

Distinguish, differentiate, compare and explain what is the Difference between an Incident, Loss and Claim. Comparison and Differences.

Difference Between an Incident, Loss and Claim

The primary purpose of most insurance is protection for yourself or business from financial loss. These losses, of course, have levels of severity. Depending upon the severity you can place it into one of three categories of incident, loss, or claim. We'll explore the importance differences between each.

An incident in its most basic definition is an event that may result in damages or a loss. An example would be you backed into another car in the parking lot. Both parties seemed to have no damages. You decided to exchange information just in case. Now, as most people know, this happens all the time and a loss or claim develops. The most important thing to do in an incident is to make sure you notify your insurance representative. This is not necessarily a formal claim, but an opportunity to disclose details should additional circumstances arise to form a claim. Timing is significant, not only from the standpoint that details are easier to recall closer to the event, but your insurance contract may have formal trigger dates which must be considered.

Auto accidents are probably the most common such occurrence. These incidents require your business to promptly monitor and inform your insurance carrier to become involved.

Another common occurrence for financial institutions is cyber-attacks. Advance planning and quick decision-making can make the difference in escalating an attack into a loss or a claim. Still another common event is a professional claim against a bank. A bank customer's first reaction to a financial loss such as a foreclosure is to blame the bank itself. Usually this is just a natural reaction by a customer but needs to be taken very seriously and proper parties need to be prepared to defend the bank's interests.

The next level is loss, or an injury leading to damages sustained by an insured because of an accident or occurrence brought against the insured. The major difference here is actual financial loss that occurred. These financial losses may be insignificant or major. Just because your business experiences a loss, that does not mean you must file a claim. This is very important to consider when discussing your retention or deductible for each line of business with your agent. You may feel that you could sustain a \$25,000 loss and it would not affect your bottom line. If you feel that a loss of that size may damage the day-to-day cash flow of the business, you should establish a lower deductible. The benefit to having a higher deductible is a lower premium. You may want to examine each line of coverage with a different deductible. For example, you may feel that your bank does not have a significant cyber exposure, therefore, a higher retention may be appropriate.

Claims are the actual request to the insurance company to make payments on your behalf for claims made against you as agreed upon by both the insured and insurance company. This is an easy concept to understand, but what is not easy is setting the correct limits for your business. There are so many different factors that play a part in setting the right coverage limit. When it comes down to the proper liability limit there are many factors to consider. A few are asset size, affordability and risk potential. Consider a peer-review analysis to assist you in the risk-analysis process of cost beyond just the premium.