



The evolution of claims: what do brokers need to know?

Steph McGovern: Hello, and welcome to Insurance Tomorrow, a podcast brought to you by Allianz Insurance, with me, Steph McGovern.

Now this is a series where we look at what's happening in the world and how it might impact the insurance industry. There are plenty of episodes to listen to already, covering everything from renewables, supply chains, open finance, and modern methods of construction.

In this episode, we're going to look at how claims are changing. With inflation on the rise, the cost of claims going up and the need to be greener, we want to look at what this all means and what can be done to help. So I've got an expert panel to talk through all of this. We've got Graham Gibson, chief claims officer at Allianz, Dr. Matthew Connell, director of policy and public affairs at

the Chartered Insurance Institute, and David Perry, managing director at the Federation of Small Businesses Insurance Service.

Thank you all for joining me. I want to kick off, guys, by first of all just looking at where we're at at the moment with the claims process. Graham, do you just want to tell us, what is it like at the moment?

Graham Gibson: Thanks Steph. There's no doubt that COVID has led to acceleration, and acceleration of digital delivery. Now it's not just in claims, it's across the whole value chain within insurance. One of the things I think is always marvellous, is when you go and ask your customers what they want they tell you, and you get it for free. So listening to customers is really, really important.

And what we're hearing is a consistent piece of feedback around simple claims and complex claims. If it's simple, a simple motor accident, maybe damaged a building but nothing too severe, what we're hearing is that our customers want digital delivery. They want to be able to report a claim in their own time, in a way that suits them. During the day they don't want to be calling contact centres, they want to be dealing with their own business. So simple claims, we're getting a very, very clear steer that that needs to be a digital delivery.

On the flip side, if we are talking about complex claims, so maybe a fire or a flood, something that's really quite significant, our customers are telling us they want a bespoke service, an individual claims handler, and what I would describe as a hand-holding experience. These are pretty unique events and our customers need our help to navigate the complexity that this brings.

Steph McGovern: Yeah. That makes total sense, doesn't it? And so, David, do you think it's working then, or could it be better?

David Perry: Well, I think things could always improve, Steph. And I think that one of the important things that the insurance industry has to do is analyse the data that's increasingly available to it, in order to monitor customer experience and see how well we're doing. And I agree that increasing digitalization is probably the way to do it, because the technology is there now to act more speedily with the claims when they happen.

Steph McGovern : Yeah. Graham, can you tell me a bit about Allianz's investment in digital claims then?

Graham Gibson: The pandemic was an urge to look further at what we were doing from a digital delivery perspective. Within Allianz, we've got the Allianz Claims Hub, which is an online portal where you can report and manage your claim. We've invested in Allianz Notify, which is an app, which does basically the same. We deployed live chat within one week and we now have live chat across our whole business, doing four and a half thousand chats a month.

We've invested in chat bots and geospatial technology, which helps us predict where storm and floods are going to happen so we can inform our customers, together with AI and machine learning. So the message is that we are absolutely investing in our digital technology for the future.

Steph McGovern : Yeah. Matthew, do you agree?

Dr. Matthew Connell: Absolutely, yeah. I mean, the Chattered Insurance Institute, every quarter we do a survey of SMEs to find out what's important to them on insurance and claims and what their experience is with their insurer. And I think Graham's point about simple and complex claims is a really important one. I think what we find with the simple claims insurers perform well, and especially on speed of claims and dealing with them very quickly.

What we found through COVID was there was a minority of SMEs, about 15% of SMEs, who were heavily affected by COVID. And their experience, as you can imagine, being in a more difficult position, wasn't so good. And I guess what came out of there wasn't so much the result of the claim, it was about being shown compassion and being shown empathy for the situation they were in. And I think that really goes back to Graham's point about it's those complex claims. It's a very different experience, a very different set of expectations from businesses.

Steph McGovern : Yeah. It must be hard though, Graham, to get that balance right between those who want to do, as you say, online really quickly, and those who do want that human touch. Because you might have an idea of what you think those two categories are, but it might vary between individuals.

Graham Gibson: A very easy differentiator is value, but it's not always the right differentiator. And I'll just pick up on COVID business interruption claims as an example. It was very clear to us early on that although there were claims that were definitely covered, there was quite a large cohort that weren't. And when we talked about that internally we made it really clear to the handlers that they were going to be dealing with people who were under real stress, probably a bit angry, and definitely very worried. And we saw all of these emotions and much, much more.

But preparing our handlers for that and making sure that they really understood what they were facing into when they were having these difficult conversations with customers, especially when there was no cover, we felt was the right thing to do. And in fact, our statistics, and I completely agree with the point around measuring what you get back from your customer in terms of customer feedback, we were very clear again about making sure that our customers absolutely understood why the claim wasn't covered, and taking the time to make sure that that was very clear.

Now that was difficult because we had a lot of calls, a lot of customers, but we think that early investment really produced the right outcome. And if you look at Allianz's stats on the FCA, so the chart of who's paid what, you'll see that we are right at the top of the large providers. And I think that early investment has paid dividends.

Steph McGovern: Yeah. David, did you want to pick up on some of that?

David Perry: I think clarity is really important. One of the things that we found with members was that those that were told straight away, "You don't have any cover and this is why," accepted the situation much better than those that were told, "Well, you might have some cover or you might not. And yes, we think you have but we can't quite work out how it will pay..." Clarity is really appreciated, so think it is important to make sure that clients get the right answer quickly.

Steph McGovern: And let's look at then some of the ... We've talked briefly about COVID. Let's look at some of the pressures which we're now facing in the economy, inflation and obviously being a big part of it. David, you are talking to small businesses all the time. What are they saying to you about the inflationary pressures? And when it comes to, I guess, value in their assets and things like that.

David Perry: It's a difficult time for small firms. I mean, luckily the majority of them are very resilient and good at surviving through the tough times. But it's a perfect storm for them because they're coming out of a period of time when their turnover's been deflated, they're starting to lose some of the support that they've had. And now they're being faced with increased costs for their own materials and everything else. Add to that the fact that there's hyperinflation in the construction industry, so those that own their own buildings, their sums insured are going to need to be increased quite significantly to keep pace. Which then adds to their premium on a product that they hope they're never going to have to use. It's pretty tough.

But I would say the thing that probably gives us most concern at the moment, the two areas really, one is hyperinflation in the construction industry. Because we think that people could start a period of insurance at the moment with a building sum insured that was okay. Nine or 10 months into it, suddenly they're underinsured because inflation in that area is so ridiculous. I think the other thing that concerns us is with business interruption and indemnity periods. Because with the issues in the supply chain and the lack of labour force and so on, people that might think that if they had a serious loss they could get back to normality within 12 to 24 months could actually take 36, 48.

Steph McGovern: I mean, Graham, what, what can be done then to help businesses when it comes to getting their insurance. As David said, we've got this potential hyperinflation that's going to mean within months or whatever people are going to be underinsured.

Graham Gibson: There's not much that keeps me awake at night, but this is one topic that does. And the solid numbers that we're seeing quoted in the public domain around inflation bear absolutely no resemblance to what's actually happening in the claims supply chain.

Just to sort of throw out some numbers, nice easy one to start with, the cost of second hand cars have gone up by at least 25% over the last year. If you're talking about white vans, then you might be getting into 30 or 40%. Depending on when you look at it, the cost of timber has gone up by anything between 350 and 450% over the last two years. So these first two things are driven very much by the fact that we've all been locked away and we've been using delivery services. It's quite simple, so the global use of cardboard has gone absolutely through the roof.

And then when you look at things like steel, cement, bricks, slates, car parts, I could keep going on and on and on, the sort of inflation we're seeing now is anything between 30 and 100%. And then you factor in the 25, 30% labor inflation in certain areas. So it's a really, really bleak picture. David made the point, it's not just about the inflationary pressures, it's then about time scales. At the moment most building materials are a three to six month lead in time. Again, that creates issues.

So what can we do about it? Well, the first thing is we can make sure that our customers are absolutely aware of what's going on and making sure that their sums insured are correct. Now again, the very easy example I was given recently was a builders merchant where they've had to double the sums insured, simply because of the material in their warehouse has doubled in value. And that's, again, an easy example, but we also need to look at business interruption because of the delays and the lead in times. If anything, business interruption periods are extending significantly.

Now I was asked by our CEO the other day, "What are we doing, as Allianz, about trying to control some of this?" And we are doing a lot, but at the end of the day we don't have control over the global cost of steel for instance. There's nothing we can do to influence that. So as much as anything, it's about making sure our customers are absolutely aware of the backdrop that they're facing into right now.

Steph McGovern: Does it mean potentially then that insurance policies will just have to be reviewed more frequently to keep up with it?

David Perry: It's a tricky one, because obviously you have the insurance condition of average, which means that any claim is proportionately reduced to the same percentage that your sum insured bears to the actual value.

Simple example, if your building is insured for 200,000 and it should be insured for 400,000, then any claim payment will be halved. So you've got a partial damage that costs 50 grand. You're going to have to find 25 grand of it yourself. It's all about the weighing up the, "Do we want to make sure we are fully covered or are we prepared to," effectively I suppose, "self-insure," to a degree.

Steph McGovern :Graham, did you want to say something there?

Graham Gibson: This is an absolute unique set of circumstances. I personally can't remember a time when inflation was running at the kind of rates that we're seeing. So this is all about education, whether it's our customers, our people.

One of the things I definitely think about is that our people have not worked in this environment before. You've got to start with training your folk, making sure they're absolutely clear about what this looks and feels like, and then going on to educating the customer.

Steph McGovern :Yeah. Matt, do you want to pick up on any of this?

Dr. Matthew Connell: Yeah, absolutely. And I guess it is such a difficult one to gauge, depending what sector you're in. And of course don't know how long it's going to last, because the economists always say the fundamentals are back in place again, then everything will come back to normal. But we don't know how much expectations will start to run away with themselves.

It is really one where you need to get advice and keep track of what's happening. As David says, it can have an impact on a small claim, not necessarily a claim that goes right up to the maximum sum limit. So absolutely, it is an important one to get continuous advice on.

Steph McGovern :Yeah. And all of this is happening within an environment where sustainability is now key as well. David, is sustainability important now do you think, in terms of insurance too?

David Perry: I think that lots of people would be surprised how bought into the whole subject of sustainability small firms are. I think the concern from an insurance point of view is how to actually make it work practically.

I know we've been talking for some time about things like resilient repair, which I think are a really important topic. But when you start hearing about the way cars might be repaired with bits and pieces from old vehicles, not so long ago people that drove that sort of vehicle probably struggled to get insurance.

Steph McGovern : Yeah. Graham?

Graham Gibson: I look at this through two lenses. The first lens I apply is my 13-year-old and my 18-year-old, they ask really intelligent questions about sustainability. And the reason I mention it is because these type of individuals are now coming into the workplace. And as a business, if you cannot explain your ESG strategy to a 18-year-old that's joining your company, then you're probably in fairly deep trouble and they'll probably go somewhere else.

The second observation I would make is we have launched a number of green parts initiatives over the years, and we've just started to see some real traction around green parts, around sustainable repairs. And we're starting to see things like fleet customers come to us and say, "Can you actually offer this? Can you guarantee that the parts are usable and in good condition? And if you can do all of that, can we use your name and some of the things that we're doing in our business to support our ESG credentials?" I see a real move now in terms of sustainability and what that means for businesses going forward.

Steph McGovern: Yeah, it's so true. Because every time I talk to any business person now, it's not a box ticking exercise anymore, it's money will go elsewhere if you are not looking at your sustainability. Matt, what do you think it means in terms of sustainable claims then?

Dr. Matthew Connell: Sustainability is actually part of growth, so it's not sustainability versus growth of... We're either prosperous or we're sustainable. I think that in a lot of markets the only way to improve things, the only way to get better, is to become sustainable, and to justify to consumers the need for new products and services.

So I think, yeah, absolutely. In terms of the insurance sector globally, I think being able to give advice on transition to more sustainable processes, to adapt to more sustainable processes, is absolutely a competitive advantage. And those firms who don't adapt to the new world will be at a disadvantage. And if they're not claimed by regulation, then consumers will turn away as well.

Steph McGovern: Yeah. Do you have, Graham, any examples of kind of best practice of sustainable claims? David mentioned there about cars, using different parts. Is there anywhere it's a really good example of how it's working?

Graham Gibson: Yeah, so I would go a bit wider than just claims. Allianz have just launched the sustainable procurement charter for all procurement, and we believe that we are the first insurer in the UK to do that. So within our waiting and how we score suppliers, we now have a 10% ESG factor.

Now you might think 10%, that's not very much. Why not 50%? The honest answer is, is most of our supply chain and most people that we speak to are at the start of this journey, so it's about education. It's about working with your supply chain partners. So there's a lot to be done and we're very much at the beginning of the journey around ESG, not at the end.

Steph McGovern : Yeah. David?

David Perry: I was going to say that, also the insurance industry is a little bit more innovative than sometimes it's given credit for, and has already started to do things which you could suggest have contributed. For example, telematics in cars, in lorries, and vans, and so on, has really contributed to driver safety, fuel management and so on, which is only a minor contribution. That I believe in France when they came up with a think tank as to how can we save the planet more quickly, one of the suggestions that was genuinely thought of as a good one is, "Let's just reduce all of the speed limits by 10 miles an hour." While telematics is making people drive more carefully, making them drive more slowly.

You've got things like user-based insurance. People might think twice about using things that could be non-environmentally friendly if they're saving money by only using them when they absolutely need to. It's all good stuff.

Steph McGovern : I mean, technology's clearly key to all of this as well. Graham, I know you put your up hand there. Did you want to say something on it?

Graham Gibson: Yeah. We focused a lot on green parts within mortar, but within Allianz we have two suppliers in the property side that can repair just about anything. Their repair rate is incredibly high. So Q1 this year we are on target to save 97 tons going to landfill by simply repairing things like work surfaces, porcelain, leather, seating, all that sort of stuff. And there are a lot of things we can do to repair, rather than simply replace.

Steph McGovern : Yeah. It's taking on board, everything we've been talking about and kind of bring things to a conclusion. Can each of you tell me what you think then are the key things that brokers and anyone in the insurance industry needs to be thinking about, now in the coming months, in the coming years, when it comes to claims? Graham, do you want to start us off on it?

Graham Gibson: Yeah. If I was an insurance broker right now, I would be speaking to my clients about inflation, about delivery times, and what that might mean in the event of them having a claim. What that might mean in terms of the sums insured and the policy covers that they might want to be thinking about. And educating them in the fact that the next year or so, this is going to continue and it's going to be pretty tough.

Steph McGovern : Yeah. Matt?

Dr. Matthew Connell: Going on from that, I think talking about the risks that businesses might be underestimating. So risks like cyber insurance, things like intellectual property. How much more intellectual property is becoming important an online world, in a virtual world, where services and ideas about services are becoming more important than physical assets.

Really just understanding the changing nature, the changing universe of risks for businesses, and what they can do about it. Both in terms of traditional insurance, but also in terms of other things that they can do to prevent and mitigate the risks.

Steph McGovern : Yeah. And, David, final word with you?

David Perry: I think I'd say take advice from a broker, because the best way to get a claim paid is to get the policy placed right in the first place. Regularly review it. And finally, just encourage your customers that insurance is actually a good thing. The ABI pay out 46 million pounds a day in claims. We hear lots of downside stories about insurance and so on, but it is actually keeping lots of businesses going and doing a great job out there at the same time.

Steph McGovern: And with that thought, let's bring this episode to a close. Many thanks to Graham Gibson from Allianz, Dr. Matthew Connell from the Chartered Insurance Institute, and David Perry from the Federation of Small Businesses.

Now please do subscribe to the series through your podcast app, and that way you'll be sure never to miss an episode. And also we'd love it if you could leave as a review as well. That's it for me, Steph McGovern, and Allianz. Until next time. Bye-bye.