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The claims challenge

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Claims roundtable

The claims challenge

► Our panel discussed the importance of efficient claims management in the business world, and how to ensure it

Expectations and philosophy

Chair: How effective is the claims process today? What are the issues with speed of settlement or with communication? What needs to change?

Mutzig: I think it is important to acknowledge the difference between a delay that arises from an issue or dispute and one that is down to a lack of efficient claims management on the part of the insurer or any other party involved in the assessment of the claims.

Hurrell: Our recent claims report shows that some 90 per cent of the problems loss adjusters face are related to coverage or placement as opposed to claims handling.

Mutzig: Transparency is vital when it comes to claims philosophy and claims settlement. But it's a challenge for insurers to communicate efficiently on claims management and to describe what their claims philosophy is during the renewal process, or beyond, because you can only assess the performance of insurers' claims management once you have experienced it. Often the proof is in the pudding. The claims settlement should be an opportunity for insurers to build and strengthen the relationship

with their customers. And as a client it is the only way to get confirmation that your insurer's have a claims philosophy that suits your needs. And that's often difficult to communicate or convey for insurers. Over the course of my career, I have seen insurers using the exact same wording giving completely different settlements and handling the relationship in very different ways. There's always room for interpretation in an insurance contract, and that's where the relationship is key – as is understanding the claims philosophy of your insurers.

Chair: What's the best way to address

that need to understand the claims philosophy?

Slater: One of the ways of doing that is by conducting pre-loss workshops, so the insured really understands the form and coverage that they're buying, and gets an opportunity to challenge the cover, come up with scenarios to test how it is going to react in a loss scenario. FM Global puts a lot of effort in these workshops. All new clients are offered this – without exception. And being a mutual, our philosophy is based on using the form to pay a claim rather than using it to avoid paying – which is a slightly different philosophy to most of our competitors.

McKenna: This pre-binds us, and in some cases has made the difference when it comes to securing new business, because the client has felt confident in our ability.

Chair: So you're holding out the claims





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process as a competitive advantage...

McKenna: Absolutely. And a commitment. All claims decisions at FM Global are made within the claims department, our decisions are binding, and our underwriters have no influence over the decisions we take. We base it on our consistent handling of the form. And it helps that we have an exceedingly broad policy and we issue the same one for all clients.

Being a mutual, FM Global looks after the best interests of its clients as it is owned by them, and part of that includes being open about how we deal with claims. In 2015 we settled 90 per cent of all our claims within a year, and 70 per cent within 180 days. Prompt payment is key. I think clients recognise that and I think carriers should do more in that area.

I think it's important to be open and communicate with your clients exactly what they can expect from the claims service. In this respect, the work that Airmic has carried out to try to raise awareness and encourage discussion has been very valuable. Quite how many carriers have actually declared service levels against that, I don't know. So, while having the discussion is great, in practice how far has the industry come?

Chair: Do you think there's an expectation gap?

McKenna: I don't think there is an expectation gap as such – I think carriers have to become more realistic, and that should not be hard.

Chair: The statistics show just

Attendees:

Stewart Harrison	Insurance Manager	Arcadia
John Hurrell	CEO	Airmic
Benedict McKenna	Operations Vice-President, Operations Claims Manager	FM Global
Xavier Mutzig	Group Insurance Manager	Johnson Matthey
Terry Renouf	Partner	BLM
Jerry Slater	Senior Business Development Executive	FM Global

Observing:

Keat Ang	Risk Specialist	Bank of England
Rebecca Coldwell	Risk Co-ordinator	Skanska
Cyril Osei-Nyarko	Risk Coordinator	Skanska

how often things can go wrong.

Renouf: We naturally only focus on the cases that go wrong, which is only a tiny fraction of those that have been settled or haven't been paid satisfactorily. But I don't personally see any systemic issues around late payment.

Harrison: Claims management comes down to relationships. If you have a relationship in place before you need to make a claim, then all parties know where they stand and the whole discussion is much easier.

McKenna: Relationships are key. The client should be able to challenge the carrier, and the carrier should be able to tell the client what to expect in the event of a claim; to explain how the policy operates, so as to provide certainty around what's going to happen when something happens. Nobody likes surprises at the claims stage, but that happens – and it can have a real impact on reputation – be that down to a systemic issue or not.

Renouf: I agree. And that's why scenario testing – involving each party involved in the claims process – can be so helpful.

Harrison: Yes, you've got to get all parties involved and imagine the worst case scenario, to find out how they deal with it – how they answer certain questions. It's also interesting to see their interaction at that point, because it's sometimes the first time they've actually sat down together.

Renouf: I think it is telling if a carrier cannot give you satisfactory answers to important questions.

Hurrell: Evidence shows in fact that routine claims are better handled better now than ever before – more efficiently, with much better processes, and communication. But then when a routine claim can turn into a large, complex claim, and certainly Airmic members say that as soon as it goes above that threshold, everything is much more complicated, and much more rigorous than ever before. And

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because of this – because that falls into a different category of handling involving legal advice on coverage, possible reservation of rights, and a lengthy investigation period, it takes longer.

McKenna: That appears to be the case, but I don't think it necessarily needs to be so. Some carriers are a lot better at that than others. In the last 12 months, we've made some payments within a week. In one particular case a payment of €50 million, which ultimately saved the company. But the fact that it is a large claim shouldn't make a difference; the process has to be right from the beginning and that's the key. And if the claims process is set up correctly so that people are empowered to make decisions and to run the claim properly with the client, what happens behind the scenes to get that done, should not need to get in the way.

Cultural and geographical characteristics and challenges

Chair: How does the UK compare to other countries in terms of the duration of the claims process?

McKenna: Some jurisdictions are more sophisticated than others in their requirements. For instance, the US regulatory environment is a lot tighter

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than in most other places. Does it make claims payment any quicker? I'm not so sure. After Superstorm Sandy both the states of New York and New Jersey were issuing monthly requests for carriers to confirm how many claims they had paid so they could try to keep track. That was in a sense an attempt to hold the insurers to task in settling promptly.

Chair: What are the key considerations for insureds with global interests? Clearly there are cultural, implementation and indeed legal nuances to take into account.

McKenna: If you're looking for global reach, you will want a carrier that's going to be able to provide not just coverage in all the territories in which you currently operate, but also those you're interested in expanding to. You want global consistency, both in the issuing of policies, and handling of the claims.

Chair: I'm also interested in how that translates to different cultures.

McKenna: It does vary widely but we train all our adjusters, who are in-house globally, to do things in the same way. We control the consistency of the application and the technical application to ensure that how a loss is handled in Singapore is the same as it would be in Seattle. We push much of the coverage on the master into local policies, we have licenses in various countries around the world to issue – plus a network. That is so the claims philosophy can be consistent so the risk manager – wherever they may be – can sleep easy regardless of what or where the loss is.

Mutzig: I think you're perfectly right about the need for consistency across all territories within an international programme. Whether you manage this consistency in-house or whether it's outsourced to a loss adjuster or TPA, it requires central coordination, pre-agreed claims protocol, proper communication, and monitoring of claims payments. It's absolutely key to



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what we as a global organisation expect from insurers.

McKenna: Do you have internal challenges when it comes to different expectations among different jurisdictions?

Mutzig: I think claims are always an opportunity to demonstrate the efficacy of the performance of a central insurance function and that's more of an opportunity. So while it is a challenge, more importantly, it is an opportunity. I think the expectations may differ among various jurisdiction as to who should be involved in the claims management process and as to the role of each party involved and the responsibility of a central insurance claims team is to ensure the appropriate level of internal communication and coordination of all parties involved in order to achieve the expected settlement and that's why an in-house insurance claims function is so useful.

Harrison: I think you want your claims handling the same wherever the claim is being made. There will always be somebody somewhere saying it could have done better. Everybody thinks they can buy insurance better than people in insurance. All we can do – and I speak from experience – is get the global programme in place in such a way that is the best at the time for the company as a whole.

Slater: Do you feel that your local policies reflect the master policy? Or do you feel there are some gaps there in terms of coverage that you get locally compared to what you might have in your global programme?

Mutzig: I think there are different ways of achieving the overall ultimate objective of having global consistency of coverage and claims settlement. I understand that FM Global has a view that most of the coverage should be evidenced locally. Some other insurers will have a different view and have central coordination, with the Master policy bridging the gap to whenever the coverage is not evidenced. There are any number of different ways of doing it, and I'm not sure there is a right and wrong, as such – as long as it achieves the objective for the insurance buyer of getting consistent settlement and coverage around the world. Of course compliance with local legislation is critical and the necessary insurance coverage needs to be evidenced locally when required by law or under contract.

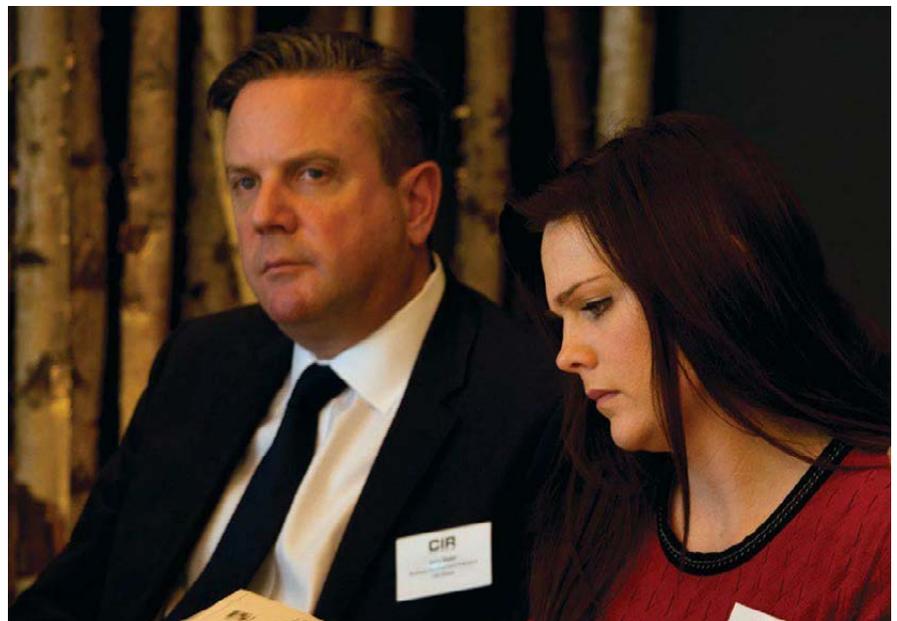
McKenna: In some territories it's forbidden to do non-admitted and a truly global programme will avoid that issue.

The role of technology in the claims process

Chair: How does technology help or hinder the claims process? With technology, there's always the double edged sword that things get faster but there is a tendency to go more 'tick box'.

McKenna: Short communication lines are important in the claims process. Where you can leverage technology, absolutely we all should do; technology shortens communication flow. We are operating in a 24/7, hyper-connected world now.

Mutzig: Technology has always been a big issue in claims. There has been improvement in the last few years but the big issue is that you are dealing with several stakeholders.... a TPA, a loss adjuster, an insurer, legal advisor, re-insurers, fronting insurers, captive... and all these stakeholders have different



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IT systems, which are designed to fulfil their own needs and are not designed to talk to each other. Detailed and accurate claims data is key for a lot of reasons but especially for the processing of claims payment and for the monitoring of claims management efficiency. It is vital for corporate insurance buyers to take ownership and control of their claims data and develop their in-house claims information systems and database.

Harrison: IT is great for communication but the claims process needs to be done face-to-face.

Regulation and the new power of the policyholder

Chair: To what degree has the Insurance Act changed the claims horizon?

Hurrell: The Insurance Act will have a profound impact because it will change the way the underwriting process takes place. I think it will change the relationship between insurers and their policyholders. I think it will professionalise the way that placement is undertaken and, while, this will be good for the market in the long run, there may be a lot of transitional issues in the meantime. The Enterprise Bill – and hopefully soon the Enterprise Act – will then pave the way for policyholders to take action for damages for unreasonably withheld claims in the future.

Mutzig: In my view the Insurance Act is going to change for the better the whole relationship between corporate insurance buyers and their insurers throughout the whole insurance cycle from the placement of the insurance policy to claims settlement. It's going to professionalise the in-house

insurance functions and the whole renewal process. I think brokers are just beginning to understand the various aspects and the implications of the Act. I think insurers realised that earlier than brokers. We will all need to get prepared for the change.

Renouf: Insurance law had become so outdated. The programme of reform that has occurred since about 2006 brings it all up to date. At the time of the Marine Insurance Act, in 1906, the world was fundamentally different. I see it as a big opportunity and there are big challenges for all stakeholders. An insurance contract is complex – most people don't understand it. And because nobody understands the value of the insurance contract it doesn't get enough attention, so I think that with the new legislation, we all have opportunity to change that.

Mutzig: Some said it that the Insurance Act would be detrimental for the London insurance market, but I think it's very much the opposite. Through it, the reputation of the London market will improve, will be enhanced, and will attract more international business.

Renouf: Yes, there was undoubtedly reluctance about some aspects of the bill from some sections of the market but the Law Commission did a lot of work on this to persuade people, to bring people round.

McKenna: I think it's a good thing. It levels the playing field. It's much fairer in terms of actually making people engage, which perhaps they didn't do in terms of having a discussion around the risk, to agree on the risk and fair presentation. We're certainly not concerned about

the act – we think it's a great thing for the industry.

Renouf: The big change in the law has been proportionate remedies and all the questions we've been getting have not really been addressed to that. I think they've started to come through as the claims teams are now asking about the consequences of a proportionate remedy in these circumstances. All the questions have actually been about the placement process and the Act is actually a bargain. So the reward for the proportionate remedies that the insured gets, is that the insured also has a duty to undertake a reasonable search and direct questions to senior managers. There have been a lot of questions around that, a lot of uncertainty about what is a reasonable search, how far does it go, who are the senior managers and those sorts of questions? So there's been a lot of discussion around that which ultimately is good because if we can tease out what is the material information to be disclosed to the underwriter then we'll have a better match between risk and price.

Key take-aways

Slater: The relationship between the underwriter and claims handlers is very important. Understanding the policy and what you're actually buying,

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and having contract certainty is key and the way to address that is really through doing your due diligence and do pre-loss workshops so you really understand the form and understand what you're buying.

Mutzig: Efficient claims management is important for risk managers in three main areas. The first is the opportunity to demonstrate that the contractual deal we enter into with insurers is commercially and financially sound; that certainty around the insurance contract and the extent of coverage and the way insurers respond, compared to what was expected when the policy was placed and the premium was paid.

The second important area is about reputation. Claims happen and they are - before they become insurance claims - an incident or a crisis and they need to be managed internally in the most efficient way for the benefit of the organisation and all stakeholders (clients, local authorities, ...). This is vital to protect the reputation of the company. In addition the reputation of the insurance function internally is always at stake during the management of a complex or sensitive insurance claim. When there is a major incident - be it an explosion in the Gulf of Mexico or a product quality issue with emission control systems in cars - the relationship with our insurers is tested and it is vital that the insurance policy responds as expected by the business put at risk during this incident.

The third element is the risk management aspect. What lessons do you learn from your insurance claims and what do you do with this data? Provided you hold detailed and accurate centrally this provides a vital tool and information to feed into your risk



management process, including into your risk registers.

Renouf: With less than five months to go, time is getting short for Insurance Act implementation, and there remains a lot of work to be done. But I do see it as an opportunity for everybody in the insurance industry to improve products and policy efficacy - both in the UK and overseas.

Hurrell: I can't stress enough how important the long term relationship is between an insurer and the policyholder. Irrespective of where the broker plays into that, it is important for the policyholder to have a relationship with the insurer and that should be a long term relationship and it should be very open and it should be a partnership. There are still people in this marketplace who buy insurance as a commodity just to get the cheapest deal and I think that's a mistake. I think everything we've talked about today reinforces that. Airmic's advice is for insureds to get closer to their insurers.

Tied into that piece of advice is the need for policyholders to take

control. Don't wait for the broker to come along and give you its off-the-peg solution. Step up now. There are seven months to go until the Insurance Act implementation deadline. Make sure that you absolutely control the process by which you undertake the effective or mutual due diligence between insurer and policyholder and become comfortable with that process.

The third thing really that has come out throughout the whole of this discussion is an insurance policy is a very detailed, complex, legal document, and if there are enough noughts on the claim it will be construed as a very complex legal document. So the policyholder absolutely needs to make sure that they're very comfortable with what it's saying and what it's not saying. And if necessary, take advice on that.

McKenna: Relationship is key. Contract certainty is vital. And making sure that the carrier you're working with is going to deliver when the claim happens is just as important. Challenge your insurance broker, challenge your carriers to explain and demonstrate before loss, and after a loss challenge them again.