loss payment or loss adjustment expenses (LAE) may be a cost benefit in determining which cost or expense to incur, in order to be more profitable.

As the specific aspects of the P&C insurance are laid out, to include underwriting the risk, to the claims end involving investigating the claim, the insurance company will take certain steps and make business decisions in resolving these matters. Within the LLAE, the utilization of the forensic accounting services in investigating these matters and the decision to utilize these services could change the overall cost to the insurance company and the determination of their profitability.

The economy is going through some turmoil. Major catastrophes like 9/11 and Hurricane Sandy, along with the growth of insurance fraud, have made it a struggle for insurance companies to be profitable. The forensic accountant can be a fundamental tool in controlling costs and maximizing profits.

The paper compares actual payments made by the carriers to the original costs for non-investigated claims. The overall savings is substantial. Applying these results to industry reported claims shows a large savings and this return on investment (ROI) becomes significant. Investigating claims by forensic accountants can lead to increased corporate profitability and benefit the consumer by reducing premiums.