



PERSPECTIVES

JULY 2020

HOW TO TRAIN YOUR LOSS ADJUSTER:

A Reinsurer's Perspective

Author:
John Matthews, Head of Claims, Trust Re

A Birth Out of Adversity

To many people in the insurance and reinsurance claims worlds the loss adjuster is considered to be an expert claims investigator and heavy reliance is placed upon their ability to fulfill their role effectively and efficiently. Certainly, from back in the early days of my own claims career, becoming a loss adjuster was seen as having reached the peak of the technical claims mountain. It was a role I aspired to from early on as the job appeared to involve getting elbow-deep in the detail of claims, potentially travelling to exotic locations, meeting lots of new people, learning a great deal and having people listen to and value what you say. I will save the truth behind these perceptions for another day but what should we be expecting from loss adjusters in the modern age?

The profession is reported to trace its roots back as far as the Great Fire of London in 1666. That event spawned demand and a market for fire insurance on buildings. Surveyors and tradesmen were appointed to investigate and settle claims. By the late 18th century many of the major fire insurers were appointing exclusive 'assessors' to act for them and a number of today's loss adjusting firms can trace their history back to this time. Bypassing a full history lesson, the term 'loss adjuster' seems to have first been used in 1941 with the establishment of the Association of Fire Loss Adjusters. The catalyst for this being the damage caused during the bombings of UK cities early in World War II.

At this point I would agree with anyone who is confused by the adoption of the description 'adjuster'. Strictly speaking, a 'loss adjuster' would be one who adjusts losses. Of course, the loss in any specific case is not adjustable per se. Perhaps the word is intended to reflect the fact that the 'loss adjuster' is also expected to assist where possible with efforts to restrict the loss suffered by the insured. For example, his technical expertise may allow him to make suggestions about completing repair work by quicker or cheaper but no less effective means.

A Royal Charter was granted in 1961 and the name changed to the Chartered Institute of Loss Adjusters (CILA). In 1979, CILA received a 'grant of arms' allowing it to use a heraldic crest, including the motto 'Truth and Equity'. I tell you this just to give context and background to the profession and the landscape against which its role emerged.

In simple terms then, loss adjusting is a profession aimed at providing insurance claim investigation and resolution services whilst assisting the insured where appropriate by suggesting loss mitigation or avoidance measures. In reality, its role is more complex and goes beyond such a simplistic description as it has always trodden a fine line between insured and insurer in its efforts to bring claims to a fair and amicable conclusion. Reinventing itself along the way.

The Pressure to Evolve

Whilst it is clear that in its earliest forms the loss adjuster was appointed by and acted for the interests of the insurer, changes to the dynamics of the relationships between parties in a loss scenario were inevitable against an ever-changing socio-economic backdrop. There has long been a public perception that insurers look to reduce the amount to be paid in the event of a claim. These feelings have been most loudly expressed during periods of economic recession and austerity amongst the population whilst the perceived comparative growth and wealth accumulation of insurance companies have increased. Various initiatives to change this perception have come and gone over the decades but in spite of these efforts, the loss adjuster has long been seen as the agent of the insurer with the sole aim of saving the insurer's money. Questions were raised about

the 'equity' element of the loss adjuster's *raison d'être*. Almost as long as there have been loss adjusters there have been loss assessors. Loss assessors offer their services to the public and any insured organisation as the 'antidote' to unfair practices by insurers and / or their loss adjusters. In 1966, the Institute of Public Loss Assessors was established in the UK. In reaction to this, loss adjusters have made repeated declarations of 'impartiality' and sought to allay fears of bias or favouritism. This particular policy statement has not been wholeheartedly accepted by the more organised and savvy constituents of the insured community who will point to the fact that the loss adjuster's fees are paid by the insurer. Self-evidently, this fact compromises any protestation of independence but, of course, someone has to pay the bills, right?

So much for the history lecture, what about now?

There is global variation of the modern-day loss adjuster's role. This is, by and large, reflective of the stages of development of the local insurance companies and markets, their international experience and the reach and influence of multi-national loss adjusting firms on working practices.

As we have seen, a key part of the loss adjuster's value is the ability to provide quick, relevant and factual information on a loss event. Preferably, this will be accompanied by information on the likely or actual financial value of the loss occurrence. This is reported to the insurer who can then make decisions about the next steps, which might include raising questions, appointing subject-matter specialists or settlement or rejection of the claim. The factual information is critical to the insurer and it is the element of the claim lifecycle that is outside its direct control or influence. However, there are facts and there are 'facts'.

Fight, Flight or Diplomacy?

The part that falls directly within the insurer's control is the response to the claim in terms of its admissibility under the policy and the financial extent to which the claim is recoverable by the insured by application of the policy terms and conditions. This is the area where the loss adjuster can have the most significant influence on not only the amount that might be paid but also on the relationship between the insurer and its insured; an effect that can have long-lasting consequences. How does the loss adjuster have such an influence when it is the insurer who decides how to respond to the claim?

It is imperative to future good relations that the insured has its expectations not only managed but verified and confirmed on a regular basis. All too often, a loss adjuster will submit its interpretation of the policy's response to a financial claim to the insurer without engaging sufficiently with the insured about its findings or explaining why certain elements might be limited or excluded from settlement. There are countless examples of this approach leading to friction or even outright hostility as the insured feels cheated, reinforcing the 'them-versus-us' perception. Okay, so we need the loss adjuster to communicate openly and frankly with the insured. Yes, but with important reservations.

Inconsistencies of approach on the subject of reporting on policy application exist across the globe and even between different lines of business in the same territories. The modern-day loss adjuster needs to be aware of exactly what they are expected to comment upon and what they must not. Many insurers like the loss adjuster to review the policy and comment upon how the policy might respond and others prefer either no comment at all or the simple quotation of policy extracts that the loss adjuster believes may have relevance.

Interestingly, the preference of the loss adjusting community seems to have been reflected in its recruitment patterns and business models.

Air Miles Millionaires

Prior to the late-1970s / early 1980s, most loss adjusting companies operated their international business on a home-foreign basis. The larger loss adjusting firms were generally only appointed by the major insurers and reinsurers on financially significant cases so were not averse to incurring the cost of international travel to send an adjuster from London, in particular, to visit far flung places. This promoted the image of the loss adjuster as a jet-setting troubleshooter with a glamorous lifestyle. The image of the global adventurer was well established. Of course, there were difficulties with this business model in terms of delivery, not least because of the cultural and language obstacles presented by short-notice drops into foreign places with possibly no local contacts or support. The loss adjuster had to be extra-resourceful and quickly command widespread respect. Legends were born and the loss adjuster's word became 'law'. Of course, this 'Indiana Jones' business model could not last but the foundations of many current day firms were formed in this pioneering era.

With a short transition during which there were many mergers and acquisitions in the loss adjusting world, there was a distinct period from the late 1970s until the mid-1990s of loss adjusting firms sourcing recruits from all manner of backgrounds including the insurance and reinsurance industries. Noticeably, there was an increase in the number of insurers requiring comment on policy liability which may have been a reaction itself to a drop in the number of school leavers choosing insurance as a career and within that number even fewer choosing the claims path. This meant that extra reliance was placed on loss adjusters to provide views on coverage. There was also a distinct push for market share with firms jockeying for the attentions of the larger clients. This opened a new second-career opportunity for experienced claims personnel who had either suffered redundancy or reached retirement age to become marketing and insurance-technical advisers to the loss adjusting companies. These were boom times indeed for the loss adjusting profession. The burdens of such success were equally great and the market expectations of greater and wider technical expertise and diplomacy increased accordingly.

A Global Footprint

To take advantage of these heady days, the bigger players rapidly expanded their horizons during the 1980s and established networks of local and regional offices around the world. This made them more responsive and visible to the local markets and also enabled them to offer very competitive fees compared to those still flying everywhere from Heathrow. The speed of this development has not, however, guaranteed a globally recognised product. Many of these office expansions were achieved through acquisition or exclusivity agreements with small local operations. Understandably, the local operations want(ed) to protect their local relationships with, usually, a heavy reliance on business from one or two local carriers. Whilst most firms 'recalibrated' the global corporate balance by implanting regional managers, regional stylistic and political influences remain evident. Another important factor was the imposition of compulsory local cessions to home-grown reinsurance entities. Many countries developed government owned and controlled reinsurance companies with the aim of keeping a proportion of reinsurance income within the country but this also allowed a greater level of local influence over management of claims with overseas reinsurance interest. Today's multi-national loss adjusting firms have largely refrained from seeking to impose corporate standards in the most challenging territories and fallen into line with local expectations. The reinsurance claims handler needs to be aware of this and carefully consider any local peculiarities which might be at play. The subject of globalisation in terms of reinsurance claims handling and expertise distribution is deserving of its own paper.

Possibly influenced by softening markets in all lines of business over an extended period, many insurers and reinsurers began taking the bulk of policy interpretation decisions back in-house from the late-90s. Again, the loss adjusting market reacted by switching its recruitment targeting much more heavily towards process and subject-matter specialists. Graduates from many scientific disciplines are now the focus of attention. The insurance expertise that was absorbed into loss adjusting over 20+ years has pretty much gone and not been replaced, except in market-facing capacities.

Identity Crisis?

The thinness of the seam of insurance talent within the loss adjusting world is regrettable. Whilst it may be the case that the ultimate decision on policy response lies in the hands of the insurer or reinsurer, decisions can only be made based upon the context that the factual information is presented within. There are exceptions but subject-matter experts are prone to reporting in excessive detail on their favoured areas of interest without the encumbrances of considering their relevance to the coverage in question. Relevant facts are sometimes omitted, downplayed or misdescribed. Added to this limited pool of client-empathy, there is a trend for loss adjusters to take less of a hands-on role in major loss scenarios. They are acting much more frequently as project managers with the range of available ad-hoc experts seeming to grow on a steady basis. There are cases now with consultant metallurgists, forensic engineers, forensic accountants, project scheduling consultants, valuation experts, repair scope assessors and lawyers, all acting under the loss adjuster's direction. Fees have increased accordingly and it is not unusual for total fee payments on very large losses to run into millions of US dollars. To be fair, this trend is being promoted by some of the larger reinsurers who have decided to believe that the loss adjuster cannot wear all of these hats at once. There could come a time soon when the loss adjusters may have to decide how many of these hats they should be wearing to justify a long-term existence. It's about more than boots on the ground.

Where does loss adjusting go from here is probably too general a question because the roles currently fulfilled do vary by location and in response to local market needs and maturity. The global players keep changing their structures and models in reaction to world events and due to regular mergers and acquisitions. These are destabilising events and often result in the shifting of the balance of 'power' in terms of market share of various business lines amongst loss adjusting firms which makes it difficult for the instructing markets to obtain a consistent service. Personnel are continually swapping and shifting between companies meaning that loss adjusting instructions are usually given by individual name rather than firm because otherwise there is no certainty of continued service. Certainly, on bigger losses affecting large insured companies, instructions are obtained by loss adjusters based on the strength of their relationships with the insured, broker and / or lead reinsurer. A firm will not get a second instruction if they have upset the holder of the casting vote on a previous case. Accordingly, the perceived importance to the (re)insurer of the insured entity will determine its willingness to allow the latter to influence this decision. Insureds and brokers do not make suggestions of adjusting firms because they like the colour of their logo.

A Positive Partnership

So how do you 'train' your loss adjuster? A catchy question but in reality it's about understanding one another and setting expectations. It would be easy, and possibly more accurate, to say it's a moving target that has its own commercial interests well ahead of the market's. It will do what is best for itself. They are, after all, commercial operations not charities. However, from a reinsurer's perspective, there are fundamental principles that can be followed to get the best from this most important working relationship.

Consider previous experience – there is a lot to be said for appointing adjusters you have worked with in the past with positive outcomes.

Pick a closer – by this I mean choose an adjuster who gets results. Adjusters whose files needlessly stay open for years can leave you locking horns with the insured, broker or cedant.

Question an insured / broker nomination – as I have said, loss adjusters don't get picked by insureds because they are nice people. There is always a relevant reason. It might be that they really do work well together and are able to get to the right solution quickly. Never assume this.

Highlight important policy provisions – identify the policy sections, terms and conditions you consider may be relevant to the case. This will encourage the loss adjuster to include comment in their reports and avoid difficult conversations later. It will also help the loss adjuster to understand your mindset and approach.

Encourage engagement with the broker (if any) – in most cases, the involvement of the broker in all claims matters provides the insurance-experienced channel for queries and any feedback to the insured on policy coverage. It's becoming more common for insureds on larger losses to appoint 'claims preparers' who are usually brokers anyway. If there is no claims preparer, it is important that claims are run through the insured's appointed representative. Some loss adjusters short-circuit straight to the insured to avoid possible confrontation with the broker or don't fully recognise the role they can play. This can store up unnecessary problems for the future. Sadly, for economic purposes broker claims handling has become more of an optional extra that is now normally a cost added to the brokerage or fees charged for policy placement, resulting in fewer insureds benefitting from this important service.

Pick up on assertive or excessively passive behaviour – dealing with a claim is challenging enough without the potential for long-term damage to your relationships with insureds, brokers and cedants. They will be connected to you after the loss adjuster has left the scene of the crime. Excessively passive loss adjusting activities could also be a sign of a more worrying propensity to concede.

Discourage policy interpretation – from the Reinsurer's perspective, policy interpretation is rightly the claims handler's job. The insured's representative has a legal obligation to make its client aware of the coverage available and its effect. Ask the loss adjuster to stick to the facts in their reports. By all means, engage with the loss adjuster on your interpretation and encourage the challenging of this but the loss adjuster is not the final arbiter on policy response.

Perform Quality Control – always ask for a copy of the intended report in draft before it is issued. Whilst you should not look to write the report for the adjuster, you should be able to discuss the underlying message and be prepared for any reactions from the insured or broker. Language can be used as a weapon or a tool and it is essential that you have a common understanding with the loss adjuster about what message is being conveyed.

Communicate – make sure that your views on the treatment of claim elements is known to the loss adjuster and expect them to offer potential contrary views if they have them. This can avoid future confrontations and, after all, they may be right. It is also important to make sure that the loss adjuster is in regular contact with the insured and has made it clear what, if anything, is required from them and what they require from us.

There is much more to say about the complexities of the relationships at work in a claim scenario which aren't about the speed of payment. It is important that we get all of these right as our success or failure represents the product that all of our clients have purchased and, whether we are comfortable with it or not, the quality of the loss adjusting process is an integral part of that product.

In concluding, I must stress the importance of the insurer / reinsurer / loss adjuster relationship. The insureds are the real subject-matter experts and it is our job to make sure we work together to reach an amicable and equitable resolution. The role of the loss adjuster in making this happen is often critical.

I make no apology for setting out extracts of one of a number of variations from a widely-circulated adjuster's resignation letter from the 1960s that fairly accurately describes the demands they and, to varying degrees, we all face:

“To be an adjuster, one must be courteous, diplomatic, shrewd, persuasive, an expert jollier, of an equable temper, slow to anger, a Sherlock Holmes, up-to date, good looking (with honest eyes and a glad hand), a good memory, good cigars, acute business judgment, and the embodiment of virtue but with a good working knowledge of sin and evil in all its forms. An adjuster must understand insurance, electricity, chemistry, complex mathematics, mechanics, physics, technology, bookkeeping, banking, merchandising, selling, shipping, contracting law, medicine, real estate, horse trading and human nature. He must be a mind-reader, a hypnotist, an athlete, and above all, an expert photographer. He must be acquainted with machinery of all types and materials of all kinds and he must know the current price of everything from a microprocessor to a supertanker, from a shoestring to a skyscraper. He must know all, see all, and tell nothing and be everywhere at the same time. He must satisfy the claims manager, the claims examiners, the home office claims department, the underwriting department, the general agent, the local agent, the solicitor, the insured, the claimant and the regulator.”

Copyright © 2020 Trust International Insurance and Reinsurance Company BSC (C) (“Trust Re”)
All rights including the Author’s rights are reserved to Trust Re

Title: How to Train Your Loss Adjuster: A Reinsurer’s Perspective

Author: John Matthews, Head of Claims, Trust Re