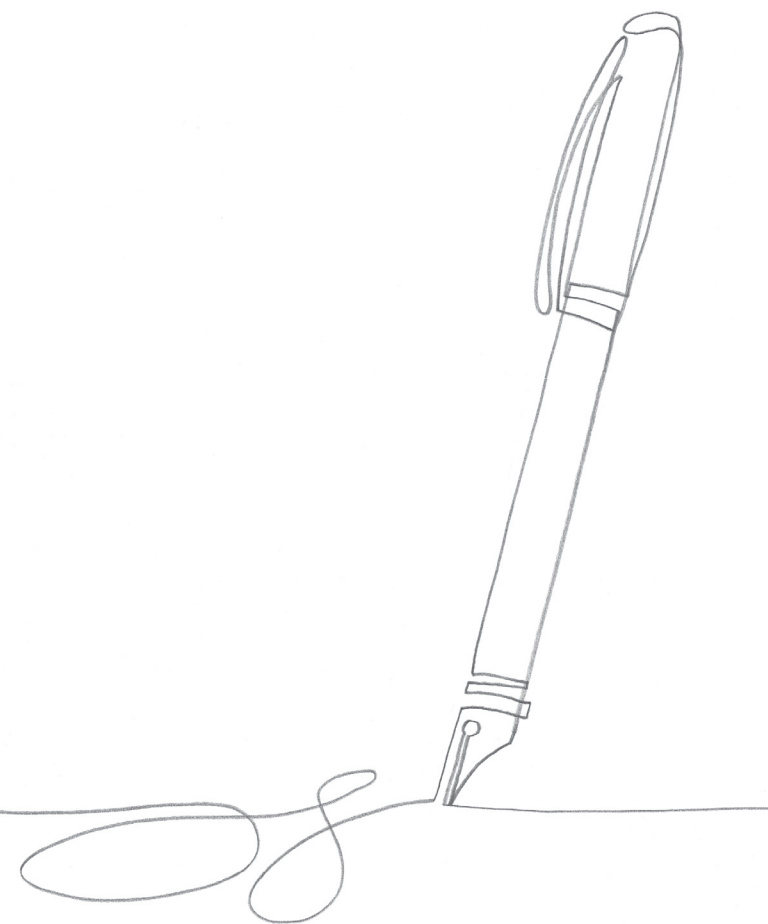


Beazley Insight

Finding Competitive Advantage in Claims Service

by David Marock



Finding Competitive Advantage in Claims Service

by David Marock

A new battlefield is opening up in the competition for U.S. casualty business, particularly for the complex management liability and professional liability risks often known as specialty lines. The front is claims management.

This is scarcely surprising: an insurance policy is a promise to pay a sum of money in prescribed circumstances. The real surprise, therefore, is that claims management has been so long neglected as a source of competitive advantage. For decades, it was treated as the poor relation of underwriting. Insurers that wished to redress the balance sometimes found it hard to recruit the best talent to their claims departments. But this is now, at last, beginning to change.

At the risk of gross generalization, there are two broad approaches to claims management in commercial lines, the champions of which are commonly but not always divided by the Atlantic Ocean. Historically, the London market has been perceived as more flexible and responsive (or more unstructured) with lean in-house claims teams and considerable authority being delegated to U.S. third-party administrators or counsel. By contrast, the approach preferred by many U.S. domestic carriers has been perceived as more structured and tightly controlled (or more bureaucratic), with much of the work being done by large in-house teams.

Which is better? I believe this is a false choice. A third approach, neither under- nor over-engineered, is needed.

Specialty lines business is particularly well suited to this quest. The scale and complexity of claims in this arena can be enormous. Typically, they involve multiple plaintiffs and defendants, tens of millions of dollars of potential damages, various layers of coverage with multiple carriers on each layer, and real uncertainty around both liability and damages. There is very little of significance that happens in corporate America that does not generate a suit for professional or management malpractice.

We at Beazley have no wish to make the resolution of such claims more challenging than it need be. That is why we pair claims managers with underwriters at the beginning of the insurance process, to tailor coverage that will respond unequivocally in the event of potential claim scenarios. To a visitor from Mars, this might seem obvious. But despite the logic, this approach has not been commonplace in the insurance industry.

High-quality claims service is the product of three things:

- **A claims team possessing both depth and breadth of experience.** In important respects, a med-mal claim is not like an architects' E&O claim, which in turn is very different from a political risks claim. The specialization that has become deeply ingrained in underwriting is now increasingly being mirrored in claims. At the same time, diverse perspectives can be helpful. Our preferred approach is specialized but not siloed.

Breadth and depth of experience in a claims team are both essential. Our team members have earned their spurs working in claims management, law, actuarial science, management consulting, and insurance broking. And in a single team with members on both sides of the Atlantic, we have professionals schooled in very different market environments – U.S. domestic carriers, the Lloyd's and London company markets, the run-off business in the form of Lloyd's run-off vehicle, Equitas, and professional service firms. Our senior claims managers have an average of 15 years' experience.

- **The right framework.** Smart, experienced people need the freedom to exercise their intelligence and creativity. That said, some structure and support are needed to get the full value of these individuals' experience and enable them to be empowered, decisive, and responsive. There is much here that insurers can learn from other businesses – particularly professional services businesses – in providing claims teams with the right level of structure, process and support to perform to the peak of their ability.
-

This includes having a claims system where all the key information is accessible and integrated with underwriting systems. Working practices are also critical. Internal consensus on large or complex claims can be fostered by assigning two claims managers to significant claims, where the second claims manager acts as a sounding board, or by holding round-table discussions on complex and potentially contentious claims, thereby tapping the full breadth of the team's experience.

- **The right metrics.** Claims management has a variety of objectives affecting clients, brokers, investors, and reinsurers. In many important respects, it is not a zero-sum game, and all parties can benefit from faster, more efficient claims resolution.

In addition to the traditional metrics widely employed by insurers to track total claims costs, numbers of claims and average claims size, the performance of claims personnel can also be assessed against other criteria that have not been so widely applied — including problem-solving skills, customer focus, and teamwork using 360° feedback.

Improved claims management can add enormous value to the business of an insurance company. Well-managed claims cement client relationships. Ours is a relationship business. The battle for excellence in claims management has just begun.

This article first ran in Business Insurance's Industry Focus® magazine.



David Marock
Head of Specialty Lines Claims
London, U.K.
david.marock@beazley.com

beazley