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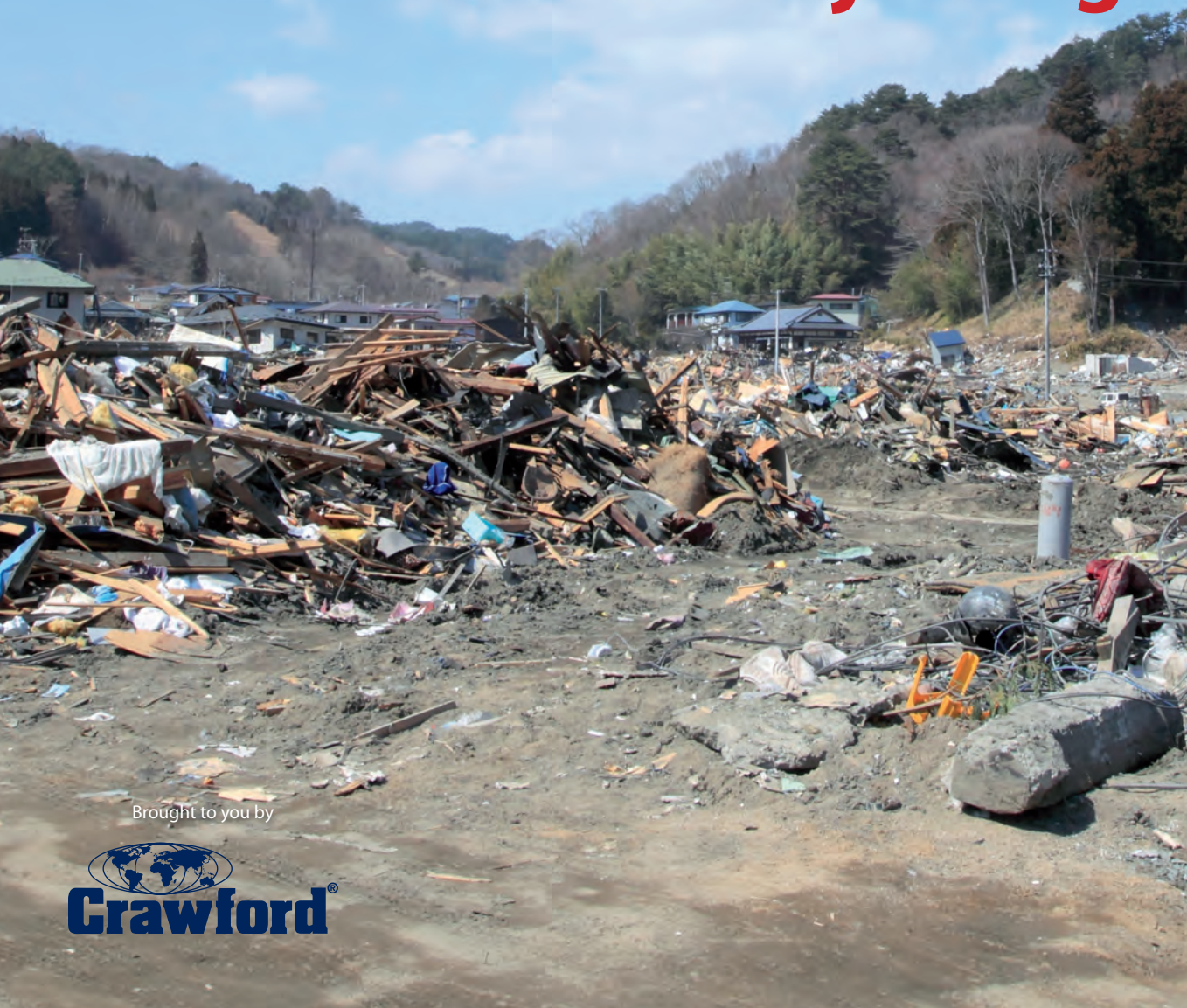
WHITE PAPER

Cat claims and the future of adjusting



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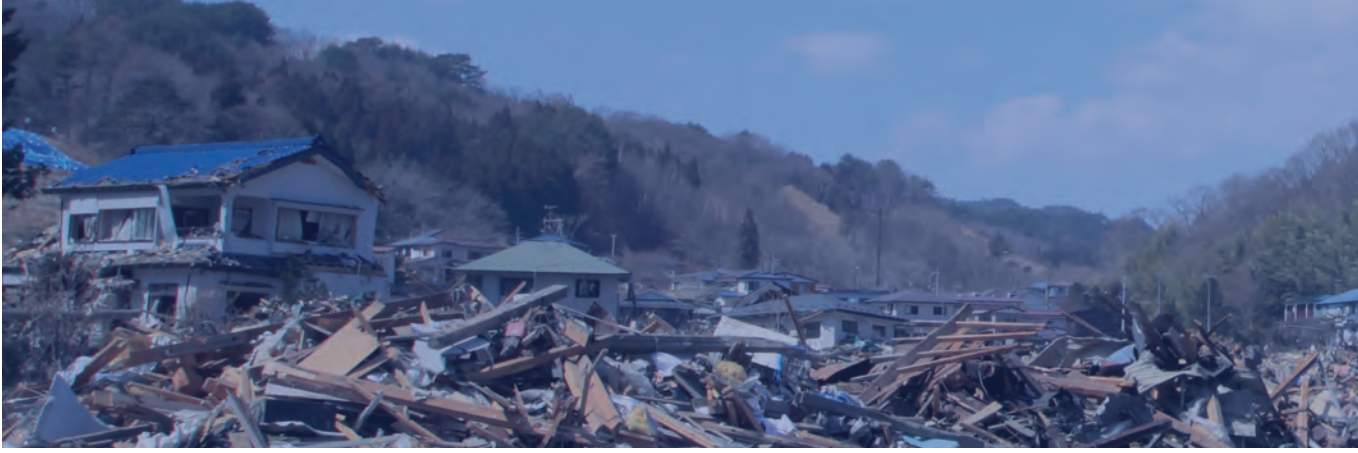


The future of loss adjusting

There is no doubt that 2011 will go down as a pivotal year for the global (re)insurance industry.

Cat events last year caused the highest economic losses in history, with Swiss Re estimating the figure at $370bn. Of that the (re)insurance industry suffered claims of $116bn – its second largest loss year on record and a 142 percent increase on the 2010 figure. However this still fell shy of the $135bn recorded in 2005, a year defined by Hurricanes Katrina, Rita and Wilma.

Of greater concern to the market, however, is the fact that these loss figures come despite the absence of any major US hurricane losses, with 2011 instead delivering record earthquake and flood losses. The flooding in Thailand, for instance, resulted in the highest insured losses ever for a single flood event at some $12bn, although underwriters in Asia believe the final figure will be closer to $15bn.

But it has also raised the issue of a potential lack of expert loss adjusting resources to deal with major catastrophe events in what is fast becoming a far more risky world.

Discussing the 2011 cat activity, Swiss Re's chief economist Kurt Karl said: "Last year saw extraordinary and devastating catastrophic events. The earthquakes in Japan, New Zealand and Turkey, as well as the floods in Australia and Thailand, were unprecedented and brought not only massive destruction but also the loss of thousands of lives. Yet two-thirds of the staggering $370bn in economic damage will be shouldered by corporations, governments, relief organisations and ultimately individuals, pointing to the still widespread lack of insurance protection worldwide."

It paints a worrying picture given the growth of Asian economies and the push for higher levels of insurance penetration in the region, coupled with a call from national governments for the world's underwriters to play a greater role in providing economic mitigation products for both natural and manmade catastrophes.

Record cats

Four of the five most expensive insured earthquakes in history took place in the space of just over a year between February 2010 and March 2011 (the Chilean, twin New Zealand and Japanese quakes) and that does not even include the huge earthquake in Haiti, which despite taking thousands of lives did not impact underwriting balance sheets to a great degree.

The floods in Australia – the country's worst natural disaster ever in terms of losses – triggered insured claims of over $2bn, and while there was little hurricane activity, an unparalleled US tornado season caused insured catastrophe losses of over $25bn.

The past two years may be viewed in

hindsight as an exceptional period given that there was also a string of major energy losses such as the *Deepwater Horizon* blowout and the multitude of claims that followed.

However, claims are the reason underwriters exist and as one market commentator aptly put it, this is the point where the "rubber hits the road" for the industry.

Stretched to the limit

The losses also came at a time when the global economy was attempting to recover from one of the sharpest downturns seen in over a generation.

The Tohoku earthquake and subsequent tsunami provided the industry and the loss adjusting community with the most challenging of environments in which to meet the needs of the clients.

The devastation in affected areas was almost unprecedented, and the industry's ability to respond was badly hampered by the radioactive leaks from the Fukushima nuclear plant that left large parts of the affected area inaccessible to all but the emergency services for a considerable period.

Claims teams were brought in from across the world to meet the demands of the market and its clients. As the supply chain and business interruption claims exacerbated the physical damage claims, the event required the involvement of ever larger and more highly specialised and experienced adjusting teams. However, at the time the market was still coming to terms with the events in New Zealand and Australia.

Later in the year the Thai flooding presented the industry with what quickly became the largest flood loss in history in a country that was previously viewed as having little or no catastrophe exposure. This created what can be viewed as one of the claims handling community's biggest challenges.

The flooded area was the size of Denmark and contained seven major industrial facilities which were each the size of the city of Birmingham and housed the world's leading manufacturers of computer hard drives as well as major automotive part manufacturers.

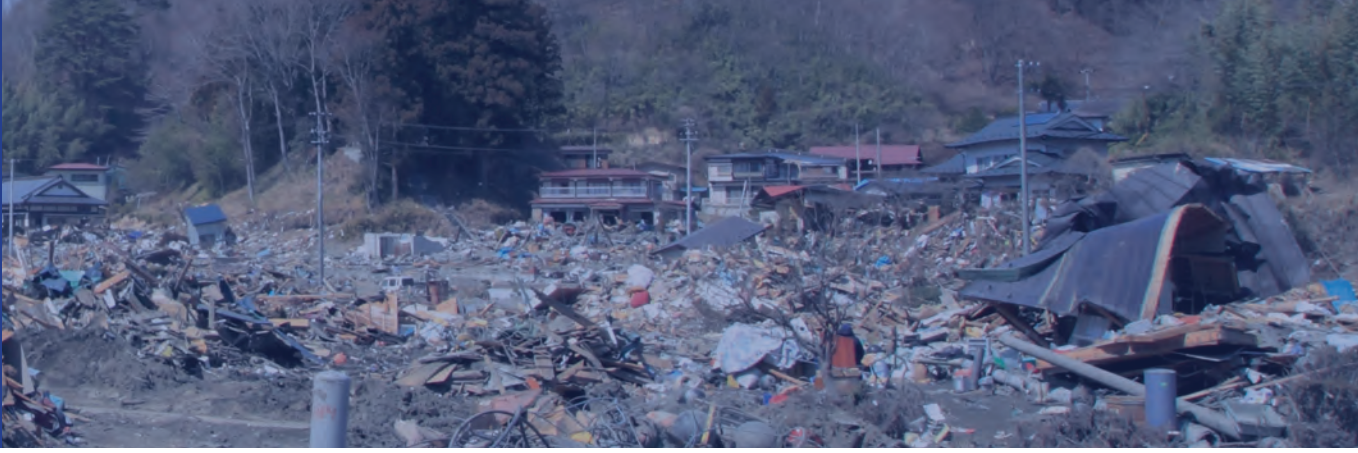
The events in Thailand were exacerbated in that the flooding did not recede for many weeks, which compounded the losses suffered. Flood defence measures put in place to protect the capital Bangkok held the floodwaters in place for up to two months, making access difficult. The polluted waters also caused significant damage to plant and machinery.

Mitigation measures were put in place and decisions were made in the most demanding of conditions in an effort to reduce the impact. But there is still a great deal to be settled with reinsurers with debate still taking place over policy clauses.

We are also experiencing growing levels of requests for original documentation and as insurers and reinsurers deal with claims questions are being asked about decisions made when the floods were at their peak.

Expectations are that claims arising from the Thai floods will take a further 18 months to finally clear.

It is not only the size of the catastrophes but the complexity of the modern



insurance and reinsurance programmes that has created almost the perfect storm for claims departments and with it placed increasing pressure on the loss adjusting sector.

Coming of age

Underwriters say there are lessons to be learned from the events of 2011, but one of the most crucial lessons that has become self-evident is that the claims sector is not only significantly short of experienced loss adjusters but that it also needs to create a system to replace the increasingly aging major claims staff.

The industry's response to recent demand was to use loss adjusters who, having risen to senior management roles, were forced back into the field to bolster the already over-stretched teams which had been deployed as catastrophe piled on top of catastrophe. This was also coupled with utilising the services of recently retired staff.

The age profile of those adjusters is continuing to rise, creating a situation that is not sustainable in the medium term unless new processes can be brought in to attract new talent and deliver the training and experience in the world's catastrophe zones that will allow a changing of the guard in years to come.

Given the unpredictable nature of the major claims the market faces and the fact that sending staff into catastrophe hit areas is fraught with danger, the adjusters who are despatched have to be able to cope with the challenges that are thrown at them and have the maturity and ability to make decisions on the ground that they believe will serve the best interests of their employer, their insurance clients and the policyholder.

We saw situations in Thailand, for example, where loss adjusters were forced to use ever more innovative means of transport to access and assess sites inundated with water containing poisonous snakes and crocodiles.

In some cases natural disasters can also cause a breakdown in law and order as well as disrupting basic services. It is a tough job and it takes a certain kind of individual to cope with the demands that can be placed upon adjusters in such circumstances.

In the past, young adjusters were taken by more experienced colleagues as "bag men" on major claims so that they could learn on the job from those who had built up years of expertise; and they could pass that experience on to the adjusters of the future.

However, the global economic climate has changed and as such so have the operations of loss adjusting firms.

The pressure on fees means that mentoring becomes increasing difficult for firms sending young adjusters into the field with their major loss experts; as a result this vital training element is being missed.

The market has never been in a situation where it can simply employ experienced and qualified adjusters to wait to be called into action when catastrophe strikes. Adjusters need a global presence in a world of ever-lengthening supply chains and globalised business models, but while it provides a degree of flexibility to be able to move resources around in times of emergency, such flexibility is finite.

Talent shortage

A more fundamental issue is that loss adjusting, like the rest of the industry, is in an increasingly difficult fight to attract the best young talent.

That fight is being led by the Chartered Institute of Loss Adjusters (CILA). It has long warned of the erosion of the art of loss adjusting as underwriters seek to cut their expenses by squeezing loss adjusters to deliver more for less.

Such a move will impact the ability of loss adjusters to find the funding to invest in training levels, and while education is vital, the tightening of the purse strings is a significant reason why the market no longer feels it is able to send young adjusters across the world to learn their trade on the "coal face".

Figures from CILA show there are 1,400 chartered loss adjusters worldwide and its efforts to promote the industry have already yielded results, with its membership up by 8 percent last year. The charter qualification is internationally recognised and is the only qualification in the financial sector that is benchmarked for master's level and accredited by Bournemouth University.

As such it is a tough qualification that takes five years to achieve. Therefore CILA has looked at how it can encourage claims handlers to engage at every level. It has a certificate level to enhance that engagement and launched a diploma in February this year that leads on to the chartered status exam.

Plans for the future

CILA has also launched a special interest group for young adjusters to give them the opportunity have a greater say as to how the industry is managed.

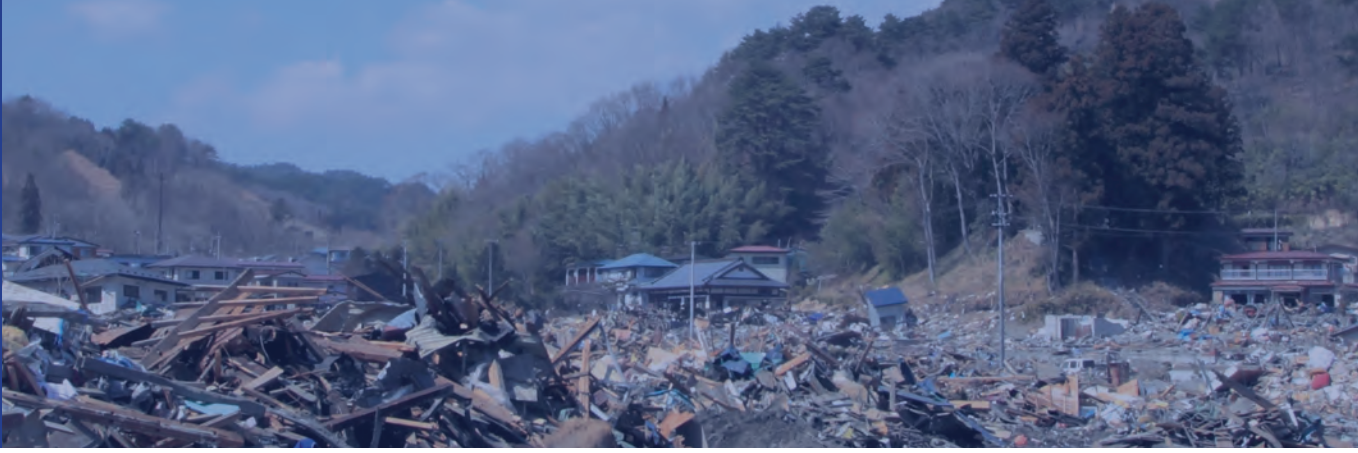
In order to address some of the problems facing the industry the Future Focus Group has created a series of core objectives:

- To have less experienced members represented on the CILA council
- To encourage the mentoring of less experienced adjusters
- To act as a communication channel and sounding board for less experienced members
- To encourage participation of less experienced members at conferences and events
- To promote CILA's examinations
- To promote loss adjusting outside the industry
- To promote the wide range of career path options within CILA to less experienced members

CILA is continuing to engage with the major educational bodies and maintains a high profile at the industry's leading conferences and events and will also promote individual companies' schemes as it seeks to attract new talent into the market.

Loss adjusters, for their part, adopt strategies that aim to recruit and train the adjusters of the future. It is a disparate and broad range of initiatives and while it is clear that adjusting firms need to invest in the future, in the current climate that investment remains constrained.

The adjusting market has managed to cope with the challenges faced in the past 18 months, but it has not been easy



and unless the recruitment and training problems are solved it will not get any easier.

Claims management

The industry is measured by its ability to manage and pay claims so it is clearly in the best interests of the industry to work with the market to create a professional and experienced claims handling sector. Primacy of contract for first call on adjusting capability is now a growing feature of the relationship between the larger firms and their clients, but the industry – like all others – is judged by its weakest link.

A wave of media coverage on the poor treatment of policyholders and how insurers are dragging their heels on claims to the detriment of the policyholder will only serve to tarnish public perception of our industry.

What has also been seen on a number of occasions in the past decade is the "opportunist" small firms or individual adjusters with little experience that head for the affected areas to see if they can fill any gaps in the claims handling response while charging premium rates for their labours. Often it is quickly found thst they are unable to handle the complexity of claims, leaving the policyholder disappointed and damaging the reputation of the insurers and the industry.

The next steps

It is clear that the solution requires an industry-wide approach. The loss adjusting community is not seeking to pass on the problem to its clients. The profession is fully aware of what is needed when it comes to the training and development of new entrants into the profession. CILA has been working on behalf of the industry to create a clearly defined career path that will create loss-adjusting professionals who are highly trained and committed to the industry and its clients.

The debate over climate change points to a higher frequency of severe weather patterns across the globe. Over the past 18 months the industry has seen how catastrophes across the world can create a squeeze on claims resources. We cannot shy away from the stark truth that currently we have an aging workforce and need to create a steady flow of new and trained talent to replace those who after decades of service are leaving the sector.

There is no one-size-fits-all solution and no magic wand that can solve the problem in one stroke. There simply needs to be an industry-wide recognition of the challenges we face and a determination to work together to meet them.

About the author

Richard Day is Vice President at Crawford with responsibility for building existing and developing new relationships in the Lloyd's and London markets. Richard has many years of claims management and Lloyd's experience having worked for a variety of major companies. He acts as conduit to the Lloyd's market for our overseas adjusters and has had been heavily involved in the unprecedented level of natural disasters that have occurred in 2011 and 2012.

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