Major Loss Management…A Crisis on the Horizon?

Most insurers worldwide will remember the year 2001 as the year the insurance market changed, possibly forever. Covering risk is not cheap and those who follow the route of generating premium growth at any cost, as the market softens, will eventually pay the price. As they say ‘ turnover is vanity, profit is sanity’.

In 2002, the incidences of major losses in the UK continued with a significant number exceeding £25 million. It is therefore understandable that insurers are concerned at their exposure to the major incidents. More than 50% of the general insurance claims spend is confined to less than 5% of claims by volume. In these circumstances I pose a question; “Is the choice of service provider strictly by cost or panel arrangements really sensible?” I would suggest most definitely not!

Most things, which are worth having, don’t come cheaply. That applies to support services and advice as well as to material things. In the past, the loss adjusting profession has produced a steady stream of outstanding major loss investigators and managers. They have provided invaluable service to both the UK and International insurance market on a daily basis, but most importantly at the times of major disasters. In the course of doing so, they have saved insurers and commerce billions of pounds by the experience and knowledge they have imparted to others in the mitigation of loss.

So where do these major loss specialists come from? What sets them aside from others in the profession? Not easy to define, but their key skills need to be over and above the theoretical adjusting skills a good adjuster is expected to possess.

- Good communication skills and an ability to command respect by their conduct in demanding situations.

- A good team player / captain, as all well managed major losses use a variety of skills which need to harnessed into a team strategy.

- Have a unique knowledge and foresight of the dangers that may hinder the recovery of a business and an understanding of how they may be limited or avoided.

- An ability and entrepreneurial flare to think outside the box, to spot the opportunity to move to a conclusion and save all the parties time and money.

- They need to be able to command respect from their ability to make good decisions and develop pro-active plans beyond the next interim report!

- Be an effective negotiator and judge of people and situations.

Finally, but certainly not exhaustively, major loss players do have to be good motivators, not only of their team, but also of some policyholders who have been known to suffer severe depression following a loss.

There are adjusters who possess some of the above skills and many others. However, there are relatively few who possess a sufficient number of them to make an effective major loss player.

The various professional qualifications adjusters possess, in addition to the Chartered Institute of Loss Adjusters diploma, clearly add to the breadth of their knowledge. Gaining the opportunity of putting that knowledge into effective use and acquiring those difficult to define skills, which can only be acquired in the 'University of Life', can take a long time.

Within the insurance industry, we are in danger of seriously under-valuing those who are responsible for the management of major losses. The financial difference between going through the motions of handling a £10 million property and BI loss and actually pro-actively managing the same loss from day one is a very significant number. It could be 15% or £1,500,000! However, we continue to self-select the managers of such losses by a volume panel arrangement and, in addition, we invariably pay them a scale fee, rather than for the expertise and time they expend on the loss.

Like many things in life, we don't appreciate the value of something until we loose it. I believe we are in danger of loosing or, at the very least, seriously diluting the major loss management skills the insurance industry has come to rely on in the past. The morale in many adjusting firms, and some of the claims departments of insurers, has never been so low. People management and motivation has given way to an unsightly intellectual eradication process in the misguided belief that cutting your expense ratios to the bone makes you more profitable. Of course, attention to expense ratios is important, but, if as a result of their reduction, there is an increase in the claims ratio, the net effect is less profit. Unfortunately, one is easy to measure and the case for paying more for quality advice on claims is considered subjective. By careful audit on major loss claims, I believe it is possible to measure the value of quality resources and, in so doing, develop best practise for managing this significant claims expenditure.

If the insurance industry is to retain those skills both within claims departments and loss adjusting, which we have in the past taken for granted, we need to take a serious look at succession management. Adjusting skills on commercial claims are developed over many years from the regular exposure to differing claims situations. Today's major loss adjusters came into the profession when the insurance industry was more stable and when many of the adjusting companies were owned and managed by adjusters. Today that is not the case and the owners of adjusting businesses will be unable, if the current trend continues, to cut fees on commercial adjusting business to uneconomic levels, to pay salaries to attract the brightest recruits into adjusting. The process is likely to be accelerated by the inevitable reduction in the volume of commercial losses going to adjusting firms as the trend for larger deductibles removes from the insurance arena a large raft of commercial losses. It makes no sense to cut claims administration and adjusting costs by £20 million, but, as a direct result, increase the cost of claims leakage by £200 million.

Can a crisis be avoided? To avoid a crisis you first have to recognise that one is looming or has arrived. Insurance like many financial market sectors is under pressure and it will need the very best resources to improve the situation. There needs to be a change of attitude within commercial insurance to the purchase and selection of out-source providers. Good claims managers can measure the difference in service providers when it comes to mitigation of loss and leakage. The procedures for selecting major loss resources needs to become more flexible to allow informed claims managers to do the job they are paid for and select the best resources. A team need not come from one source, but may be assembled under a team leader from a number of firms. With some of the major loss resources now working for smaller adjusting firms and accountancy organisations, it makes good sense to allow claims managers to employ the best resources whoever they may be employed by at the time. The basis for charging for major loss handling should also be reviewed. In this way, a far better system of resource matching in the area of major claims would evolve.

Adjusting firms also have a part to play in the training of their most skilful staff and in ensuring that their major loss players are allowed the time to do the tasks for which they have been selected and not overburdened with volume claims. After all, we would not expect a heart surgeon to also run a GP's surgery! This revaluation and appreciation of the high level adjusting skills would once again continue to attract quality people and allow them to take on some of the most challenging situations the insurance industry has to face.

Is this problem mirrored in Underwriting? I'll leave that question to others!

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