



Adjusters, Analytics and the New Industrial Age (The Future Role of Analytics in Claims and Loss Adjusting)

Introduction

There's a perception, perhaps not unreasonably founded, that adjusting firms can only differentiate themselves principally through their skill sets, their added value capability (i.e. do they have a building repair network capability) and on price. What was once seen as differentiators such as technology and training capabilities are increasingly seen as no more than what are known as 'hygiene factors'. Hygiene factors are simply those elements of the procurement process which do no more than place the right tick in the box as purchasers ensure due diligence in their selection process.

Is there another way emerging however, which is for firms to differentiate themselves through their ability to analyse their own behaviour and from this, to predict their future performance with greater confidence?

The capability for what has come to be known as 'predictive analysis' has broad application for claims and is likely to be an increasing focus for the leaders of the insurance claims and adjusting industries. The ability to anticipate trends and likely outcomes has meaningful impact for specific areas in the claims environment, particularly in the areas of capacity management, supplier deployment as well as the ability to provide customised solutions and meet the needs of individual insurers.

It also opens the door to being able to, at best, guarantee likely claims expenditure and to 'underwrite' outcome in some way. The capability to transfer risk to the supply chain has been seen by many insurers as being one of the key 'Holy Grails', and is likely to increasingly emerge in client expectations going forward.

The ability to forecast cost and expenses is essentially borne from data. For this to be done, it is essential that data is collected in a meaningful way to allow analysis and prediction to take place. One of the major problems is that organisations either have too little data, too much data, or simply that the data is collected in such a way as to make it incapable of analysis.

A Historical Perspective

Measurement of business metrics is not a new idea, and sits at the heart of many modern business ethics. Indeed it was one of the catalysts of major industrials of the last century.



Some might argue that the father of analytics is Adam Smith (1723-1790) whose face is seen on the new £20 note, alongside his epithet ‘The division of labour in pin manufacturing, and the great increase in the quantity of work that followed.’

The use of detailed measurement can certainly be tracked with some accuracy to as far back as 1880, when Fredrick Winslow Taylor, a young American engineer, started to measure the individual output of machine workers, seeking more efficient ways of cutting metals. The essential step change was that he sought to justify recommended changes through calculation and standardisation. Taylor’s ideas focused on process and method, but he was not without his critics and was even accused by them of causing psychological damage to workers through such a robust and analytical approach.

The idea of breaking down work to scientific components is at the core of scientific management and analysis. It is the combination of these components which was to revolutionise industry, and rests at the heart of today’s attempts to adopt scientific measures to claims cost management.

Taylor was not alone nor unique in his thinking. Baron Charles DuPont, founder of several French colleges had already highlighted the need for work study as early as the 1820’s, and it may well be that DuPont’s ideas had simply eventually filtered their way through to Taylor over the passage of time.

The inevitable impact was not only confined to the workers. Inspiration and leadership became secondary to method and measurement, trends which perhaps we still see in some areas today.

The impact of measurement on production can be clearly seen. Over 100 years ago, through greater understanding of component based production, Henry Ford found ways of reducing the price of a Model T Ford from \$950 in 1909 to \$360 in 1916. In 1909 Ford made 13840 cars, by 1916 it was making nearly 600,000 per year. Measurement and analytics were to create a revolution not only in transport but in the whole way that we lead our lives. (Did Henry Ford ever contemplate Congestion Charges in London? In the same way, did the Wright Bros ever contemplate Air Miles?)

One of the major causes of change in automotive production is commonly thought to be due to a movement away from teams of workers assembling the whole car, towards what is known as a conveyer belt system. New methods were used, such as the introduction of the ‘mechanical winch’ which more than halved the assembly of the vehicle chassis. Are we yet sure what will be the new methods of the claims world, and what will be the modern equivalent to the mechanical winch which featured on Ford’s production line? And do we fully understand the consequences?



Industrialisation and Mechanisation in Loss Adjusting

Should anyone think that it ‘won’t happen here’, the good (or bad news, dependent on how one looks at it) is that ‘mechanisation’ in the claims process has already started. Loss adjusters are already engaged in that New World both as innovators and possibly also as victims.

Those with longish memories will recall the perennial discussion of how the claims function should be best ‘split’ to obtain optimum efficiency of adjuster operations. Would companies organise themselves on a residential / commercial basis, recognising the differences in policy wording but also the different customer requirements? Or would they split themselves on a complex / non-complex basis reflecting the different requirements of the individual claims type?

The complex / non-complex approach – along which many insurers already align themselves – seems a natural option. Of course, so does the residential / commercial approach – along which many insurers also align themselves. No wonder that the adjusting industry has found it difficult to exactly find a solution which matches all the needs of the marketplace; it’s simply that there is no one solution but rather a number of options which at the end of the day are predominantly client-led.

However, both complex and non-complex claims have gone down a mechanised route.

Complex claims such as subsidence, flood and major fires have already identified the key components of success, which we recognise as being described as the ‘value chain’. These value chain elements are:

- first notification of loss (FNOL);
- adjudication (is there liability under the policy?);
- assessment (what is the scope of the loss?);
- fulfilment (how do we settle, i.e. repair, replace, cash?);
- and finally ‘recovery’.

Is the so-called ‘value chain’ no more than the claims equivalent of Ford’s conveyor belt?

The movement of the adjusting industry to a mechanised route is clearly seen in the splitting of the claims reception from the site visit, and furthermore the separations of the initial site visit from the scoping and repair / replacement functions.

Even at the beginning of the 90’s, adjusting leaders were enjoying the experiences of international business schools which gave case studies such as Taco Bell, the US fast



food provider which not only mechanised the preparation of fast food, but also provided solutions which allowed customisation of the output. Adjuster leaders increasingly made the tenuous link between fast food and fast adjusting, setting the scene for change.

A component-based approach to claims management has increasingly emerged, and minds have been (and continue to be) exercised on how best to reduce the cost of each component.

Insurers Have Played Their Part

The past decade has increasingly seen the introduction of supplier management techniques adopted by insurers in their decisioning processes as they select service providers.

There are a variety of reasons for this. Partly the need to exercise due diligence in their selection to satisfy internal governance. Partly to try and protect their reputation as the influence of brand becomes more prevalent in customer purchasing behaviour. But mostly, it might reasonably be argued, to reduce cost.

In what is decried as a 'soft market' for premiums due to excessive market capacity, the option for insurers to balance the books through premium increases becomes less possible. Selective underwriting is increasingly on the agenda, but ultimately claims cost and expense control remain highest on the agenda. Recent benign weather conditions have improved the finances of some insurers, leading to a tendency in some quarters towards complacency. However the threat of major claims expenditure coupled with service failure remains constantly in the shadows.

To address this, insurers have tended to adopt those very same processes which the Henry Ford Jnr and his Japanese counterparts might recognise; - the analytical sourcing, negotiation, procurement and supplier management of the individual components of the claims function.

Adjusting services, particularly in non-complex functions, have been heavily commoditised, and seem to be purchased with the same criteria as motor manufacturers procure light bulbs. What's more, insurers have been prepared to take matters one step further, by sourcing against requirement and competence, as opposed to sourcing against 'profession'. What this means is that there has been recognition that any number of types of providers could for example provide a 'scoping service' as part of the claim, opening the doors to inspection organisations other than chartered loss adjusting firms.

The advent of framework agreements has resulted in larger more valuable contracts, but also has allowed insurers to leverage their purchasing behaviour by taking advantage of



their scale and buying power. Whilst there is some evidence of the pendulum swinging back towards strong regional providers, the small firm is likely to be constantly under pressure unless they can create unique capabilities. The message increasingly is national (or at the very least, ‘strong regional’) niche or nobody.

To add to this complication some insurers have chosen to vertically integrate, or insource these functions, at least in part by creating inspection teams against which external providers are benchmarked. Such developments not only bring greater competition into the equation, but also provide insurers with a much better understanding of the commodity involved, even if there is a risk of an insurer stepping well outside its core competence.

The use of analytics has increasingly emerged to benchmark internal vs external providers.

Analytics Hold the Key

The claims environment is so complex that keeping and analysing data manually has become virtually impossible. The numerous factors involved suggest that technology provides the only realistic way to process and to analyse information.

To start such a data collection process may seem like a steep mountain to climb, however once the process has started and data is being collected in a robust way, then the continual flow of information keeps the data and the potential to predict with accuracy ‘live’, and allows the analyst to react to changes in the claims environment.

Success in data management and predictive modelling is not easy. It is easy to make the mistake of deciding intuitively what is happening, and then looking for the data to back it up. This is akin to finding the fraudster and then looking for the evidence, and indeed there is merit in such an approach. However the ‘baby boomers’ on which adjusting industry has relied upon are less prevalent, with experience leaving the industry to be replaced with less skilled and experienced staff. Whilst training might help to reverse that trend, intuition is often based on bitter experience which cannot be obtained overnight. Robust analysis will increasingly become important.

So in the meantime, can it be argued that technology and more importantly the management of predictive claims analytics holds the key to success going forward? If so, where might this new competence sit within the wider claims solution – certainly with the insurer, but also surely within the adjuster or claims management firm to some degree?

Independent review of course means that none of the parties look at the situation with bias or rose tinted glasses to support their own particular case, which may have its



advantages. Independent review will however require sharing of information, which for many is counter intuitive.

The Case for Predictive Analytical Capability within Adjusting Firms

Does predictive claims analytics need to be viewed as an entirely new competence, where trends are identified through data, and practical knowledge and experience are then applied to the mix?

Adjusters might reasonably complain that they cannot predict the outcome of events if they do not have control over the supply chain, but there is increasingly a move towards peril based specialists – subsidence, flood – and many ‘mid tier’ insurers expect adjusters to provide end to end solutions as part of their overall proposition, principally as those insurers lack the buying power to leverage their spend.

Increasingly too there is the collaborative behaviour of small and mid tier insurers who are forming ‘buying clubs’, and need service providers such as adjusters to act as a coordinating utility. In such models, predictive analysis also becomes a key tool in the overall proposition armoury.

But perhaps the most compelling reason of all for adjusters to engage in predictive analysis is in preparation for ‘next generation adjusting’, which will increasingly see risk transfer or at least risk sharing between service provider and insurance carrier.

This is already beginning to manifest itself in property claims, with some repairers having already ‘underwritten’ insurers indemnity expense through guaranteeing of maximum claims cost. The model was first suggested some years ago, originating in the contractor industry, and with signs of being replicated in the subsidence sector. The benefits to insurers seem at face value to be strong, principally the capability to stabilise expenditure, but the cynics cite potential adverse effects on customer service as a possible downside. The seasonal and unpredictable nature of property claims adds further complications to what is seen by many as a ‘fair weather solution’.

In fairness, the jury is still out, but what has to be recognised is that this approach cannot now be ‘uninvented’. The genie is already out of the bottle, and predictive analysis will be one of the few ways, perhaps the only way, that the genie can be managed.

Inside the Machine – Is Anyone Safe?

Automation has not led to standardisation, rather the opposite. The Henry Ford mantra of ‘Any colour as long as it is black’ has been replaced by any colour, or any fitting - the



vehicle is built to the purchaser's precise requirements. As consumer behaviour increasingly demands choice, the future of claims settlement will need to mirror this.

This paper started out by suggesting that the automation of the claims process is confined in the main to low value, non-complex matters which are relatively simple in nature, and comprise the low hanging fruit of the automation age. Is anyone really safe from change, unless they deliberately choose to continue to operate the old model?

A review of the motor industry reminds us that an automated, mechanised approach is as prevalent in the construction of a high value machine as it is in a low one. A tour of the Mercedes factory in Stuttgart will reveal a distressing / amazing shortage of people, with machines and systems having substantially taken over from human intervention. In fact, some car makers believe that automation and mechanisation provide competitive advantage. In the same way that *high value* cars are built in an automated way, will high value and complex claims be similarly automated? Are complex commercial claims entirely safe from automation? Those who think so are perhaps judging the situation on the technology and solutions of today, not of tomorrow.

Increases in digital management will increasingly impact the insurance world. Already there are moves to standardise all land and property data so that it is readily integrated, using digital mapping. The level of information on property and people will increase exponentially, changing many of our views on property claims management. Remote satellite based technology will allow us to see what is happening from afar.

Improved data will help insurers to predict reserves with greater accuracy, as indeed some did with the Buncefield event. Claims costs in relative terms will tumble, as will restoration times and interruption periods, always assuming of course that there are adequate repairers available to do the work. In this new world, surely the roll and duties of the adjuster will be modified?

The Wheel Goes Around

There's a certain irony in describing business models and discussing automation in terms of elements of machinery and movement. There is also risk in any form of prediction, albeit that the most difficult part of prediction is that of timescale. As they say, imagine what the world will look like in ten years, and then expect it to happen in half that time.

Is it really reasonable to expect that the adjusting profession will simply go back to where it was two decades ago, or will there be inevitable changes as a result of time, technology and greater understanding? The current development path is interesting in that technology is trying to provide solutions which meet current strategies of the claims and



underwriting, but at what point will insurer and adjuster strategies themselves start to change to meet the availability of advancing technology?

Regardless of how technological and delivery strategy emerges and develops, the need for data rests at its heart. With such data rests the capability to predict needs, trends and outcomes, with ever increasing understanding and accuracy. We call this ‘Predictive Analytics’.

Adjusting is sitting in the middle of the new industrial age, as far as claims management and insurance overall is concerned. It is difficult, some might say impossible, to see in the same way that it is difficult to see the air around us, or climate change on a day to day basis. One of the great challenges of leadership in adjusting, as with many other industries is surely that of understanding the present, anticipating the future and changing accordingly.

The final comment rests with Lewis Carroll’s Red Queen, in ‘Through the Looking Glass’. ‘*Now, here, you see,*’ she said ‘*it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that*’. Predictive analytics will at least help to ensure that we are running in the right direction.

Tony Boobier
May 2007