



SARS: the reach of disaster has become increasingly global

Heather Parkinson looks at trends affecting this boom area of claims adjusting

Many business people excel at imagining the things which could go wrong in their organisation and lose sleep worrying about how they would cope in the event of a flood, fire or other major loss. Most reassure themselves that, if the worst happened, they are covered by insurance – and are able to go back to sleep.

Business interruption insurance exists, in its simplest form, to cover businesses in case they are unable to operate due to an unforeseen insured risk. In its earliest days, this meant insuring factories and workshops against damage by fire or flood. But business life has changed dramatically since the first days of fire insurance and companies can be severely damaged by incidents which have no immediate connection to their own property. Although modern policies partly account for this by including policy extensions and cover for losses arising from incidents concerning premises not occupied by the policy holder, the complexity of 21st century business risks means that companies may struggle to achieve cost effective and appropriate cover.

We have seen many changes in the last 20 years of loss adjusting and the coming 5 years will witness more. In recent times the management of insurance claims has become more polarised with large volumes of straightforward claims being processed routinely by insurers and the major loss adjusting companies whilst more complex issues require the input of specialist teams.

Demands for loss adjusting services in the future, coupled with the number of current members likely to retire over the next 5–10 years, means there has never been a better time to consider becoming a loss adjuster.

MAJOR CLAIMS AND THE BI MARKET

There has been an increase in the volume of claims and the reach of disaster has become increasingly global with events such as 9/11, SARS and the South Asian Tsunami impacting upon business far away from the actual event.

But perhaps the most significant change has been the increased dependence of modern businesses upon technology. Not only does this increase our vulnerability to disaster (IT systems and cabling take much longer to recover from flooding than simple production units) but as technology permits almost every aspect of life to be better documented the onus is upon business to analyse the information thus gathered, to understand more clearly the risks within its areas of operation and to put in place plans to reduce the risk of accident.

The above factors will all have some influence on claims adjusting in the next 5 years but I believe the dominant trend will be the increasing demand from insurers for

companies to avoid the need for compensation through the implementation of risk assessment systems and effective business continuity planning.

Meeting the demand

The reduction in demand for Chartered Loss Adjusters has been well documented. Many CILA members believe that their value is not always appreciated by insurers and the rates paid, in general, tend to support this belief. The decline in the number of Chartered Loss Adjusters has been reflected in the increased use of clerical staff to process routine claims. This is not all bad news; it makes little financial sense to use highly qualified staff to deal with issues that can be dealt with using less expensive resources. As Harry Roberts commented in July, our clients have 'become more discerning particularly in the area of high volume/low value claims where a qualified loss adjuster is but one of a number of potential solutions.' The trick is to use the right quality of staff for each task, and every industry must adapt if it is to survive.

However there is always scope to enhance the level of service and the CILA has begun to address this by welcoming all customer facing staff working in loss adjusting firms as CILA ordinary members and working with the CIL to increase the level of professionalism for those working in loss adjusting who do not need the full CILA qualification. The role of Chartered Loss Adjusters will, rightly, become more focused on larger, more complex cases which need a breadth of knowledge and experience not available in claims centre workers. In Harry Roberts' words, 'over the last 25 years there has never been a better time to consider a career in loss adjusting than right now.'

Global reach

Basic Business Interruption policies cover BI losses resulting from damage to the insured property. Yet, as shown clearly by events such as September 11, the Boscastle flooding or the Buncefield explosion, businesses can be severely affected by incidents which do not actually damage their own property. Innumerable businesses across the world felt the impact of September 11 as travel was cancelled and market confidence wavered.

The intelligent use of policy extensions, for example for interruption to supply of public utilities, denial of access, loss of attraction or damage to a customer or suppliers' business, can reduce exposure to such risks but a balance must be achieved between properly insuring against risk and the prohibitive cost of over insurance. It is unrealistic to expect every policy holder to be aware of all the risks inherent in modern business life and expert advice is essential. An insurance broker's role will increasingly become one of education, helping clients to identify, understand and insure against the appropriate risks.

Dealing with New Technology

In the early days of fire insurance, businesses found it hard to get satisfactory cover due to difficulties in estimating risks relating to new technologies such as electricity. The insurance industry coped with this by working closely with the manufacturers of electrical systems to ensure that all new products conformed to

agreed safety standards. Policyholders who could prove that their systems met the requirements of the day benefited from more cost effective insurance and the same principles still apply.

Today, despite significant changes in our working and social lives, many businesses fail to take into account the vulnerability of their operations to IT issues. Whether caused by software glitches, hardware failure, sabotage or fraud, computer problems may render a company unable to take, process or deliver orders, communicate with its customers or indeed manufacture any goods. Unauthorised access to company systems can lead to theft of information and customer data placing businesses affected in breach of the Data Protection Act.

Clearly there is a need for insurance cover to protect businesses from this new generation of risks however its provision has been hampered by a lack of actuarial data. Although some insurers still do not offer cover in standard policies it is acknowledged as a critical area and the next 5 years should see significant improvements in the level of cover on offer.

Business Continuity

The whole point of Business Interruption Insurance has been to compensate businesses

for losses incurred when they are unable to operate as normal. Insurers are moving beyond this to insist that companies take steps to minimise exposure to risks before seeking insurance and put in place Business Continuity plans which will allow them to continue working should disaster strike. Following similar logic to the medical emphasis on prevention as being better than cure, the skills and experience of the insurance industry will be increasingly exploited in guiding companies towards the identification and elimination of unnecessary risks rather than in obtaining compensation when things go wrong.

Businesses will be expected to take responsibility for their actions. By implementing good systems the chance of man made disaster is reduced, response to natural disasters is enhanced, recovery times from both kept to a minimum and costs mitigated wherever possible. It is time to stop viewing insurance as a standalone product and to begin accepting the more holistic approach of business continuity plans as a fact of 21st century business life. ■

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Cost of individual cases of business crime up six per cent

The latest findings of the AXA Business Crime Index, which are based on the company's own claims data, show that the average cost of a crime-related business insurance claim during the first three months of 2006 was £4,179. This is an increase of 6% on the last quarter of 2005.

However, compared to the first three months of 2005, the total number of crime-related business insurance claims between January and March 2006 fell by 6%.

Commenting on the results, Neil Mercer, Property Insurance Manager at AXA, said: "Although our figures show a decline in the number and total cost of business crime, this is still a serious problem that is costing small and medium sized businesses well over £700 million a year."

Arson is the most financially crippling crime small businesses can face, and for the first three months of 2006 it accounted for 38% of the total value of settled business crime-related insurance claims. This is despite the fact that it only makes up 3.77% of the total number of business crime-related claims. Theft is the most common claim and accounts for the largest share of business crime-related insurance settlements.

Birmingham bad, Liverpool lovely

Birmingham tops the city business crime table, with 27.87% of claims settled between January and March being crime-related. Liverpool (12.83%) had the lowest percentage.

Figures show % point change Q4 2005 to Q1 2006 (% claims resulting from crime Q1 2006 in brackets)

| | | | |
|---------------|----------|----|----------|
| Birmingham | ▲ 5.55% | 1 | (27.87%) |
| Cardiff | ▼ 0.15% | 2 | (26.82%) |
| Bradford | ▼ 6.28% | 3 | (24.18%) |
| Leicester | ▲ 2.80% | 4 | (23.53%) |
| Derby | ▼ 7.27% | 5 | (23.46%) |
| Leeds | ▲ 2.80% | 6 | (23.08%) |
| Ipswich | ▼ 3.00% | 7 | (20.11%) |
| Bath | ▼ 2.16% | 8 | (19.72%) |
| Newcastle | ▲ 1.85% | 9 | (19.18%) |
| Nottingham | ▼ 10.21% | 10 | (18.70%) |
| Norwich | ▼ 1.27% | 11 | (18.49%) |
| Manchester | ▼ 3.94% | 12 | (18.14%) |
| Bristol | ▼ 0.02% | 13 | (18.13%) |
| Middlesbrough | ▼ 7.80% | 14 | (17.20%) |
| London | ▼ 0.73% | 15 | (15.88%) |
| Edinburgh | ▼ 4.33% | 16 | (15.72%) |
| Glasgow | ▼ 4.37% | 17 | (14.12%) |
| Liverpool | ▼ 10.68% | 18 | (12.83%) |

Figures from AXA's own claims database.

% of crime-related claims settled/made by category Q1/06

| | Settled (cost) | Made (numbers) |
|-----------------------------|----------------|----------------|
| Arson | 38.06% | 3.77% |
| Forcible/Violent Entry/Exit | 0.84% | 0.85% |
| Malicious Damage | 11.71% | 33.28% |
| Theft | 49.40% | 62.10% |