

THE INSURANCE INSTITUTE OF LONDON



# **The Future Of Loss Adjusting The Brave New World Of Claims**

BY

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Mr Chairman, ladies and gentlemen, good afternoon. It's a great pleasure and privilege for me to address the Institute today. I'm going to talk to you about the future of loss adjusting, and I've subtitled my paper "the brave new world of claims"

I'm going to begin with the usual disclaimer. The views I will express are my own and are not necessarily those of my employers, Cunningham Lindsey, or of the Chartered Institute of Loss Adjusters.

So, the brave new world of claims. Why brave, you may ask. Is there really anything new. Well, for me the answer to both questions is most definitely yes. For one thing, you certainly have to be brave these days to be a loss adjuster, not least because a large part of the insurance market both at home and abroad seems hell bent on managing without us. You'd expect me to complain about that, and to defend the profession which has provided my living for the better part of 40 years, but actually I'm not going to, because I think loss adjusters have a lot to answer for.

As for the second point, it certainly is a new world, and I would like to start by summarising the claims business under four headings, and posing a few questions. For me, the key issues are attitudes, relationships, service and techniques.

First, attitudes. Think about these things. What is a claim-is it an entitlement, or a privilege.

What is the attitude of the policyholder. Has he purchased protection against financial disaster, an assured response if anything goes wrong, or a savings and investment product.

What is the main ingredient the domestic policyholder seeks from the claims department-help and advice, practical assistance (for example a contractor to fix the roof or a replacement vehicle), or money.

What is the mindset of the claims staff-to protect the companies funds, to indemnify the policyholder, or to provide a service.

I'd like you to think about these questions. I'm not going to answer them now, but maybe afterwards we can have some debate. I would just say that the attitude of everyone involved in the claims process is crucial in minimising claims costs whilst maximising customer service, satisfaction and retention.

What about relationships. I put it to you that the claims business, especially at the volume end, is as much about relationships as technicalities

The key to success is the proper management of expectations, which is an important element of relationship management.

Do adjusters and other claims service providers have sufficient knowledge of the client's objectives. Is the relationship sufficiently close for a proper empathy to develop?

Relationships with producers of business and with suppliers of services are every bit as crucial as relationships with policyholders.

The best results come from a partnership approach, involving open discussion of all matters affecting the relationship.

My summary of this is that relationships are increasingly important, and given that a significant proportion of claims people have been trained to the "tournament" model, where the parties retire to their corners for fifteen rounds, there is much work to do.

My third point is service, which has become the battlefield. I would suggest to you that the claims industry has yet to agree on what are the ingredients for a first-class service.

Too much reliance is placed on time driven service standards.

Is an adjuster or claims adviser with a clipboard, even though he arrives instantly and has clean shoes, really better than a workman with a toolbag?

If the choice is between hurried and, therefore, imperfect action taken solely to comply with service standards, and a measured response which, in the long run, will achieve a better all-round result, why does the industry generally prefer the former.

The telephone has become the preferred means of communication for the majority of personal business, and will in the medium-term be supplanted by the Internet. Why, therefore, do claims people still write so many letters and continue to generate acres of paperwork.

So, as I said before, service is the battlefield, but the claims industry has a long way to go in understanding what its customers really want.

My final set of questions is the longest, under the heading of techniques.

Direct replacement or repair has become the main tool in personal claims, but is the service enhancement this provides justified by the significant, and as yet not fully quantified, or understood, additional leakage that ensues.

Builders are not qualified to establish the extent of liability under a policy of insurance, yet they make more such assessments than do professionally trained claims staff.

Often, the specification of an item recommended as a replacement of a lost or stolen good has more to do with what the chosen supplier has in stock than with putting the policyholder back in his pre-loss position.

Lest the foregoing should be seen as an unsophisticated plug for the adjusting profession, I believe that "traditional" adjusting services and techniques have little relevance to today's volume claims market. The very term "loss adjuster" is often seen as antagonistic.

Although insurers have made massive IT investments over recent years, the claims end of the business is generally the last to receive attention, even though it is potentially the largest area of cost.

Computer modelling increasingly used in underwriting, has tremendous potential as a claims validation tool. Visits by professionally trained staff will play an increasingly important part in validating the work of others, and calibrating the models which emerge.

Visiting claimants to adjust the smaller claims is regarded by many claims managers as less effective than some of the newer techniques and, therefore, as unaffordable.

So to summarise, the optimum result in terms of customer satisfaction, leakage reduction and overall cost is to be had from a carefully engineered blend of all of these techniques.

So ladies and gentleman I believe it is time for the industry to review its use of the vastly increased range of claims handling techniques at its disposal, and recognise that a holistic approach will liberate much greater value.

Now, after that overview, I'd like to concentrate for the next few moments on the adjusting profession. Anyone who has been an adjuster for more than five years will have seen fundamental change in the business. For those like me who have been at it rather longer, it really is a different business altogether and this has prompted me to look back even further to the origins of the profession.

In the scheme of things, we really are very new. Fire insurance has been around in a recognisable form for about 330 years, but for the better part of the first 200 years adjusting was virtually unknown. Insurers did it all themselves, relying on local dignitaries, such as magistrates or the churchwardens to vouch for claims. Because they weren't skilled in quantifying loss, they were usually vouching for the bona fides of the policyholder, but they got out of their depth when it came to the evaluation of building losses so they started to bring in surveyors and architects. Insurance claims became an increasingly important aspect of the business of these firms, and eventually some of them started to specialise. It's worth noting that some of today's big adjusting firms actually started out as architects, auctioneers and surveyors.

When adjusting - as we would recognise it - got going as a speciality, the main work was still in relation to fires, because little else than fire insurance was available, it usually involved buildings, and commercial buildings at that. The situation changed little in the first part of the twentieth century, and during the war years those adjusters who were not in military service were largely preoccupied dealing with war damage claims on behalf of the government. Not until the Fifties did things start to develop in any major way, and even in the swinging Sixties by which time we had household comprehensive insurance and a range of perils which could be attached to a commercial fire policy, the marketplace for domestic insurance was still very under-developed and because premiums were based largely on tariffs, market conditions really were very stable. It was a privilege, granted only to favoured clients, to have an all risks policy. If you got a mortgage you would certainly be able to get household insurance, in fact you would be required to take it from the building society, but actually getting a mortgage in the first place meant jumping through hoops.

Claims were always dealt with strictly in accordance with the policy. The insured had to make out his claim, support it with vouchers and then the adjuster would check and adjust it. New for old cover was a rarity, so the negotiation aspect was paramount and savings were achieved on the majority of claims. The adjuster had little difficulty in justifying his existence, and during the 1970's and 80's the profession experienced unprecedented expansion with new offices opening almost weekly and tremendous increases in staff numbers.

Let's now jump on 30 years and look at the situation today. Virtually anybody can get insurance. Policies are extremely wide in coverage, with relatively few exclusions, and settlements are generally new for old. An increasing proportion of policies is sold by sophisticated financial institutions who also offer a wide range of investment and loan products, and the sort of brand loyalty that has been achieved by many of these distributors has created large numbers of very profitable customers. The settlement of insurance claims is often just as systematised as the issue of the policy, and the quest for a satisfied customer, coupled with the absence of restrictive features in the insurance contract, renders the traditional approach of the adjuster inappropriate, and his technical skills largely unnecessary.

In fact, in this context the adjuster has become something of an anachronism. I am reminded of that old definition, which used to be deployed with some relish by the hardliners in the profession, that a loss adjuster is one who turns up after the battle is over and bayonets the wounded. The whole concept is antagonistic to the ethos of today's marketplace where the needs are for service, speed, empathy and a commercial approach to the delivery of the promise made under the policy.

So could it be that the adjusting profession has run its course. Well in the context of low complexity claims, I actually think it has. Remember, for the first 200 years the insurers did their own thing. Then, markets became more sophisticated and more demanding, so adjusting was invented and a niche was carved out. Now, at the volume end, things have become less sophisticated again and the market has moved on. It isn't that adjusters are any less professional or any less skilled, it's just that those skills are no longer needed in today's systematised and stereotyped environment.

The first carts had slices of tree trunk for wheels. Somebody then invented the spoked cartwheel and spawned a very profitable and skilled industry that endured for hundreds of years. You won't find so many cartwheel makers now.

The main problem faced by the adjusting profession today is how to deal with the tremendous expansion of the 70's and 80's which, as it now turns out, was to serve a transient need.

There is still a strong demand for qualified and experienced people to deal with the complex claims. Indeed, the number of qualified people is more or less in balance with the demand, and some of the smaller firms have specialised in technical claims, and are trading very successfully.

There is also a strong demand, largely fuelled by Brokers and Risk Managers, for adjusters who can respond to the particular needs of bespoke and geographically diverse programmes where worldwide coverage, local knowledge, consistently excellent communications and first rate account management are paramount. Global adjusting companies are uniquely able to deliver in this environment, combining technical and political skills in reaching settlements often involving a panel of insurers, reinsurers, and perhaps a captive or two.

Overseas, the same patterns are evident. Adjusters are experiencing exactly the same pressures in North America as I have described, although the fragmentation of the marketplace there resulting from the multiplicity of differing state and provincial legislatures and regulatory requirements appears to have slowed down the rationalisation of the adjusting sector. Elsewhere, there are widely differing practices such that in many territories loss adjusting is unknown to indigenous markets, and exists only to the extent that personnel are sent in by foreign insurers, usually on the larger and more complex assignments. London is probably the world centre of the so-called home-foreign adjusting business, and whilst there is still a strong demand, firms are constantly reviewing their coverage as local markets mature, and make their own provision.

I believe that one of the most interesting opportunities for the large UK based practices is to export their skills and technologies to those areas of the world where markets can be seen to be developing exactly on the basis we have experienced here in recent years. We are unlikely to repeat the same mistakes, and already know a lot of the answers.

I'm now going to return to the UK and focus on the non-complex domestic and small commercial claims market where we need to consider the relative merits of the methods now in use, and whether the adjusters have any place in volume claims service provision. My starting point is service. A few moments ago I posed a question — what would the policyholder prefer, an adjuster with a clipboard, or a workman who can fix the damage. In straightforward cases, the workman wins every time. If the adjusters want to stay in this end of the business, they need to set themselves up as managers of contractor networks. Likewise on contents claims, it is highly attractive to a customer if his insurer provides an efficient replacement goods service. Gone is the need to hunt round for estimates, spend hours round the shops and days or weeks out of pocket. Direct repair and replacement are excellent tools for a large proportion of straightforward claims.

The problem which the industry has is that it has failed to make a proper distinction between claims which can be successfully handled in this way, and those which require a different input. Remember my earlier comments about attitudes and relationships. I think it's worth repeating my view that the key to success is the proper management of expectations. A customer who has suffered a loss involving various trades, and a range of contents items, will be far better served if his claim is handled by a single person who comes to his home to explain the process, guide him through its various stages and manage the incident from start to finish. The alternative of abandoning the customer to a mixture of contractors and suppliers who individually may do good work, but who are falling over one another as the job proceeds, leaves a lot to be desired in terms of service. The cost of the claim might be only a few thousand pounds, and within the limits which many insurers set for direct repair and replacement, yet this would be a totally inappropriate response in many of those cases.

But who should visit the customer. You'd expect me to say of course it must be an independent adjuster, and for many years that was indeed my position, but not any more. I think we independent adjusters have dined out for rather too long on the concept that independence, or at least impartiality, is indispensable. We never have been independent — I don't know how you can be independent of the person who pays your fee — and impartiality is a very difficult concept to carry with the policyholder. Provided the insurers representative is honest, competent, experienced and fair, it shouldn't matter whose payroll he is on.



The economics of the situation are another matter entirely. Leaving aside for a moment whether or not they achieved better settlements for the insurer, the decision to use adjusters used to be a no brainer for the industry. Why — there were many more relatively much smaller insurers than today and for each to maintain its own in-house field force was clearly not viable. Nor was the cost of maintaining umpteen supplier relationships. All of that has changed - the shape and size of today's insurance industry makes this a totally different matter.

But the cost of handling claims is but a fraction of the spend. If the adjustment cost represents 10%, which would be typical, it doesn't take a mathematician to deduce that the greatest risk lies in losing control of the indemnity cost — 90% of the total.

Another important factor to consider is the resourcing of emergencies and epidemics. I think it is still acknowledged by the marketplace that independent adjusters are very good at managing catastrophe situations. It is unlikely that the industry would seek to eliminate us from this activity, yet our ability to maintain our resources in normal times relies upon us receiving regular support. It is economically impossible to exist only as a supplier of last resort.

So if adjusters want to stay in the volume marketplace, we have to get real – but so do the insurers. In the same way that 20 years ago and beyond the insurance industry prospered on stability in all its forms — stable pricing, stable staffing, stable products and stable techniques, so did the adjusters. For many years we had one product, and essentially one price. Stability ruled and amongst its benefits were the constant development in the skill and capacity of the adjusters so that they were always able to respond in the event of emergency or epidemic.

But more capacity brings more competition and destabilises any marketplace. We have seen this in the insurance industry generally, and in the adjusting profession, where there are now fewer firms offering a wider range of services to ever more exacting customer requirements in a contracting market with new competition and a falling price. Quite a challenge which demands some very clear and strategic management thinking by supplier and customer alike.

So, are we to be like the fire service who spend a lot of time on standby, which they use to good effect for training and development but are able to respond rapidly and in strength, or will we go the way of some discount retailers — if it's in stock (which it probably isn't) you can have it now at a low price, but don't expect the staff to have in-depth product knowledge, and don't even think about after sales service.

To a very large extent, the decision rests with the industry. Many insurers have failed to recognise that no service provider can stay in business purely as a supplier of last resort. But there are some powerful and conflicting influences at work. The claims manager, who has been God to the adjusting profession for many years, finds himself increasingly marginalised in the hierarchy of many insurers. He struggles to maintain his empire, often for good technical reasons but frequently out of self protection, so the more work he can keep in-house the stronger is his position, but this is not necessarily a strategically appropriate response. It can lead to a great deal of double work, where the claims department maintains its strength out of the perception that the work of adjusters needs to be checked and second guessed, but to the extent that adjusting houses maintain an infrastructure of telephone, clerical, secretarial and technical staff, there is an inevitable duplication of back office resources.

So, you may say, leave it to the insurers to provide their own field force, or arrange their own claims validation methods whatever those may be, and cut out some of the duplicated cost. All fine and well, but the ultimate consequence is that the adjusters would then begin to exit the volume claims market leaving no overflow resources for epidemics, evening and weekend visits, sickness and holiday cover, servicing of remote areas, taking over troublesome claims, and such like. Insurers could find that the cost of maintaining their own resources to cover all these eventualities exceeds the cost of outsourcing.

There really isn't a middle course. The adjusters cannot operate solely as a supplier of last resort, especially in today's marketplace where ever more exacting service requirements are accompanied by increasing price pressure.

When purchasing managers first appeared in the claims environment, they were regarded as a bit of a scourge but I think that many adjusters have now recognised that professional supply chain management techniques should, when properly deployed, lead to a much more professional approach to establishing specifications, clearly and unambiguously, and thus to much more transparent negotiations on pricing and resourcing which will bring more satisfactory and satisfying business relationships.

The word partnership comes to mind. It is right for today's business needs, but it is frequently misused. The concept is seductive, but it's dangerous to assume that all so-called partnerships are mutually beneficial. The essential elements are trust on both sides, and a real desire for equality of benefit. Then, neither party will feel the need to economise on the truth in discussing what skills and resources he can bring to the table, or when things go wrong. Neither party should feel uncomfortable about the cost of the service, so there will be no need for constant favours or indulgences. Transparency and openness are indispensable attributes and in the kind of partnership I have in mind there would be an eagerness to share ideas and look for new solutions.

Trust is the key. Sadly, it is in short supply. Please don't misunderstand me; I'm not talking about financial probity and integrity. I'm looking for relationships where the cornerstones are confidence, reliance and dependability. Where the need for constant checking, second guessing and looking over shoulders would be alien. Where each process is necessary, each person has a clearly defined part to play.

Whether or not the adjusting profession will play some, or even all, of the parts depends upon a pretty complex combination of many of the aspects I have touched upon. Will the adjusting profession finally accept it is not indispensable and that, in the context of high volume low complexity claims it has dined out for rather too long on the concepts of independence, impartiality and technical superiority. Will we accept that in this context we are claims service providers and that the very term loss adjuster is antagonistic. Will we accept that insurers are increasingly comfortable with a whole range of new techniques and that we must be prepared to deliver those same techniques more cost effectively, or come up with new ones which outperform them. Will we consummate all of this by joining with our customers in business partnerships based upon full disclosure and total transparency.

The same range of questions is equally applicable to insurers, and they must examine in their own organisations, first and foremost the purchasing culture and their willingness to enter into true partnership style business relationships. It will not work in one direction only.

Claims ARE the insurance business. In the brave new world of claims we all have to be even more businesslike than ever before. We all have stakeholders to satisfy, and for all the major general insurers including Lloyd's, and nearly all of the adjusting companies, these include external shareholders. There is no room for favours or indulgences when an important part of the mission is the delivery of an adequate financial return to those who have invested their money.

Mr Chairman, ladies and gentlemen, you have very kindly invested some of your time today. Whether or not you share my views on the brave new world of claims, and the future of loss adjusting, I hope that I have at least stimulated some thinking and thrown down some challenges.

Thank you for your attention.