



Who's Afraid Of The Hard Market?

The perceived wisdom is that a rise in insurance rates – and the accompanying increase in risk retention – is disadvantageous to our profession. But that is a gross over simplification of what is going on at the present time.

Of course it is true that a whole host of developments have put pressure on the loss adjuster's traditional core functions. Insurers needing to save money have been taking a closer look at costs, especially those associated with claims handling. As a result, loss adjusters' rates in many sectors were going down well before the hard market took effect.

Loss adjusters are, however, no different from anyone else in that we have to adapt to the rapidly changing commercial environment. In broad terms, there have been two types of response to the challenges we face: to compete on price alone; or to trust our customers to understand that the nature and quality of service is part of the value-for-money equation.

We first drew attention to these two divergent tendencies in an article written nearly 18 months ago, pointing out that a two-tier market of this kind had started to emerge. We predicted that loss adjusters who stuck to their principles would find a willing market for their services. And so it has proved.

Let me be the first to acknowledge, however, that this insight was by no means unique to my own company. Some of our competitors took the same approach, and did so very effectively. What has saddened me, however, has been to watch others chase rates down to levels that are unsustainable. As sure as night follows day, those firms will be forced to cut corners and, in so doing, jeopardise the very reputation of our profession.

In my view, the hard market has done nothing to diminish the prospects of those loss adjusters who, while also competing on price, have put a premium on quality. They have benefited from two discernible trends.

Firstly, the hard market has strengthened the resolve of claims managers to take a firm but fair line with claims. This is especially true in the international commercial insurance and reinsurance market where my firm does a substantial amount of its work.

When insurance rates were soft and the customer was in the driving seat, there was a constant temptation for insurers to accept questionable claims for fear of losing the business. Now, by contrast, the insurer increasingly wants to be satisfied that the insurance contract has been correctly applied before he agrees to pay out. This generally requires the use of service providers with the requisite range of adjusting and other skills and with an international reach.



Secondly, the hard market has placed greater emphasis on risk evaluation and loss prevention, providing additional opportunities for adjusters. Because we deal with the results of poor risk management, we are able to comment knowledgeably on how such losses can be avoided. In our experience demand for pre-risk audits has shot up across all sectors of insurance - marine, non-marine, energy and aviation. There is a recognition on all sides, including the insured, that such a service can be of all-round benefit and help develop long-term relations between the underwriter, customer and broker.

To illustrate the point, one insurance sector where this service is particularly in demand at the moment is shipyard/ship building. The potential losses are so high that just one small piece of advice could save millions of dollars.

Furthermore, new yards have cropped up in emerging shipbuilding nations in Asia and Eastern Europe. Many are very well run but, by definition, they cannot demonstrate a long loss prevention track record. As well as reassuring the underwriter, a pre-risk survey can enhance the credibility of a new yard.

To quote my colleague Nigel Rogers in a recent talk at the London Underwriting Centre: “The ability to demonstrate a well organised loss prevention and comprehensive insurance programme, together with contingency systems in case of loss, can provide a considerable comfort factor. It also makes it easier to comply with any insurance obligations that might exist under the shipbuilding contract between the yard and the prospective owner.”

However, such services that provide considerable added value do not come on the cheap if they are to be done properly, as they must. They require a mix of specialist expertise, international reach and local knowledge of the particular territory. Yes, we must be competitive as well, but that is not the same as under-pricing our products.

In the international arena, adjusters with all-round skills are very much in demand in a hard market. It is not just that insurers/reinsurers are looking much more closely at causation and liability, but they also very often expect us to communicate decisions on liability to the insured. This means we need to be totally up to speed on coverage issues and able to convince the insured that the decision is fair. Often we will also have to wear our politician’s hat and explain why something that may have been paid in a soft market is not being paid now. Add into that mix the different cultural, social and legal issues faced in overseas jurisdictions and I am sure you will agree that there is no place for “dumbing down” in a hard market.



Domestic household insurance is, of course, something entirely different, and it is an area where loss adjusters have particularly felt the squeeze in both the UK and elsewhere. Some insurers have become keen on the practice of employing other types of people – builders, for example – who are often prepared to undercut the loss adjuster. In these circumstances it is just not, in my view, worth trying to compete purely on price. Our customers will eventually come to appreciate the merit of “horses for courses”. If you want an adjusting job done, go to an adjuster.

The point was well made at a conference in London last year, not by a loss adjuster, but by a member of the public. Gillian Holland of the National Flood Forum, an organisation formed to represent residents and businesses in flood-prone areas, said:

"Many of us found we were telling the contractors what they should be doing. Some of them simply didn't have a clue what to do with flood damage.

"It is the way claims are managed that leads to so many claims being inflated. Too much is left to the builders and contractors who have a vested interest in extending the work. It is not the householders who want all this extra work done. They just want to get back into their homes as quickly as possible."

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