

Claims managers have always been under pressure from various sources, ranging from claimants and their brokers to underwriters and accountants, not to mention general management. However, the tremendous change in the global reinsurance market over recent years has put additional pressures on companies and, in turn, their claims operations.

Despite apparently marginal rates for many classes of business, capacity (and competition) worldwide has never been greater. The conventional wisdom is that the only way to survive and retain profitable business is through size. As a result, merger and acquisition activity has been, and continues to be, frenetic. Many companies have had to withdraw from underwriting and submit their operations to solvent run-off, schemes of arrangement or, at worst, liquidation. A principal reaction, even for large entities, has been to streamline operations by restructuring, delayering and re-engineering. Whatever management-speak is used, the intention is to produce leaner, meaner organisations.

The problems facing a claims manager today are many and varied. First and foremost, general managers are impatient for up-to-date information. They demand accurate and detailed reporting of major claims situations. They do not want to know why information cannot be provided. At the same time, they have become very cost-conscious. Doubling one's staff numbers is not an option, and justifying 'high' staffing levels is very difficult in the current environment. The unpredictable nature of the claims workflow merely serves to exacerbate the problem.

The increased workload resulting from streamlining measures and unpredictable work volume can produce dissatisfied, demotivated staff, especially if they can see no end in sight. Lack of resources and demoralised employees can be a particular problem for companies that have gone into one of the forms of run-off. Inability to retain those with a high level of technical skills is another difficulty for discontinued operations.

Lack of technical knowledge, perhaps surprisingly, is frequently a by-product of the many mergers that have taken place. As a result of one recent mega-merger, specialist asbestos and pollution claims operations were consolidated. The new location had no-one with the rele-

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vant skills, yet the experienced staff from the old office did not want to relocate. Thus, the move made sense at a corporate level but caused difficulties at an operational one.

Another reason why retention of experienced staff is very important comes from the long-tail nature of many of the contentious classes of claims. The learning curve for staff new to such claims is much longer when they have no historical knowledge.

Pressures on claims managers can emanate from a company's underwriters. They might wish, for commercial reasons, for specific claims or claims from a specific client to be settled. This can cause difficulties when the company is in a lead position and the market is looking to the lead claims adjuster to protect its position. Underwriters might take a decision to expand into new areas of business for which they expect technical claims support (in the unlikely event that any claims do appear).

It is also necessary for claims managers to keep themselves fully informed of current legal issues. The increase in litigation over recent years has resulted in several decisions of major significance to insurers and reinsurers alike impacting on the division of liability between the parties. This year is proving to be no exception. Similar comments can be made about technical and technological developments.

Today's claims manager has to cope with these

Order out for less stress

Outsourcing claims duties can ease pressure for managers and improve the competitiveness vital in today's market, argues Russell Green.

various problems while at the same time juggling the priorities of his normal claims workload. His basic need is to reduce the number of matters that make a heavy call on his time and that of his slimline department without jeopardising efficiency and professionalism. The options and solutions available to the claims manager have, not surprisingly, both advantages and disadvantages.

The least attractive option, certainly from the point of view of the claims manager and his staff (though not necessarily of his general management) is that of closing down the entire claims operation and contracting it out. The day-to-day difficulties become someone else's problem and the variable costs of staff can be converted to annual, fixed ones. The problems are removed from the claims manager, but, from his point of view at least, in a wholly negative way.

To the company in general, however, there can also be a downside. The run-off might be handled less efficiently (or even be more costly) or in a way that dam-

ages the company's reputation or image (something of overriding concern to an ongoing enterprise). An element of control would certainly be lost. The run-off contract might actually cost more than continuing to handle the business in-house.

The instruction could be given to the claims adjusters to settle claims without raising queries. This would reduce the costs of administering the claims and would certainly reduce the 'hassle' factor for the claims manager. It would, however, carry several dangers. Cash flow would probably deteriorate. Invalid losses might be paid and there would be no opportunity for making *ex-gratia* settlements. Brokers would soon realise that claims were not being scrutinised fully and there would be a risk of invalid claims being presented. If the company was in a lead capacity, dissatisfaction would soon be expressed by the following market. Of more direct financial concern would be the risk that retrocessionaires would not accept claims ceded to them. Overall, this option would be more likely to add to the pressure on the claims manager than to reduce it.

A more realistic but still negative option would be to do nothing. Sitting on a claims backlog certainly slows down cash flow and in the short term is less costly. Control over claims handling is 'retained' with the unspoken thought that jobs will be preserved for longer. The disadvantage of inaction is that the claims manager

and the company are not fully aware of what lies dormant in the account. As a result, they cannot take preventative measures, such as instructing surveyors or loss adjusters, to mitigate the costs of inward claims or protect their position *vis-à-vis* outward claims against the risks of defences such as a time bar being asserted. The establishment of correct, adequate reserves would also be impossible.

A more constructive solution for the claims manager is to employ in-house specialists on a permanent basis. This has the distinct advantage of ensuring that problems are resolved professionally and can certainly be the best and most cost-effective option if there is a steady or increasing number of claims of a specific type or class. Unfortunately, it is usually an expensive option and, if the level of work is not high enough, it also carries the probability that the skilled resource employed to handle the claims will become demotivated and leave, adding to the overall cost.

A growing option is the use of a skilled resource outside the company on a temporary basis. This can take the form of 'outsourcing' — farming the work out — or 'insourcing' — bringing the resource into the company. It is essentially a phenomenon of the 1990s, where organisations concentrate on their core activities and bring in skilled services as needed. The key is control and flexibility: control in that the claims manager must be confident that any outsider he employs can be trusted to implement his strategy; flexibility in that the outsider must represent a skilled resource, adaptable enough to meet the needs of the claims department, whatever they might be.

The advantages of such a solution to the claims manager's needs, apart from those mentioned above, are that jobs are not lost yet costs can be contained and measured accurately. The outsourcing contract can be terminated quickly and changes of policy direction can be easily accommodated. The manager can concentrate his own efforts where they are most needed. Inevitably, some control is lost and if the services of the third party become a long-term requirement then the cost savings are negated, but at that stage an alternative option should be implemented.

The real attractions of the outsourcing option lie in the ability of the skilled resource to supplement or enhance, rather than replace, the activities of the company, but only to provide solutions to actual needs as and when they arise. The claims manager is therefore able to optimise his full-time resources while, at the same time, solving his main problems in a controlled and cost-effective manner.

Russell Green is senior claims executive at Chillington International, UK.