

Draft of Speech to be made at Dublin Insurance Institute on
December 6th

Introduction

In immediately accepting your President's kind invitation to address the Insurance Institute of Dublin, I was particularly conscience of two things;

- (1) The exceptional regard in which you, the members hold your Institute sessional meetings - not surpassed for interest and support to my knowledge and
- (2) That I would not be able to hold any other professional point of view, than as a loss adjuster. Apart from a brief career in marine insurance claims, I have never known any other existence.

Since being here I could add; Has Dublin been twinned for the weekend, with Reykjavik?

That is one possible opening to my talk, here is another.

Thanks for the warmth and generosity of your welcome.

But, I am particularly hacked off today.

On my way to this meeting, after a very good lunch with my daughter, who lives in Ranelagh, I was stopped by a rather agitated motor cycle cop. He sauntered over and stuck his head through my car window. I thought this is unfortunate, for these windows cost £125 each. **PAUSE** One look at his face confirmed that I had had a pretty good lunch.

Two or three one liners.

Back to my motor cycle cop.

He didn't cheer up.

He flinched.

He asked me, "are you the driver of the vehicle?" Looking around I found I was in the car alone.

"Have you been drinking?" - I demurred. "I have a bag here" he said, " the sole purpose of which is to tell if you have been drinking". "I have one of them at home" I said.

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What can a loss adjuster contribute to your sessional meetings? From saturday evening at your President's excellent dinner, I recollect a keynote; Invest wisely in your future.

If I am to respond adequately to the challenge of a talk entitled, Adjusting Where Will It All End? then I had firstly better mark the pitch, particularly if I have, as your President says, but thirty minutes to air my views.

These are my views, a snapshot in time perhaps.

There are three focal points to my speech this evening

- (i) What if I were in your shoes, I would see as right and wrong in adjusting firms.(not individual adjusters I hasten to add).

and

- (ii) Some suggestions as to how adjusters need to change

and

- (iii) Some consideration to the changes that adjusters are already making and those in the pipeline for the future.

My thoughts might also apply to other professions who service our insurance claims industry. Surveyors for example, our forensic specialists, our legal liability specialists.

What then must adjusters do to survive? - For some, survival is a carefully measured word, in this context.

What is the net worth of the adjusting profession?

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Our quality

Our independence

Professionalism

Integrity

Diligence

We are essentially a people business based on the skills and integrity of our people.

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What do insurers want of adjusters?

Net Claims Settlement

Technical Quality

Firmness but Fairness

Impart their philosophy to their clients

Detection of Fraud and exaggeration

Elimination of waste

and perhaps to share in our experience and training (We have an examination system in claims second to none).

As claims spend is the biggest expense that our Principals will ever have. Both adjusters and Principals have an enormous vested interest in working together to prepare and promote the best data bases to establish the most efficient claims spend.

But are adjusters really talking to Insurers? Where is it all leading?

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In our general business, adjusters are tied in to the Underwriting cycle, just as everyone in this room, be they supplier or consumer.

Business is good - claims are under control - step forward customer loyalty and the 'benefit of the doubt'.

Rates soften - claims proportionately cost more money and overall results suffer, or move from black to red.

Then claims attitude hardens - considerably - bringing calls to bring claims back under even more control - 'it cannot go on like this' - rates then harden and business becomes good again.

Meanwhile adjusters follow like fury, always lagging behind because of the tail on most claims business, eventually arriving where the insurers want us to be, PAUSE only to find that they have set off again, with the advantage of already undergoing a change of personnel, reshaping, re-sizing, re-resourced, slimmer, flatter - how ever you wish to describe it.

With so much change driven by the market cycle it is sometimes difficult to think objectively and ask -

Are we all getting to grips with the problems of the claims industry?

I am going to tell you that I think we are getting to grips with the problems, to good purpose and with good prospects.

Insurers' view of adjusting in 1993. A Critique.

Insurers say to us:-

Don't try to be all things to all men.

Pursue each of personal lines,

Volume claims

Commercial Claims each on their own merit to your
business.

Perhaps adjusters' resources are over qualified for the needs of some of the major classes?

Do we need to realign services with the constituents, the major components, of Insurers' claims portfolio.

Personal and Commercial

Financial Lines and contingency

Business Interruption

Liability claims investigation

Subsidence Claims investigation

Motor Theft investigation

Large Loss Teams

Building Surveying

Engineering and Construction Claims

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Insurers are concerned about the amount paid out in fees to sub-contractors, therefore;

We sub contractors must accelerate technology based support services and make quality adjusting affordable to Insurers by creating commercially viable divisions of work.

Insurers are insistent that we use adjusting time efficiently.

Insurers' business is seasonal but insurers cannot with certainty

forecast their demand for services, particularly during the Winter months. It is not for the adjusters to look for constant annual support on the basis that they have resourced to meet any anticipated demand from insurers, PAUSE but adjusters must look constantly at their resources, and use their initiative in relation to any slack period of instruction, to implement their strategies for training, marketing, and to exhaust staff holiday entitlement.

The Insurance Stage

In Ireland just as in the UK, we have plenty of High Street insurers and others dealing with specialist classes and with access to Lloyd's and the London Market, at close hand.

I have been saying for years that we will lose half of our insurance companies to mergers and acquisitions - mostly Europe led and I am not alone in this. I am not however quite right for, largely, our instructing Principal base is still intact.

A recent report by McKinsey, the Management Consultants, on the current state of the European Insurance industry, makes gloomy reading indeed for anyone deriving their living from this sector.

According to McKinsey many traditional multi line insurers will break down under the financial and managerial pressure of a genuinely free market and the "brutal increase in competition" that this new market environment will herald.

Amongst the conclusions;

that within 10 years the structure of the European Insurance Industry will have been fundamentally transformed.

That the nature of the business will switch from pursuit of volume to far more strategic specialisation.

That of the 2,000 insurance groups operating in Europe today less than half will survive and most of the remainder will be acquired by financial institutions that will maintain their distribution networks but close their administrative functions.

Clearly the insurance industry is beset with some very demanding problems and may require a revised business approach.

The industry will be using electronic information and transaction systems. It is already turning to point of service, without any intervening administrative middle layer. Policies will be issued on the spot at the customer and, exclude intermediaries at the interface. This will lower the cost base significantly - lowering the cost base appears to be the pivot of these forecasts - together with the drive for improvement in the reduction of error rates and performance times, which are matters of service quality.

In such a working environment major tasks will be outsourced, such as data processing and claims, in an effort to lower costs.

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I can continuing the theme - saving percentage points of the claims ratio, whilst improving service levels. At the same time networks of insurers may have to pool or combine their claims handling services to provide central claims adjustment bureaux in all their volume business including motor claims adjustment. In this the assumption is made that centralised claims handling will be fast efficient and accurate, customised to the needs of the individual network contributor in such a way as to satisfy his sales and marketing and to brand, **PAUSE** what is otherwise an impersonal claims calculation service, to the individual contributor. Savings of anything up to 10% on the claims handling cost ratio would be substantial indeed to any contributor to a pool claims handling arrangement. This is where the loss adjusting market will look for its substantial cash flow.

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I have been considering my comments in relation to loss adjusting services with that of other professions, for example Chartered Surveyors.

Loss adjusting like many other traditional professions is currently going through a process of metamorphoses. My own company has grown by 5 times in the last 8 years. After the years of rapid expansion in the last decade, new pressures are being brought to bear that will drive structural changes within the adjusting industry and leave it fitter and better equipped to deal with the emerging challenges.

The largest of these is over capacity. There are too many loss adjusting firms in the Market - yes trying to be all things to all men. At best we can expect to see a number of mergers in the next two or three years as firms seek to rationalise operating costs and take advantage of the economies of scale.

At worst some firms will go out of business - just like the Dinosaurs they will become victims of their inability to respond rapidly to the changing pattern of demand. The market for outsourced adjusting skills in the UK and Ireland is £300m plus annually. There is a lot to play for.

We used to use the acronym WOW when asked how loss adjusting was faring. 'Waiting on weather'. A sequence of bad weather now in fact would hold back the tide of reformation - a stringent period of economy however unpalatable as medicine may, as the Doctor suggests, be better for our industry in the long term.

The other problem or shall we call it, challenge, is the whole area of information technology. If the loss adjusting profession is going to successfully rise to the challenges presented by the changing scenario within the insurance market, there will have to be a rapid acceleration in the adaption of information technology to the process of loss adjusting, facilitating much faster response and increased transaction rates per individual. Perhaps not surprisingly these current structural problems of the loss adjusting sector are largely derivative of problems within the European industry.

What about adjusters? There seem to more of us than ever. Formerly I would have agreed that by now adjusters would have been further down the road of merger/acquisition, for sound economic reasons of cost saving.

Perhaps insurers themselves will consider buying in the services of an entire loss adjusting group to superintend their claims spend. Any perceived excess capacity could be leased out to other insurers in the centralised claims bureau format that I mentioned to you a few minutes ago.

It has not happened however, so we cannot reasonably with any certainty forecast when the major changes due to take place in the loss adjusting field will be sprung. McKinsey thinks we can forecast the insurance market and has said so, but the fact is we await to know who will be the major players.

Ladies and Gentlemen I hope above all that the market never retracts in quality, or variety or personality.

And now a view forward.

All of us will have IT consultants, haven't we? Not just to make paper and messages fly but to bring us commercial success by offering the best service at the best price and to help us meet our obligations to our staff.

Insurers are talking to each other. They are comparing and contrasting, they are merging their underwriting and claims experience, their claims financial information if you like.

Lets consider a typical claims officials' desk - it is now a 'work station' - no apology for jargon - it is probably more appropriate to term is as a 'work station' anyway for the bright young people you have coming through. The bright young adjusters, their counterparts, will have a 'work station' philosophy too.

This is a claims scenario already happening now in certain fields and nearly here in others. This technology will certainly arrive before the younger members here are much older.

(I include myself of course!)

We all will have access to many databases - at our desks - and we will be better trained and equipped to use them. Many more databases are going to come on stream. I don't advocate the paperless office wholeheartedly, but the 'less paper' office. Our claims staff will be better trained in interview techniques, in investigation, in statement taking and enquiry by telephone. In claims we are substantially improving the level of proof which was previously considered to be satisfactory to large sections of our market.

This level of proof traditionally fell short of the level of proof required in law. I am pleased to see here tonight many of my friends in the insurance industry in Ireland who have been working and lecturing towards these improving standards for many years.

Many of us are now used to claims conferences through video links. Eventually we will not find these either strange or uncomfortable. We may all have to become TV personalities. Eventually video links will move out of doors just as they have for our world news services and will be extended to the scene of the loss providing a permanent record of claim, can you imagine a detached examination of every corner of a fire site, and allowing the claims manager at his desk a window on the claim. Motor claims management and damage assessment has already achieved integrated visual and verbal link for spec and price agreement, by video link with many motor repair garages.

Let me suggest a simple claims scenario.

I have a theft of goods, maybe commercial maybe domestic, lets say it is domestic. I ring my insurers and am issued with a claim number, a bar code, as an aid to time cost management of claim, and thereafter am in contact with a claims handler - an adjuster of claims.

In our telephone conversation or first briefing meeting I am required to list off what has been lost and in a recorded or minuted interview I will be asked for example; Is your video recorder still there, is some of your jewellery still there, what has gone? TV? Hi Fi? Go fetch the hand books and read out what they say -about make and model number - are you sure you have told the police everything. Lets check the list you gave me -

Maybe I will be sent a disposable camera to record the evidence. A camera that I can return, when my insurers will develop the film and let me have copies for the record.

Then I will be sent a claim form. Do I want a replacement TV? The same functions as before? What were they?

The claims form or claims document issued that day to me will encapsulate the minutes of the interview, the circumstances will be clearly set out and those items purported to have been taken will be described in detail, priced to provide an offer of settlement in whole or in part and with the option of goods being delivered to your home within a few working days. Straightforward enough, but let us look behind the scenes.

Before issuing the offer, in the brief period before I am next contacted, claims handlers will have gone through an intensive investigative checking procedure.

A centralised underwriting and claims register of my insurance claims experience or potential dual insurance or multiple claiming.

This will be referenced insured name, by address and postcode or even by the specific item itself.

Vital to the initial service will be cross reference between databases. Triangulation of information gives dimensions to databases. There is great benefit to be gained and little to fear from the efficient secure sharing of facts.

Databases will also be used to validate the various costs and to measure the differential between replacement and cash settlements to ensure the most efficient claims spend. Again databases will be used intensively to validate and identify the individual product by serial number for example and to implement recovery system registration e.g The Art Loss Register, Gem print, Contractors' Plant Register. Bar coding will allow us to manage totally the cost of each exercise.

The person making the offer will have been tutored to spot and to intercept a fraudulent claim, have the training to negotiate down an inflated claim using the database methods for investigating accuracy. They will be supported in the detection of fictitious claims using fast and efficient services which detect forgery and the alteration or abuse of original documentation.

In one functional period they will have carried out many of the tasks traditionally dealt with on the street and will have accurately validated many claims at the earliest stage.

They will have isolated the wrong ones

The good ones, the vast majority of the right ones will be paid more quickly than ever. Lets hope the bad never get off the ground.

This claims handling capacity will leave the instructing base of losses eroded and see the role of the old style on site adjuster, considerably affected (and reduced by technology.) The fully trained qualified adjusterw will require to recondider his our her career. They will have to seek new markets to speciaise. I think it is incumbent on us to think about mid career training - professional development.

Perhaps myself as a particular example of one who has only ever served in one branch of our industry should consider and be available for re-training. The ability of companies to use effectively and to best advantage the experience and the qualifications of their senior staff is not yet fully exploited.

Adjusters are gathering themselves and internally realigning to this challenge.

They are availing themselves of trials of databases on entire ranges of consumer goods, and are recording and marking everything from one carat gemstones to 50 ton crawler cranes.

Databases now extend to legal casebooks, with daily commentary and updates of interest on cases passing through court. Any revisions that these may make to the law are being catalogued.

Within the property and construction sector databases are used for building price and construction models for the consideration of everything from small estimates to large tenders for partial or for complete reconstruction.

Schedules of all manner of services, from integration of helplines to the practical sourcing of contractors and repairers' services will be at hand and will be accessible to support claims in the field. Achieved through mobile communication and lap top terminals. Eventually with fibre optic on-line, discourse and information sharing will respond in the most direct and immediate way between work station and the risk address.

Who will be the claims adjusters who operate these systems?

The work force will be young and highly focused and on the new technology. Rather like the intake in other professional financial institutions they will require to have a particular expectation from that part of their career. these will not be jobs for life, they will require to consider and be counselled

in job change or job development. They will be carefully supervised in their process their referral and settlement authority by experienced, highly qualified personnel.

Adjusters who will make the sea change in their careers from general and all classes adjusters to volume personal claims administrators will decide upon the interpretation of the many covers which are available. They will ensure that the technical content of the adjustment process is of increasing quality. They will refer on any claims which in their estimation require further investigation.

These people will be of such technical competence that they will commune with underwriters in their policy drafting from a claims expert point of view, with the effective tuning of excess and the interpretation of trends in claims, settlement value and or cost of service.

Some adjusters who do not consider that such a life would be fulfilling perhaps have not fully contemplated the satisfaction that the strenuous professional demands of such work will bring.

The social and working environment needs to be examined. it is likely that the examination of my claims and its administration could be carried out on some green field site.

These claims centres will occupy cost effective locations rather than traditional base of commercial life, the City centre. They can and will operate 24hrs per day when required. Workflow in

and out will be of high volume with sections dealing with domestic claims contents, domestic claims buildings schemes involving employers' liability and public liability losses the so called slippers and trippers. Contact will be Freephone and access instant by switching calls internally to the first handling centre available anywhere in the network.

As for the senior professional who would remain in traditional practice, their remit will be more specialised - in the large firms they will work increasingly as negotiators - team leaders of accountants, engineers, surveyors etc. What are the best adjusters? They are often the best negotiators, the best team leaders.

There will be room for niche players of course - allowing insurers to pick off individuals of merit regionally, who will give insurers the benefit of their highly focused expertise.

In summary - There is a shift to training for the express processing of volume business where insurers will demand wholesale rethink by their sub contractors of their fee costs. Adjusters will have to have revised their costs base and examined more accurately than ever the cost of their service. Margins will reduce and there will be room to operate profitability for a restricted number. Greater choice, freedom of choice, will truly exist only in specialisms, for claims management will be captured by only those adequately resourced.

I am sure that adjusters will specialisms, showing their negotiating skills and controlling teams of qualified experts will be the men and women of the future with portfolios of nominated insurance programmes and moving comfortably and with great authority across national boundaries.