

# Practical Issues in Claims Management

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# Chronology

- 2001 - LMP
- 2004 - Claims Strategy Review
- 2005 - Introduction of Claims Management Principles & Minimum Standards
- 2006 - Amendment to Claims Scheme
  - CAF
  - ECF – Lloyd's
- 2008 - ECF – Companies
- 2010 - Claims Transformation Project Pilot
- 2011 - Revised Minimum Standards introduced
- 2012 - Revised Minimum Standards in force





2004

# 2004

- Lloyd's introduced a claims strategy review which set out a 5 year claims change programme. The first 3 phases of changes agreed by the Franchise Board were:
  - *The introduction of a framework of Claims Principles with targeted minimum standards*
  - *An effective 'claims agreement for followers' ('CAF') process; and*
  - *A strengthened Lloyd's Claims Scheme, compliant with relevant regulation*



2005

# Lloyd's Claims Management Principles & Minimum Standards

- Came into force 1<sup>st</sup> July 2005, with a 6 month transition period
- Applied to all Lloyd's market inward claims and related to the activities of all managing agencies' claims teams working within the Lloyd's market, whether claims handled in house or outsourced.
- Franchisor's claims team to visit all managing agencies to commence a process of review.



# Lloyd's Claims Management Principles

1. The claims philosophy should be clearly documented and communicated within the syndicate, and reflected in the management and organisation
2. Managing agents should have appropriate claims resources, skills and management controls in each line of business they propose to write
3. Claims should be adjusted and processed in an efficient and timely manner
4. The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for a reasonable period
5. Claim reserving should be undertaken with the goal of a consistent, timely and accurate result
6. Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties
7. Measurement of claims management performance and capabilities should be appropriate and regular
8. For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by full co-operation of lead underwriters

(The Principles 5, 6 & 7 were introduced gradually in 2005)





2006



# Lloyd's Claims Schemes

- 1994
- 1999
- 1999 (Amended) which was in effect from 1 July 2005 to 1 April 2006 as an interim measure
- 2006
  - Amended to satisfy external regulatory requirements to ratify an enhanced Claims Agreement for Followers ('CAF') service and to reflect market practices
  - Key change was to largely abolish 'leader only' contracts. All claims subject to 2006 Scheme must be agreed by a Leading Lloyd's underwriter on their own behalf and XCS on behalf of all other Lloyd's syndicates



# Lloyd's Claims Schemes cont'd

- The exception to this change were special category claims (including PI, FI, D&O) where the second Lloyd's underwriter may act as an agreement party for their own share, but only if they opt in at slip stage
- Greater specificity as to
  - Obligations of the Lloyd's leader on receipt of claim
  - Obligations of the Lloyd's leader to determine claims in "consultation" with XCS
  - The role of XCS under CAF
  - Appointment of external experts

# ECF

- LMP 2001 set out a London market wide approach to reform of paper intensive claims process. Vision of improving claims processes to
  - Provide superior claims service to the ultimate client
  - Offer rapid decision making process
- ECF initiative commenced 2004
- Infrastructure delivered for use in 2006 and significant Lloyd's take up commenced 2007 once mandated
- IUA engaged and company market went live January 2008
- Electronic claim file is the combination of the Insurers Market Repository (IMR) and CLASS



# ECF

- ECF allows claim documents to be submitted electronically and accessed simultaneously by all subscribers
- IMR allows intercommunication between all subscribers and broker
- Leads to a more transparent and quicker claims process
- Availability of claims files to all at any time
- Reduced broker workload (no more walking the market with trolleys) enabling a focus on where value is added
- IMR was designed to support 1,000 users; at end March 2011 it was supporting 6,940 users in over 250 managing agencies, brokers and insurers
- At end March 2011, IMR taking 1.8m hits a day, stored 16m documents and had over 23,000 documents added a day



# ECF 2

Development of the infrastructure has led to ECF2, which brings

- A searchable document viewer, providing a method of viewing a file as a whole (like a paper file) instead of as a series of separate documents.
- Third Party Access for solicitors and loss adjusters
- Streamlined and more precise claims agreement screens
- Claims workflow triggers allowing real time updates every 15 minutes





2010

# Claims Transformation Project

- Development of a new vision for claims handling
- Aim to enhance Lloyd's reputation for fair and fast claim handling
- Improve customer experience through provision of efficient and effective claim process
- CTP introduces
  - Enhanced segmentation of claims
  - Claims identified as standard (£0-100,000)
    - mid tranche (£0 - £5m)
    - complex (> £5m)
  - Single party claims agreement for the majority of high volume low value claims
  - Lead plus second claims agreement party in high value or complex claims
  - Choice for managing agents to either in source or outsource their role as a claims agreement party



# Claims Transformation Project cont'd

- A mechanism to allow followers to participate more effectively in high value or complex claims by requesting a market meeting if 50% or more of them wish to do so
- The lead and second underwriter both have a duty of care to the followers subject to a limit of liability set at £2m each and every claim, capped at £10m in the aggregate per managing agency per year
- Lloyd's role will be enhanced, both for pilot governance and to ensure that managing agents have the required claims capabilities to fulfil lead and second roles





# 2010 Pilot Claims Scheme

- CTP is currently in a pilot phase
- First phase of the pilot covered claims on contracts incepting after 1 January 2010 in all risk codes in following classes
  - Marine
  - Property Direct and Facultative
  - Casualty Treaty
- ECF claims only
- Binders excluded
- Pilot classes expanded with effect from 1<sup>st</sup> July this year but no formal plans as yet to bring in PI classes
- Pilot rules being reviewed – mid tranche may disappear from 1<sup>st</sup> January 2012





2011

# Lloyd's Claims Management Principles & Minimum Standards

- As part of Lloyd's work on Enhanced Governance, and to be compatible with Solvency II requirements, revised Claims Management Principles and Minimum Standards issued 31<sup>st</sup> March 2011
- Adherence to the Minimum Standards to be assessed by Performance Management Directorate by reference to a set of evaluation guidelines still under discussion
- Effective 1<sup>st</sup> January 2012 with a 6 month transitional period
- Management Principles only slightly tweaked
- However, Minimum Standards amended considerably. While some amendments do not change the substance of the standards, in a number of instances the amendments reflect more detailed requirements
- Greater responsibilities of Lloyd's leader in claim management under CTP means the Performance Management Directorate will be assessing against their ability to refuse to allow a managing agent to act as a leader



# Lloyd's Claims Management Principles

1. *The claims philosophy should be clearly documented and communicated within the syndicate, and reflected in the management and organisation*
  - **The claims philosophy should be clearly documented within the managing agent and reflected in the management and organisation of the business.**
2. *Managing agents should have appropriate claims resources, skills and management controls in each line of business they propose to write*

**Managing agents should have appropriate claims resources, skills and management controls in each class of business written or proposed to be written.**

3. *Claims should be adjusted and processed in an efficient and timely manner*

**Claims should be adjusted and processed in an accurate and professional manner and properly managed to conclusion, having regard to the circumstances of the claim.**

4. *The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for a reasonable period*

**The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for an appropriate period**



5. *Claim reserving should be undertaken with the goal of a consistent, timely and accurate result*

**Claim reserving should be undertaken with the goal of a consistent, timely and accurate result and should take into account both possible costs and indemnity potential**

6. *Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties*

**Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties**

7. *Measurement of claims management performance and capabilities should be appropriate and regular*

**Planning, measurement and review of claims management performance and capabilities should be appropriate and regular**

8. *For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by full co-operation of lead underwriters*

**For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by co-operation of claims agreement parties**





# Minimum Standards

# Claims Philosophy

## Principle

The claims philosophy should be clearly documented and communicated within the managing agent, and reflected in the management and organisation of the business.

## Minimum standards

- a) The managing agent's philosophy includes documented executive and board **commitment to, and oversight of, an effective claims management process. This will include commitment, where needed, to fulfilling responsibilities to followers.**
- b) The philosophy will include board commitment to adjust and manage claims on the merits to meet or exceed Lloyd's Claims Management Principles and Minimum Standards.
- c) Each syndicate business plan\* proposed by a managing agent addresses the management of claims, including the setting of claims related objectives and targets.
- d) A director of the managing agent has board responsibility for effective claims management.
- e) The managing agent's board regularly considers the efficiency and effectiveness of the claims management process using appropriate management information.
- f) **There is executive and board commitment to ensuring that claims information and knowledge is available for, and used in, business planning and decisions. The managing agent's organisational structure facilitates this process.**
- g) The managing agent's philosophy relating to the management of claims is documented and communicated to staff whose jobs involve or relate from time to time to claims handling, reserving or underwriting.



# Resources, skills and management controls

## Principle

Managing agents should have appropriate claims resources, skills and management controls in each class of business written or proposed to be written.

## Minimum standards

- a) There is appropriate claims resourcing, structure and succession planning for the classes of business written and adequate planning and resourcing to address business development. Skills gaps and resourcing needs are identified and addressed in a timely manner as appropriate to the circumstances.
- b) Required skills have been identified and are being developed and supported via appropriate training and development processes, which include consideration of changes in the legal and regulatory environment. There are job descriptions for each role.
- c) Claims staff have documented authorisation levels for settlement and reserving appropriate to the type of claim, their experience, and skills. Individual authority levels are reviewed at least annually and adjusted as circumstances require for efficient and effective claims management.
- d) **There is appropriate separation, at the operational level, of underwriting and claims authority/duties to manage potential conflicts of interest.**
- e) Identified performance criteria for individuals are in use and are explained to staff. These criteria are linked to the objectives of the annual claims business plan\*.





# Resources, skills and management controls cont'd

- f) There is a structured process of annual performance review, used for the planning and review of learning and development and the management of performance.
- g) The board ensures that sufficient management controls and audits (internal and external) are used to evaluate claims performance\* and where matters are identified as requiring attention, they are addressed.
- h) There is an appropriately detailed, regular file review process, the basis of which is documented, and the results of which reviewed with the relevant claims handler.

# Claims adjustment and management

## Principle

Claims should be adjusted and processed in an accurate and professional manner and properly managed to conclusion, having regard to the circumstances of the claim.

## Minimum standards

Managing agents:

- a) Following notice and during the life of claims, assess what actions can be taken to resolve claims on the merits and in reasonable time frames having regard to the circumstances.
- b) Maintain processes and procedures for the management of claims that are clear, documented and shared with relevant personnel as needed to ensure effective management of claims. †
- c) Provide an appropriate level of service to brokers or policyholders in the circumstances of the claim, including communication of actions and progress where appropriate.
- d) Have in place an appropriate documented anti-fraud strategy.
- e) Provide adequate training and procedures to comply with applicable sanctions and anti-money laundering rules. †
- f) Identify, monitor and pursue, where appropriate, rights of subrogation and salvage.

**Note:** where a managing agent is acting purely in the capacity of a follower, it will be necessary to comply only with those minimum standards marked †.



# Documentation

## Principle

The handling of a claim should be appropriately documented and information relevant to the management of the claim retained for an appropriate period.

## Minimum standards

- a) Where it is the managing agent's responsibility, claims files are maintained in such a way as to ensure that relevant claims information is available to followers in a timely manner.
- b) An appropriate document retention policy is documented and in use, including for electronic information, taking into account legal and regulatory requirements.†
- c) An appropriate and documented procedure for handling discovery, including e-discovery, is in use. †

**Note:** where a managing agent is acting purely in the capacity of a follower, it will be necessary to comply only with those minimum standards marked †.



# Claim Reserving

## Principle

Claim reserving should be undertaken with the goal of a consistent, timely and accurate result and should take into account both possible costs and indemnity potential.

## Minimum standards

- a) Managing agents have a documented reserving philosophy agreed by the board that provides overview guidance for assessing and determining claim reserves\* and that is made available to followers on request.
- b) Claim reserves\* exist without prejudice to coverage and make financial provision taking into account currently available information. Managing agents in a claims agreement role should ensure that the rationale for the current reserve position is available to followers.
- c) Initial reserves are set as soon as practicable following first advice.
- d) Matters where further information is required before an estimate of reserve may be made are reviewed regularly.
- e) Managing agents take reasonable steps to obtain information to enable a reserve to be established and for it to be maintained up to date. Reserves on open claims are reassessed promptly upon receipt of relevant additional information.



# Claim Reserving cont'd

- f) Reserves on open claims are reviewed at least every 12 months, and the reserve normally either actively confirmed or amended, as appropriate, based on up to date information.
- g) Claims agreement parties take reasonable steps to ensure that:
  - i. followers receive, as soon as practicable, the same reserve related information received by those claims agreement parties; and
  - ii. **followers are alerted to situations where it is appropriate for them to consider independently the reserve.**
- h) Large reserve entries are validated via an internal peer review process



# Management of external service providers

## Principle

Disciplined procurement and pro-active management procedures should be employed in the selection and use of third parties.

## Minimum standards

Delegation of claims authority including where claims management is outsourced:

- a) Managing agents comply with Lloyd's and other regulatory requirements in relation to outsourcing.
- b) Claims are handled in accordance with Lloyd's Claims Management Principles and Minimum Standards.
- c) **Managing agents use a documented process to assess third parties for suitability prior to delegation to them of claims handling authority.**
- d) Managing agents determine the appropriate level of handling, reserving and settlement authority given to the third party in respect of each type of claim for which authority is delegated.
- e) **The terms of delegation agreed between the managing agent and the third party are documented.**
- f) **The managing agent monitors regularly the service provided by the third party and, if required standards are not met, restricts or terminates the delegation.**
- g) **The managing agent ensures that the third party is audited in respect of the arrangement normally every 12 months, or at other appropriate intervals, and that any matters arising are considered, and where appropriate, addressed.**

# Management of external service providers cont'd

Management of external experts\* appointed on claims:

- h) Managing agents should have a documented process for the selection, appointment and monitoring of external experts.
- i) External experts are normally selected from an approved panel established by the managing agent. **The composition of the approved panel is reviewed against business requirements and performance delivered.**
- j) When requested, managing agents articulate to followers the basis for selecting an external expert for an individual claim.
- k) The managing agent communicates and agrees the goals and budget with any appointed external expert\*, and, where appropriate, the approach to be taken. There should be appropriate information available to followers indicating what the expert is required to deliver.
- l) Where applicable, managing agents should advise the external expert they select that the instruction is also on behalf of any Lloyd's followers of that managing agent on London market subscription placements.
- m) Invoices are checked against written agreements and non-agreed variances queried and, as appropriate, rejected. Performance against budget is monitored and variances justified.

# Performance Measurement

## Principle

Planning, measurement and review of claims management performance and capabilities should be appropriate and regular.

## Minimum standards

- a) The managing agent prepares annually a written claims business plan\*, approved before the end of the first quarter by the board or a delegate of the board for that purpose. The plan includes relevant KPIs relating to the delivery of claims-related objectives and internal claims performance targets.
- b) **Progress against the claims business plan\* is reported to the board**, in writing, at least quarterly and with variances identified and subsequently addressed.
- c) The managing agent's written criteria for the assessment of claims performance\* are sufficiently broad, subject to assessment, and in regular use.





# Claims agreement for subscription business

## **Principle**

For subscription business there should be an effective claims agreement process to protect the interests of followers, supported by co-operation of claims agreement parties.

## **Minimum standards**

- a) Claims agreement parties assist any other claims agreement parties to fulfil their role, within the terms of the applicable Lloyd's Claims Scheme.
- b) Claims agreement parties ensure that appropriate procedures are in place with other claims agreement parties where decisions are likely to be required at short notice.
- c) Followers assist the claims agreement parties to fulfil their role, within the terms of the applicable Lloyd's Claims Scheme.



# Glossary of Terms

- **Syndicate Business Plan:** means a business plan prepared by a managing agent in accordance with paragraph 14A of the Underwriting Byelaw.
- **Claims Business Plan:** the managing agent's documented annual plan(s) for delivery of claims-related objectives.
- **Claim Reserves:** are contingent financial provisions based on available information which do not indicate a coverage position or expected outcome unless and until the insurer(s) accepts coverage without reservation.
- **Claims Performance:** the extent to which the claims function delivers against the annual claims business plan, the managing agent's syndicate business plan(s) and Lloyd's Claims Management Principles and Minimum Standards.
- **External Expert:** any external organisation or person retained by the insurer (or on the insurer's behalf) to provide services in relation to the assessment, settlement, or other resolution of claim(s).



We've moved from.....



# To this.....



## Quick Links

### ECF2 User Guides

-Lloyd's

-IUA

### Market Reform Office

Xchanging.com

## Welcome

The latest version of Electronic Claim File (ECF2) is a key piece of infrastructure for the London Insurance Market. It supports the electronic processing of claims through interfaces with CLASS and the IMR, as well as providing enhanced functionality to enable its users to share documents and process claim transactions, eliminating paper and reducing turnaround times for claims processing.

Xchanging have developed and delivered ECF2 in partnership with the London Insurance Market. It remains an essential feature of the Market change programme championed by the Market Reform Group (MRG).

For further information on ECF2, please contact the Service Centre at [Service.Centre@xchanging.com](mailto:Service.Centre@xchanging.com)

To become an ECF2 user, please register your interest by clicking [here](#)

## ECF2 Service Hours

### Core Service Hours

**Monday - Friday 07:00 - 19:00**

Monday to Friday 07.00 to 19.00 UK time (excluding English public and bank holidays).

During Core Service Hours ECF2 shall be available to all registered users.

All user related queries and problems in this period will be addressed by the Xchanging Service Centre.

### Non-Core Service Hours

Monday to Thursday 03.00 to 07.00 and 19.00 to 22.00 UK time (excluding English public and bank holidays).

Friday 03.00 to 07.00 and 19.00 to 20.00 UK time (excluding English public and bank holidays).

Saturday 07:00 to 19:00 UK time (excluding English public and bank holidays).

During Non-Core Service Hours ECF2 should be available to all registered users.

Any user related queries and problems raised to the Xchanging Service Centre during these periods, will only be actioned during Core Service Hours.

### Scheduled Downtime

Any period outside Core and Non-Core Service Hours is Scheduled Downtime and access to ECF2 is not guaranteed.

Any user related queries and problems raised to the Xchanging Service Centre during this period, will only be actioned during Core Service Hours.

## Login

**User Name:**

**Password:**

## Xchanging Service Centre

### To raise a query or report a problem

Contact the Xchanging Service Centre by:

Telephone +44 (0) 870 380 0830

or

Email [Service.Centre@xchanging.com](mailto:Service.Centre@xchanging.com)

For telephone enquiries during Core Service Hours a Service Centre Operator will respond, for Non-Core Service Hours an answer machine will be in operation.



# Regulation

- Increased accountability both internally and externally, not only Lloyd's PMD but FOS, FSA (for the time being)
- Growth of KPI measurements around all aspects of claims handling
- Increased focus on MI in all areas
- Increased internal reporting
- Increased focus on reserving accuracy and audit trails
- Increased need to "back cover"
- Formalisation of external procurement arrangement; slimming down of panels
- Move away from, and back to, a leader only world while cultural changes mean all parties may (and probably will) participate (increasing costs?)
- Nevertheless, CTP represents hugely increased responsibility on leaders

# Technology

- ECF increases speed of transactions in certain classes
- ECF reduces 'face to face' claims handling
- Increased transparency
- Huge increase in access



# Resource/People

- Historical reluctance to invest in and resource claims teams adequately
- Significant increase in recruitment of insurance solicitors to claims handling roles
- Increased outsourcing
- Increased use of secondees
- Increased use of administrative staff due to segmenting of claims work by both insurers and brokers
- Greater commoditisation of the claims process. How far can PI claims be commoditised?
- Leveraging of panel firm relationships; freezing of rates, expectation of 'added value', such as access to resources, training, secondments



# Potentials for Disputes?

- Are insurers taking a tougher line?
- Increase in arguments as to scope of notifications post Kidsons
- Aggregation issues and the scope for disputes between layers
- Allocation issues in major coverage disputes
- Broker pressure for 'commercial' deals
- Importance of long term relationships against short term view of new entrants to market
- Fragmentation of market?
- Co-insurers taking own views and less willing to put market coherence above own business drivers
- Great sensitivity to issues of potential conflict
- Has the market been over legalised?



# Today's Challenges

- Soft market pits the importance of long term relationships against short termism of new capital
- Searching for increasing ways of differentiating ourselves
- Search for new, unsaturated markets
  - Need to train claims teams in new areas, new products, new jurisdictions
- Increasing importance of broker surveys
  - Willis Rating Index, Aon's Willingness to Pay







# Gracechurch's Claims Performance Monitor Lloyd's Results

# Worldwide Claims Service Comparison

- Five main markets

Lloyd's 24% Excellent

London (non-Lloyd's) 14% Excellent

US 8% Excellent

Bermuda 7% Excellent

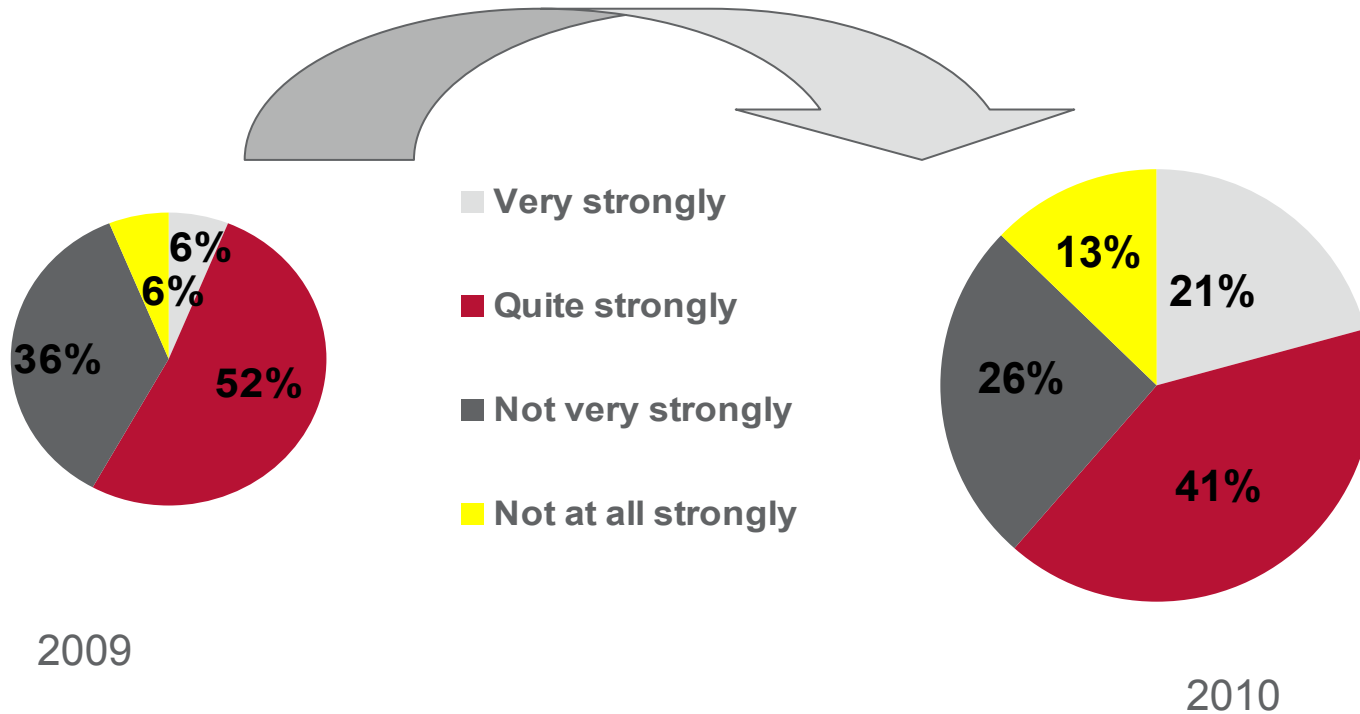
Europe 3% Excellent

- Lloyd's is the strongest performing insurance market in terms of claims service
- Views of Lloyd's claims service have improved in 2010 with 27% of respondents believing service has improved in the previous 12 months, compared with 22% in 2009



# How Important is Claims Service?

Claims service plays an increasingly important role in the amount of business placed



# Service Drivers – What do brokers/clients want?

## Stated importance

- Strong commitment to paying fair claims
- Process claims speedily
- Claims staff committed to delivering excellent service
- High calibre claims people
- Highly responsive to broker needs
- Build good relationships with broker
- Keep you informed of progress
- Highly effective implementation of new business processes such as ECF
- Deploy technology effectively to improve service



# Room for Improvement?

The primary issues that broker believe need to be improved are:

- Service to customers
- Knowledge of general insurance
- Quality of staff
- The ECF system
- Client relationships



# Survey Summary

- Increasing recognition of the importance of claims service in influencing business placement
- Perceptions of Lloyd's improved
- An increasing recognition of the benefits by adoption of technology but not at the expense of substantive quality in complex matters
- Important working relationships and client relationships



# Discussion

- Claims are handled today in a frequently changing and increasingly demanding environment
- Massively increased transparency
- Role of claims handler widened
- Old fashioned focus on relationships and dialogue should not be over looked