BROKER CLAIMS DEBATE

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Broker claims debate

Claims are a thorny issue at the best of times but when credit-hire organisations and accident management companies are involved, it seems everyone gets prickly. They have been blamed for much of the malaise that currently affects the motor market as they are seen to be increasing costs wherever they can for their own benefit. But it's not just an insurer problem – brokers are smack bang in the middle of this.

There are many credit-hire business models out there – some good, some bad – but the debate around these organisations assumes all models are aggressive and cost more than they should. However, these companies perform a service so taking this stance will get us nowhere.

That's why we put this supplement together. Rather than watch all the interested parties snipe at each from a distance, we brought them around one table to talk openly and frankly about how all can work together to ensure customers get the service they need. But this needs to be done without dumping excess cost on the market while ensuring all parties can earn a reasonable return.

So what is the broker's role in all this? What responsibility do they have to the wider market to ensure that when they refer a claim to a credit-hire company, they are using a reputable firm?

Brokers are at the centre of this dynamic and must be prepared to not only play their part but to do so responsibly. So enjoy the debate and whatever your take on it, let us know what you think on broking.co.uk.

Martin Friel, editor, *Insurance Age*

Editor
Martin Friel 020 7316 9732
martin.friel@incisivemedia.com

Group editor-in-chief
Anthony Gould 020 7316 9374
anthony.gould@incisivemedia.com

Production editor
Ruth Ganthony 020 7316 9717
ruth.ganthony@incisivemedia.com

Online sub editor, insurance
Tracey Jones 020 7316 9795
tracey.jones@incisivemedia.com

Sales manager
James Murray 020 7316 9296
james.murray@incisivemedia.com

Sales executive
Chris Finnegan 020 7316 9632
chris.finnegan@incisivemedia.com

Commercial director
Phil Davison 020 7316 9215
phil.davison@incisivemedia.com

Head of key accounts
Sajeeda Merali 020 7316 9765
sajeeda.merali@incisivemedia.com

Group production manager
Lorna Graham 020 7316 9707

Digital production manager
Rebecca Yegliss 020 7316 9228
rebecca.yegliss@incisivemedia.com

Art director
Nicky Brown

Publisher
Alex Broad 020 7316 9382
alex.broad@incisivemedia.com

Director of content, PSD
Lem Bingley

Group publishing director
Derek Peck

Managing director
Graham Harman

For subscription enquiries, contact: Incisive Media (c/o CDS Global), Tower House, Sovereign Park, Market Harborough, Leicestershire, LE16 9EF. Tel: 01858 438 421
Email: *incisivehv@subscription.co.uk*
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For reprints & e-prints enquiries, contact Richard Coury, The Reprint & Licensing Centre. 4 Ingate Place, London, SW8 3NS. Tel: 020 7501 1086
Email: *richard@rl-centre.com*

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Giving credit where

Love or hate them, credit-hire, credit-repair and accident management groups are an established part of the insurance market. However, despite being involved in the market for more than 20 years, relations between brokers, insurers and accident management firms are still strained. So just where have these firms come from and why has their journey been so fractious?

Accident management firms came out of the need that not at fault drivers had to secure a replacement vehicle and have repairs carried out to their own car, after being involved in an accident.

Prior to the advent of accident management companies, not at fault drivers had to pay up front for repairs to their vehicle and for hiring a replacement car while theirs was in the garage. They then had to reclaim these costs from the at fault driver's insurance company, leaving them out of pocket for significant periods of time and dealing with the hassle that this involved.

Accident management firms realised they could provide courtesy cars and vehicle repairs to not at fault drivers and then seek payment for these services from the at fault drivers' insurance companies.

The not at fault driver would receive a faster, more efficient and more convenient service, while the accident management companies would be able to generate significant business volumes given the number of vehicles on our roads, the number of crashes they are involved in and the refusal of insurers to really look after the not at fault party in any incident.

In many ways, the insurance industry has only got itself to blame for the emergence and growth of accident management firms and had it been more favourably disposed to serving the needs of its

it's due

Credit-hire organisations step in to provide replacement vehicles to not at fault drivers when insurers fail to serve their needs. Unsurprisingly, the relationship between the two industries has always been tense. **Edward Murray** asks where brokers fit in and how can the three parties work in harmony

not at fault drivers, it would have been able to maintain control of handling their claims.

GROWING TENSION

Instead, the insurance industry has fought the emergence of the accident management sector almost every step of the way and now that it is an established part of the market, prior conflicts are making future collaboration difficult in many regards.

However, the hostility the industry showed to accident management groups is hardly surprising, given there were many

FACT BOX: THE CREDIT-HIRE ORGANISATION

Credit-hire companies have been moving closer together in recent years as they seek to find common ground and workable agreements with the insurance industry.

In May this year, the Accident Management Association and the National Association of Credit-Hire Operators, amalgamated to create The Credit-Hire Organisation www.thecho.co.uk.

The new organisation has around 60 full members and over 30 associate members, accounting for around 85% of the combined credit-hire/credit-repair market. To give an idea of the scale of the sector, the credit-hire and credit-repair markets turned over between £900m and £950m in 2009.

The Credit-Hire Organisation aims to remove frictional costs from the General Terms of Agreement between insurers and accident management companies and help give the industry a stronger voice in its discussions with insurers.

It also aims to improve the way the General Terms of Agreement work for both parties and seeks to improve the speed at which insurers make payments to members, ultimately improving their cashflow.

instances where the hire fees charged for courtesy cars were seen to be inflated, the length of the hire was deemed to be longer than necessary, and the repairs carried out to the damaged vehicle seemed to drag on unnecessarily.

This all added to the overall bill that was ultimately presented to at fault drivers' insurers and they baulked at it.

In practice, insurers quibbled every line of the bills that were sent in and there is a feeling from the accident management sector that this was not merely to ensure they were getting good value and the costs were justified, but also because it meant payment could be slowed down. If insurers could starve these businesses of income and decimate their cashflow, could they put them out of business and kick them out of the market?

DRAGGING HEELS

Many accident management companies blamed insurers' slothful payment of claims for their bankruptcy and, even today, the market still resounds with the sound of businesses frustrated at the amount of time it takes for their claims to be settled.

To try and cap the charges being made for hire cars by accident management companies, the Association of British Insurers, came up with the General Terms of Agreement (GTA) document in September 1999. This scheme set out the terms and conditions of engagement between insurers and accident management companies when it came to replacement vehicles and, in essence, provided a framework within which it was hoped the two parties could operate more efficiently and to standards that both found acceptable.

In the past 10 years there has been much wrangling over the GTA. It was extended in 2001 to cover credit repairs and not just credit hire. It has also been scrutinised by the Office of Fair Trading and there have been ongoing discussions, debates and disputes as to the terms set out in the agreement.

However, it is still in place today and for all of its faults and foibles, it at least maintains a framework in which insurers and accident management organisations can try to get along together.

> While claims departments hate the extra costs they bring to the whole process, sales departments love the service they offer customers

Indeed, since its inception it has become less controlled by the insurance industry and accident management organisations have been able to seek and secure representation on its technical committee.

The irony is that while insurers may not like having to pay for the services of accident management companies when it comes to the claims of their at fault drivers, they have now realised that they have to provide a service to their customers who are not at fault in an accident.

Either insurers can do this in-house and essentially replicate what accident management companies are doing or they can outsource the needs of their not at fault drivers to the accident management industry, which is exactly what happens in many instances.

The insurance industry's relationship with accident management companies is, therefore, truly two-faced and while claims departments hate the extra costs they bring to the whole process, sales departments love the service they offer customers when they are the not at fault party in an accident.

So where do brokers come in to this befuddled set up? The key in all of this is control of the claim and the party that gets hold of the claim first can then steer it effectively to their own advantage.

Brokers often receive the first notification of an incident and have, therefore, been an important source of referrals for the accident management industry. Wherever a broker's client was the not at fault party in an accident, if brokers passed them on to an accident management partner, then they could organise the necessary car hire and repairs and charge the at fault party's insurers accordingly.

BROKER BENEFIT

For brokers, there were two strong reasons to team up with accident management companies. First, it meant that not at fault clients would get a fast service when it came to sorting out the mess of an accident

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FACT BOX: ROAD TRAFFIC ACCIDENT SETTLEMENT REFORMS

Effective from 30 April this year, new guidelines have been put in place to manage the personal injury claims process for road traffic accident personal injury claims of between £1,000 and £10,000.

The legislation sets out a three-stage process with set time and fee parameters to try and create a faster and more consistent route to settlement. Through this more standard framework the changes seek to find a fairer resolution for all parties involved in the process.

In the first stage, the claimant solicitor has to fill out a claim notification form and send it to the defendant's insurer, which is then obliged to acknowledge receipt and either accept or deny liability.

If liability is accepted, the second stage deals with procuring the requisite medical reports and reaching an agreement in regard to the quantum of the claim.

Where no agreement can be reached regarding the final settlement figure for the claim, an application will be made in the third stage of the process to the court, which will in turn determine the appropriate quantum.

Further details of the process and how it has evolved are available at www.rtapiclaimsprocess.org.uk.

The emphasis for brokers, therefore, has been to find ways in which they can supplement their income without having to charge clients more

and this was particularly important for commercial or fleet clients whose cars were an integral part of how they earned their living.

A broker offering this sort of service to a taxi firm, for example, could guarantee that within hours a replacement vehicle would be in place, while the repairs were taken care of, leaving drivers to get on with the business of earning a living.

The second reason that many brokers and accident management companies have gravitated towards each other over the years is money – is it ever anything else?

Accident management companies have paid referral fees to brokers for each not at fault client they pass on and this in turn has helped to buoy up the motor business that brokers are trading.

With broker commissions in the motor market running at something like 7.5% to 10%, there is little fat on each policy placed. On a policy of £500, that leaves between £37.50 and £50 to administer the business. This may be possible on policies where no claim is made, but as soon as there is an accident, it is scant reward for the administration involved.

The emphasis for brokers, therefore, has been to find ways in which they can supplement their income without having to charge clients more. In a market that is so price sensitive, getting the end price to consumers wrong is fatal not only to new business but also for those renewing their policy.

PRICE PRESSURE

However, it is not just brokers that are being squeezed in this market. Accident management companies have come under increasing pressure to drop their charges. Similarly, reforms that have recently come into play for road traffic accident personal injury claims of between £1,000 and £10,000 are again taking money out of the market.

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The reforms may help move towards a faster and cheaper settlement process, but they will simultaneously make it increasingly difficult for accident management companies to support the referral payments they have hitherto made.

As such, it is likely many will review the amount they pay to brokers and the number of brokers they pay, as they seek to work to an economically viable model. For brokers, the challenge will be to prove their referrals are worth the money they have been paid in the past as without this income, many will find it difficult to make their own activities in the motor market stand up financially.

Easy answers are difficult to come by and having spent the last decade trying to tease out the knots between insurers, brokers and accident management companies, there is still some way to go before the framework in place is both fully acceptable and fully supported by all of the involved parties. ■

Around the table...

PHIL BIRD, CLAIMS DIRECTOR, GROUPAMA: Phil Bird started his career working for Guardian Royal Exchange in the London market, focusing on the underwriting of property insurance. Joining Royal London in 1989, he developed a provincial broker operation for commercial lines business, managing their underwriting team.

In 1996, Phil joined Guardian Direct as household underwriting manager and, following the merger with Axa, he became household underwriting manager for all distribution lines.

Phil joined Groupama Insurances in 2004 as director of non-motor and small to medium-sized enterprise underwriting, from head of product development at Axa. He became director of claims in October 2008 and heads up over 250 employees, across three claims centres and Groupama's head office.

A graduate in economics, Phil is also an Associate of the Chartered Insurance Institute.

TREVOR CUTTS, BUSINESS DEVELOPMENT DIRECTOR, 1 ANSWER NETWORK: Trevor Cutts started his career in underwriting with a broker only motor insurer and having worked his way through to management level then moved into a claims environment as head of operations with Elite Incident Management in 2001, responsible for addressing service levels throughout the business.

Trevor was promoted to the board as managing director in 2002 and led the company into new areas including legal expenses and fleet accident management.

On leaving the business in 2006, Trevor initially provided consultancy services for a number of companies in the claims market before becoming business development director at 1 Answer Network.

SIMON GIFFORD, CLAIMS DIRECTOR, TOWERGATE PARTNERSHIP: Simon Gifford started his insurance career with Commercial Union Assurance in 1983 as a management trainee on a two-year programme working in all insurance disciplines. Simon worked in Ilford, Ipswich, Brighton, London and Nottingham in a number of managerial and technical roles including the head office claims team working on environmental and disease claims and international risks.

In 1999, Simon moved to Marsh where he worked in the risk management practice as a client executive and risk consultant for several multinational clients including a Marsh top 10 global account.

Simon joined Towergate as claims director in September 2006 where he is using his blend of experience of working in the insurer and intermediary markets.

As many private motor insurers lick their wounds, credit-hire companies have once again come to the fore as insurers scramble around looking to pass the buck for poor financial performance. This special roundtable looks at the role of credit-hire companies and, in particular, broker use of them

JOHN LE HALL, TECHNICAL CLAIMS ADVISER, RSA: John Hall is a technical consultant with RSA who is, among other things, responsible for credit-hire strategy. He is active in the insurance industry, chairing committees and engaging with the market on a number of technical topics, particularly the general terms of agreement.

He has been with RSA since 1994 and has held a number of senior positions during that time.

LUKE PROCTOR-WILTON INSURANCE RELATIONS MANAGER, BROKER NETWORK: Luke Proctor-Wilton began his career in 2005 with Norwich Union Life. He moved to the general insurance side of the business in 2006 to join the Towergate strategic account management team, based at the Norwich Union head office in Norwich. Luke moved to North Yorkshire to join Broker Network in 2008 as insurer relations manager where he had responsibility for the management and development of the network's insurer partners.

Following the merger of Broker Network and Countrywide in 2009, Luke now works with a team of insurer relation executives to drive profitable growth for some of the largest insurers in the UK and to ensure a high level of service is maintained for members.

DAVID SANDHU, CHIEF EXECUTIVE, AI CLAIMS SOLUTIONS: David Sandhu became CEO in July 2006 having previously been group managing director (from July 2005) and director of claims and operations. Prior to joining Ai Claims in October 2000 he spent 12 years working in the claims teams of various insurers including Bishopsgate, GRE, AGF and Fortis – specifically dealing with complex claims.

In the two years prior to joining Ai he was responsible for the Fortis policy on credit hire. A statistician by background, David has a particular interest in operational research. He is also an executive member of the National Association of Credit Hire Operators, a member of the Association of British Insurers general terms of agreement technical committee and is a regular speaker at industry events.

CHRIS SHAW, COMMERCIAL DIRECTOR, AI CLAIMS: Chris Shaw joined Ai Claims in 2001 and progressed through a variety of roles, before joining the board as claims director in 2007.

Chris developed and launched the “Defenda” product that year, before being appointed commercial director in 2008. In the past two years, he has steadily developed Ai’s brand and products into those of an industry leader, and successfully launched their BrokerAid product in 2008. In the same period, the product has become one of the largest in the sector, and an increasing number of customers now benefit from the service it provides.

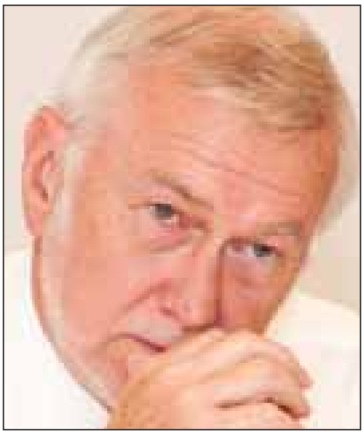
Before joining Ai, Chris worked in the legal and insurance sectors, but has always had a keen involvement in credit hire since 1994.

PETER SMITH, EXTERNAL OPERATIONS DIRECTOR, EQUITY INSURANCE GROUP: Peter Smith is responsible for Equity’s external claims functions. These range from major account relationships to the supply chain, field-based and offshore services, and market interaction.

Prior to this Peter ran the claims operational centres for Equity and Hastings Direct.

Previously, he was with RSA for 21 years in a variety of senior management roles. These included leading claims centres for corporate business and, in particular, responsibility for the global risks division’s portfolio of multinational clients with worldwide cross-class exposures. As programme leader for strategic changes, Peter was also responsible for nationwide customer and broker experience, and system and process re-engineering projects.

He holds an M.A. in political economy from the University of Nottingham.



DICK TUCKER , CLAIMS CONSULTANT, BLUEFIN: Dick Tucker has been involved in the insurance industry for more than 40 years, working for insurers including Legal & General, Guardian and Axa. For the past seven, he has worked in the broker fraternity with Stuart Alexander and latterly Bluefin following its acquisition by Axa.

For the insurers he worked in different aspects of general insurance including branch management, claims and IT. At Stuart Alexander, Dick, as head of compliance, was instrumental in setting up procedures and documentation to meet regulatory requirements and an appointed representative facility for property managing agents.

At Bluefin, he was appointed claims director in 2008 to determine the claims strategy for the newly merged company. In July 2010, Dick retired from this role although continues in a part-time capacity as claims consultant to help implement the motor claims strategy and the use of an accident management company to handle first notice of loss and repairs.

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GUEST LIST

Phil Bird	claims director	Groupama
Trevor Cutts	business development director	1 Answer Network
Simon Gifford	claims director	Towergate Partnership
John le Hall	technical claims adviser	RSA
Luke Proctor-Wilton	insurance relations manager	Broker Network
David Sandhu	chief executive	Ai Claims Solutions
Chris Shaw	commerical director	Ai Claims Solutions
Peter Smith	external operations director	Equity Insurance Group
Dick Tucker	claims consultant	Bluefin

Pictured: Dick Tucker

many cooks?

The friction between brokers, insurers and accident management companies is well documented, but what has come under less scrutiny is the underlying reason for this tension. **Martin Friel** reports on this special roundtable debate

THIS ROUNDTABLE GRASPS the thorny issue of broker use of accident management companies and questions whether they are exploiting them to the detriment of the market as a whole.

JOHN: I think it's wrong to just blame brokers in the same way it's wrong to just blame insurers and I think that's the danger. There certainly are brokers that are trying to maximise opportunities and manipulate processes and manipulate service, but as a generalisation I don't think brokers are trying to overplay it.

TREVOR: I would tend to agree with that but I think it's different across the broker market. There are some that you could consider are exploiting it, but I think you've got to look at what is genuine handling of claims – looking after the customer – and what is claims farming. Personally, I think this is what is really increasing the cost for insurers out there more than when a broker is just looking after a customer.

DICK: I agree. I'm sure there are some that will go down the financial route but, at the end of the day, the broker's important person is the customer and without the customer there's no business. So I think it's really important from an accident management point of view that service is the main criteria and certainly I know in our brokerage that's what we look to do. You can't overlook the fact there is a commercial interest here because there is an income potential and I think it would be wrong for any broker not to look at that particular element as well.

PETER: One of the things that adds complexity to this is that we all have different dimensions within each segment. There are different kinds of insurers with different business models; there are different kinds of brokers; there are different kinds of accident management companies; and of course within those there are also multi-dimensional relationships. Also, I can't think of many insurers now that don't have some sort of referral-based income stream of their own. So this isn't as simple as saying, "In the blue corner we've got this group of people; in the red corner we've got that group of people." The issue, as I see it, is that the whole area is saturated now and the only outcome I can envisage is fewer of maybe all of us, or fewer of some of these elements, as the answer.

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SIMON: I can say that as the recipient of many tenders, commission is very high up on the agenda of most parties when they're going for a tender. The cost to the market is ignored in every tender and I think there is a responsibility for the contracting party to think about the behaviours of the company they're contracting with to make certain that there's a degree of control. Because, actually, our customers pay the premiums in the end and the insurers obviously carry that cost and I think that's the element that we never really discuss as a market. The model's been out there for 10 or 11 years and was created because the customers weren't getting the service proposition they wanted and there was a service gap that the accident management companies stepped into.

JOHN: But how far back do you go in history? Is that a statement of history or is that a justification for a process?

SIMON: I'm not saying it's a justification of process. I think the customer brought a giant elephant into the room and nobody noticed apart from the entrepreneurial accident management companies. The insurance industry response has been adversarial. Yes there's a mixture of accident management companies out there, some are good, some are bad, but insurers should actually target the ones that are bad or even worse and behind the scenes try and come to a bilateral agreement to manipulate the

Left: Simon Gifford and Phil Bird. Below: David Sandhu

market to their advantage. The reason prices are going up is because there are too many people taking a chunk out of the claims process and earning money from it. If you take them out of the process you could supply the product cheaper and provide a better product to match exactly what the customer wants.

JOHN: Well I absolutely agree there are too many mouths to feed in the process and there are people maximising the journey for their own benefit. I fully buy into that. But I struggle with the concept that keeps going back to, "This was an insurer problem 12 years ago, 15 years ago." We accept as an industry what happened but things have developed and we need to be mature enough to move on in that environment. We're not in a regulated environment with this particular product and, therefore, it's a question of how you do something about that.

CHRIS: You've got an insurance company, let's say company A. It goes to tender, to a credit-hire car company and says, "That's what our repair time's going to be." That data's useful. If it's 14 days then you build a model and that's how much commission is earned but you've got huge variations between how insurance companies manage their own repair cycles. It does continue to be a case of "costs are going up because of credit hire and because of personal injury," but I think ultimately you've got a huge range of insurer behaviours and perhaps a starting point would be to look to see how insurance companies can align themselves.

DAVID: The interesting thing from my point of view – and I run an accident management company – is the fact that if I am efficient, where's my benefit from that efficiency? Yes my customers may get a better journey, but my competitor may have a longer hire period for the same type of business and, therefore, can offer brokers more commission. So I'm pro the concept of trying to make the whole process more regulated, and making us more accountable for what we're doing to make certain that there is reward for efficiency. But I don't think there is at the moment.

PETER: What the customer seems to want is not just the repair, it's not just a replacement vehicle, but it is some sort of injury solution as well and we're in an age now where there's a culture of anticipating for free what used to cost money. If you look at some of the deals that are available for the basic proposition of third-party motor insurance now, the prices are not sustainable. If you're an insurer that then strives to layer in guaranteed courtesy cars like for like and, potentially, to break the mould and add something in by way of supporting personal injury claims for their first party, that would outprice you completely. That's the challenge we have – there are too many insurers fishing in the same pond at the same time.

DICK: I think the problem for a broker is because we're dealing with so many different insurers we would get a different service from each one.

PETER: I wholly agree that insurers should genuinely differentiate and we should move away from this concept that insurance is a commodity, but we are at a point in time where the price of insuring a medium-sized Volvo comprehensively at the end of last year was less than it was three years ago. We've got to get price right.

SIMON: The price increases we are seeing are kind of picking over the carcass of a product, which is bust in terms of pricing. How are insurers underwriting? Phil, you might be able to answer this one – how are you underwriting and rating a motor product at the moment when there's so much of it hidden by the process that's going on in the background? How do you get any security about rating? It's next to impossible. Because there are so many variants and so many slices coming out of the pie that you can't see. So as an underwriter what do you do?

> The reason prices are going up is because there are too many people taking a chunk out of the claims process and earning money from it
>
> SIMON GIFFORD

JOHN: You're absolutely right about needing to be far more sophisticated. There are a number of people who manage the claim, but it's absolutely critical to understand what that claims journey is going to be on day one; to be able to project what the outcome is going to be on day 365 of that year so that someone can sit down and realistically assess a premium. And that's the exercise we go through now with the large accounts, in particular, saying, "Where is this going to happen?" We can be very flexible on it. We don't have to be dictatorial. We can absolutely say this is what we think the journey ought to be and this is what the best cost in our view would turn out to be, but there are variables. We certainly do now build in that sort of sophistication to our pricing because otherwise you're just plucking a figure out of the air, which is no good to anybody is it?

PETER: And we do likewise, but the customer journey is bewildering – in the partnership between the insurer and the broker you can have that set of processes to accommodate both, but then there are other parties that aren't at the table – everybody from the roadside recovery people to the windscreen people and so on. They are then competing for that customer and customers don't know who they're talking to now, so it's the people who are outside that partnership who complicate it.

PHIL: It's an enormously complicated problem that all of us are involved in and it stems from the fact that the whole model is built on a destabilisation of the underwriting result. I'm not trying to plead 'poor insurers' but the entire model is predicated on a whole load of factors that will destabilise that position and that comes from things that insurers are guilty of – things that other people around the table are guilty of participating in. But as soon as you enter a highly segmented product like motor the distribution channel will govern what the returns are for the product. So it's a simple thing to say price it right, but actually when you've got over three million rate segments in a rating model you'll drive it down to the lowest common denominator every time and, therefore, if the distribution channel doesn't line up and the claims channel doesn't line up – and all those other components – it's not going to be a very happy picture.

If this is primarily about the customer journey how do brokers justify £300/£400 in commission for one claim? How can brokers justify taking that out of the whole process?

DAVID: It's probably unfair to look at it like that – for brokers or insurers. The commission rise over the past few years has probably come from the credit-hire market competing for business. They want volume and the margins were probably too fat for credit-hire companies and therefore they've been able to chuck bigger and bigger commissions on the table just to secure volume. So in my business we don't hide away from the fact that we are a low margin organisation and we want high volume. The reality is getting that

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volume of repairs for a repair shop and getting that volume of hires out allows my business to make a return on its investment and we will offer as much of that margin to brokers that we can live with.

PHIL: There are other things that have driven it though David, one being the rise of aggregators, which has squeezed the distribution channel yet further and it's also created massive opportunities for data to fly around the market. That frankly is a distribution driven question on the whole.

TREVOR: With aggregators, if I look from a high-street broker perspective, we're being squeezed all the time. It's very difficult and that's an area that really you have to have in your profit and loss these days. There are some insurers that in actual fact are producing products whereby you're not allowed to sell legal expenses off the back of it, but they will enhance your commission for actually selling that product on its own, which in some ways goes the right way.

SIMON: The broker wants a journey for their customer that makes them stick so they don't go anywhere else – a proposition that provides them with exactly what they want in a quick and efficient way makes them a happy customer.

TREVOR: This is one of the big frustrations. It was interesting what you were saying in terms of looking at the rating. From managing a network of high-street brokers that insurers would say perform better in terms of loss ratios, why can't we get the products to compete with the aggregator guys out there? That's a massive frustration because to me that just doesn't add up. Hopefully there's going to be a more level playing field in terms of that.

Left: Chris Shaw and John le Hall

Until we can get this level playing field is there any appetite from brokers to engage in resolving this situation?

LUKE: I think from our perspective we're in quite a unique position because, effectively, we have three customers – the end customer, the broker and the insurer and it has been quite a dilemma for us as to how we manage it because we understand profit is important for insurers, service is important for customers and the remuneration from a broker point of view is important as well. It's about using a reputable company that actually does what it says on the tin, is fair, doesn't create too much additional cost for the insurer and provides a fair remuneration to the broker. It needs people to get round a table and just come up with the best solution. There are 2,500 accident management companies out there now. There's a massive amount and it just needs reducing in size, educating all parties involved from the customer to the broker, about what these companies do and what the knock on effect is for everyone throughout the industry.

CHRIS: I think that when we see tenders from our position, as David alluded to before, there are clearly two big issues in there – one is revenue to the broker and the other is around service. We've only ever seen one tender from a broker where there's been a requirement from that broker that we as a business would have to maintain an average hire period below and/or an average invoice below a certain level. We thought that was refreshing for a business to do that. And if you do that you're going to start driving behaviours. So give the market an incentive to become more efficient, make the more efficient organisations more competitive and although you're not going to solve the problem, you'll at least make it a lot smaller in terms of cost.

DICK: Unless your morals keep you on the good side there's a very attractive financial reward for doing things badly.
PETER: There's been a lot of short-term tactical thinking in the past and everybody has a part to play – having more strategic relationships rather than one-off tactical arrangements. So you've got broker, with support of insurer, with support of accident management company, making the winning differentiated proposition to the customer.

That's why it's so complicated because it branches into so many industries. It's the insurance industry, it's the legal industry, it's the medical industry

LUKE PROCTOR-WILTON

PHIL: But there are two aspects to it though aren't there? There's the one where it's the perfectly genuine claimant and I don't think any of us around the table would want that claimant to suffer. The second angle is the model that generates claims that wouldn't otherwise have come to fruition. But it's absolutely right and true that the model is presenting claims in there that would not have otherwise reached the market and that's the real burdensome cost that we're all bearing.
LUKE: That's why it's so complicated because it branches into so many industries. It's the insurance industry, it's the legal industry, it's the medical industry. It crosses all of these things and they all need a seat at the table. Ultimately, a fake whiplash claim has been legitimised at some point in the process by a medical professional so they've absolutely got a part to play.
PHIL: It may well be quite difficult for medical people to go against what's in front of them, but the combination of where it then dovetails with the law is the problem because the law's not challenging it in any shape or form.

What is the real issue here? It's generally cost, but where does the true cost come from? Is it the length of time with the hires?
SIMON: Every aspect of the process has been manipulated to an artificially high number and to change that you either need a new product out there or legislation to change it across the market.
PHIL: You need both interests involved don't you?
TREVOR: Yes.


Martin Friel

PHIL: Because the legislators are never going to do it without a new product are they?
CHRIS: If you take it away from credit hire into personal injury, look at the margin solicitors have made for years and years and years. When I was practising law many, many years ago it was £100. It was viewed as a burden to actually take the claim. It's now £800 in some instances, and some firms are offering £900/£1,000 as a composite deal. Solicitors' previous costs were £1,400/£1,500 so a lot of these firms were making twice as much margin as some credit-hire organisations. The commission structures that these firms are offering remain the same.
JOHN: There are too many vested interests. There's nothing that's going to happen that will eliminate some of the practices there because there's always the risk that it penalises the innocent party and that the courts on legislation will never do. So there's got to be an element of realism that goes through all these processes that we've got to look at.
SIMON: So you're back to product aren't you?
JOHN: Is it product or how you manage that?
DICK: It's got to be both.
JOHN: I think it's got to be both but you are never going to get a situation where there will be a generic product because everyone is looking to differentiate. It is an adversarial relationship. That doesn't mean to say it all has to be litigation or a legally driven process, but you do have to recognise that either you're going to lie back and take it or you're going to have to be aggressive. And I think we're in this, as the market has been

with the insurers and credit-hire companies sometimes, evolving situation that says neither side feels this particular agreement is working as we would hope it to be. Maybe there's a bit of idealism that goes with that, but we have got a lot of opportunity to get it better. There's a huge amount of cost, which is wasted in adversarial processes.

Many brokers are relying on the commission that's coming in for these claims. Are we going to see fewer accident management companies and if so will that then create less competition and lower commissions for brokers?

CHRIS: Ultimately, the most efficient business models will succeed. They should do in any market. It's still a very immature marketplace with a number of immature organisations; there are some mature organisations but some very immature ones and some of the behaviours that people adopt are very immature. We've already started to see brokers complaining that they've got consumers ringing them up, being aware that commissions are being generated, and saying, "How much will you pay me for my claim?" Consumers pick up on things pretty quickly.

The big thing I think that brokers have to be aware of is you look at vehicle telematics at the moment in terms of having Bluetooth in your vehicle, tracker device, and so on. The vehicle's parking sensors get impacted and the vehicle rings through your Bluetooth, "Are you OK?" The manufacturers will own that relationship because they'll want to put the bent metal into their dealerships. The moment that happens you lose control and if you lose control of it all the additional revenue that gets made is going to go straight to the manufacturer and secondly repair costs are going to go through the roof. And that's two big things that the whole market needs to think very carefully about.

LUKE: I think, with any sort of income, you should never put all your eggs in one basket. So if you want to make sure you're backing a winner, make sure the accident management company you're using is reputable, is good at what they do and that should be the safest way to secure that income stream.

Peter Smith

But if it is such a young market how can you be sure you're backing a winner?

LUKE: There's a number of different ways you can look at it. There's a massive amount of information out there – you just need to dig in. That's something we've been able to do for a lot of brokers.

Does morality really come into this? Is that an integral part of this? Or is it all just about money and keeping your customer happy?

DICK: Certainly, from our perspective, it was about two things. One was about the service to the client, getting the car back to the client as quickly as possible and keeping that cost down as much as possible and providing benefit to the insurer. There were discussions internally over the amount of income that we were going to get from this in particular on the personal injury side, where there were certain levels where we thought "that is just not morally acceptable".

Today every customer who wants a like for like car gets one, one way or another, either through a broker, an insurer, manufacturer or anyone else

DAVID SANDHU

DAVID: But should it matter? You buy a Mars bar from the local shop. I don't ask the shopkeeper what's his margin do I? I look at the Mars bar and if it's good value I buy it and that's the same in any purchase.

But the shopkeeper's not advising you to buy the Mars bar, that's the crucial difference.

JOHN: The critical difference is the customer that's using the service isn't paying for it so he couldn't give a damn what the cost of the Mars bar is if someone's given it to

Left: Trevor Cutts and Luke Proctor-Wilton

him. So if someone gives you a Mars bar, do you mind if it came from the corner shop or it came from a big Costco or wherever, if you see what I mean. Here, we're in a situation where that customer is not paying and he sees it as customer journey.

DAVID: Does he see it as customer journey? I don't think anybody buys a motor insurance product thinking he's going to use it. You buy it and you put it in a drawer, so you buy it on the basis of price.

PHIL: But the ethical position is to fulfil that contract according to what the client needs and the law has moved over time to say, well, X and Y is now permissible. I feel very uneasy about us in the insurance market taking a position of morality on this because I think quite frankly we're arguing about levels of morality. If someone asks somebody else, "Would you sleep with somebody for a million pounds?" and they say, "Yes," and they say, "Well would you do it for a pound?" and they say, "No." You say, "Well we've established you're a prostitute but we're only arguing about the price aren't we?" And quite frankly I think that's the debate we're having. We've all actually played a role in creating a position that is frankly not that ethical in the end and I don't think any of us can sit here and talk about ethics until we rebuild our product.

SIMON: I think the tipping point at the moment is the pricing increase that is going through because the consumer is starting to see significant levels of pricing increase in that market and pretty severe price correction. Most underwriters can't accurately predict whether the pricing that's gone through is going to correct the underwriting performance of that book because there's such an uncertainty about frequency and cost and everything else going forward.

PHIL: Well it's an uncertainty component. As an underwriter, I don't care what the level of cost is as long as it's stable, so you can build in all the components we've talked about and if it stays flat then we could all deal with it. The problem is the uncertainty and it's not only the uncertainty around the frequency and so on and so forth – it's actually the way the market's segmented and delivered now.

DAVID: Haven't we reached the peak though? Because if you go back 10 years the propensity for credit hire and personal injury might have been – I don't know, one in 10 customers had a like-for-like car. Today every customer who wants a like-for-like car gets one, one way or another, either through a broker, an insurer, manufacturer or anyone else. In personal injury, there probably was a little bit of a gap in terms of filling up personal injury and the data mining now has caught that up. So the pain we've gone through in the past year to 18 months has probably peaked.

PHIL: I don't believe that's true, David. I think what's happening with the data mining means that there's still two years to go because it includes any claim in the past three years.

TREVOR: And there's more that are likely to do it as well.

DAVID: But the new claims going through are very heavily managed already so the concept of data mining came from people recognising that actually you could convert 30% or 40% into a personal injury claim whereas maybe a few years ago that figure was 5-6% lower, so therefore that gap has been filled. Credit hire – there are no new brokers out there or new insurers to go and get to use the service, so people are maximising conversions already. Or if it does go up it's only going to go up marginally. ■

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Restoring relations

With insurers under-resourced to cope with growing credit-hire volumes, the industry is feeling the strain. **Chris Shaw** asks how relations can be improved

The industry remains committed to looking at alternative and less attritional ways of handling credit hire but as of yet little appears to have changed. In fact, if anything, relations appear in some quarters to be getting worse. So what is happening and what can be done?

Firstly, the industry needs to accept that this is a self-made problem. The same insurers that constantly complain about credit hire will tender every few years to outsource their own non-fault claims. Service delivery and how much commission people are willing to pay forms a large part of their decision-making process. In fact, some insurers actively refer claims to hire companies that have historically been more aggressive and added extra cost into the market. But then again this extra cost is being placed onto their competitor insurers – so perhaps it is not a bad thing in their eyes.

BROKER FOCUS

Brokers too are now under the spotlight, with insurers looking at intervention schemes and trying to pressure companies into operating in certain ways. For the larger brokers, the opposite is true as they are able to dictate to insurers just who really ‘owns the customer’.

The issue of credit hire ultimately revolves around cost and revenue – make as much out of it as you can and ensure you pay as little as possible. With commissions approaching £350/£400 a claim for larger brokers, the squeeze on credit-hire organisations’ (CHOs) margins is forcing some to look at ways of generating some back. Unfortunately, the current market does little to dissuade CHOs from controlling claims cost. Insurers don’t necessarily pay companies with lower hire periods that much quicker and, in general, insurers remain under-resourced to deal with ever increasing credit-hire volumes. Some insurers have tried outsourcing abroad, only to reverse decisions, being left with even bigger backlogs. Others have taken the decision to set up their own CHO. Conflict between some insurers and CHOs remains high, and many CHOs are signalling that insurers are getting slower at paying claims – which all adds to claims cost.

So what can be done? And what part do brokers have to play? Well here are a few ideas that could make a big impact.

Firstly, insurers need to start rewarding CHOs for lowering claims costs. The current model provides an incentive for longer hires, which means more cost and a longer customer journey. The more a CHO can cut costs, the less attractive it becomes at offering the levels of commissions needed to secure referrals. Insurers could set an average hire period target of, for example, 18 days and give percentage increases for monthly or quarterly averages that are under this figure. If a CHO that bills out at 12 days average was more competitive at commissions than one at 22 days, surely this would be a good thing for the market.

Of course, insurers would have to cede a few things – be more flexible around total loss valuations and allow CHOs to use their own in-house engineers – but why can't average hires get to 12 or 11 days? Insurers also need to start investing in accurate data collation tools and clearly enable claims staff to identify 'friendly' CHOs from problematic ones – as opposed to a broad brush approach that some still take.

TECHNICAL KNOWLEDGE

Insurers also really need to ensure that their claims staff are technically competent enough to handle hire claims. You could argue that credit hire is actually more technical than personal injury claims in most instances. Insurers create a lot of cost through poor control of claims and delays leading to legal proceedings being issued. And of course, some insurers need to stop talking with forked tongue.

Brokers can help too. They should be more selective in choosing who to outsource their claims to. When tendering, they should look for the balance between those CHOs offering the highest commissions, versus what their hire periods would be. By looking into what the supply chain's 'claims cost footprint' is, brokers can still attain high revenue from commissions, but also ensure that the cost of their customers' claims fed back into the market are lower.

> Perhaps to publicly issue a league table of average payment times and general information on call waiting times would help pressure insurers to improve

By sharing data, insurers and brokers could identify and penalise companies that regularly go over a set average duration or they could cap their average hire invoice. Brokers should look at processes that are less efficient and pressure them into changing their approach. It will come as no surprise that some insurers, brokers and CHOs work together to look at ways of maximising hire periods – thereby enabling even higher commissions. This is not good for the industry and, more importantly, is detrimental to customers who remain out of their own cars for much longer than is actually needed. Indeed, why are some insurers significantly quicker at repairing policyholder's cars or settling pre-accident values than others?

GOING PUBLIC

Finally, CHOs can help by working more closely to name and shame insurers whose payment records deteriorate. All CHOs talk about the same insurers being either good or bad, but perhaps to publicly issue a league table of average payment times and general information around call waiting times would help pressure insurers to improve.

CHOs could also publicise their own audited average hire periods by class of work – mainstream, prestige, bikes, and so on, to enable clearer visibility of their process efficiency. Those companies trading as publicly limited companies already do so in their reported accounts.

Ultimately, it is those CHOs with the most efficient models that will eventually gain overall market share, and the industry will eventually self correct. As the artist Escher said: "We adore chaos because we love to produce order."

Everyone just needs to remember that at the bottom of every claim is an individual, with a damaged car who just wants to be put back in their pre-accident position as quickly as possible. ■

Chris Shaw is commercial director at Ai Claims Solutions

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