

From compensation to repair

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A meeting was held a few months ago by CAPA (Centre d'Analyse et de Prospective de L'Assurance), on April 8 of this year, to analyse the Spanish experience regarding the repair of losses covered by multi-risk policies (especially in homes and non-commercial buildings) as an alternative to the classical system of loss adjusting/compensation. The Spanish market was the pioneer in this system of claims handling, and although it may be possible to extrapolate this experience to other countries, it is useful to look back to see the path which has been taken.

THE STARTING POINT: INCIPIENT CONSUMER DEMAND

In the middle of the Eighties it was difficult to find home repairmen who could combine speed of service with quality of repairs, at a reasonable price. This situation gave rise to the fact that insurance agents and companies would maintain a list of «trustworthy repairmen» which they would provide policyholders with when asked whether they knew of anyone who could repair damage which they had suffered, and especially someone who would adhere to the loss adjusters' prices.

It was the classical claims handling cycle: the policyholder would visit the company's offices to sign the claim form, the company would then inform the loss adjuster who, after visiting the policyholder, would draft the corresponding claim report; the company would then calculate and prepare the corresponding compensation and would then call the policyholder in order for them to again come to the offices to collect their cheque. It was only at this time, and only if requested by the clients, that the policyholder would be informed of the telephone number of the trustworthy repair-

man, whom the policyholder could then call and contract directly.

MARKET SITUATION: A PERIOD OF «FAT COWS»

During these years the Spanish market headed the move towards multi-risk policies, and companies and agents therefore enjoyed high rates of growth, and as a consequence of this were faced with serious structural imbalances. Multi-risk policies give rise to higher loss frequencies than classical lines, they therefore require higher workforce levels in the offices, and also significant advances in information technology in the internal processes of the companies.

The beginning of the Nineties saw the birth of companies which were exclusively dedicated to the handling of claims, and some insurance companies started to set up pilot departments along the same lines. Repairmen and insurance companies started to use the term «assistance» to refer to this system of claims handling, whilst at the same time they set to analysing (and copying) the systems and processes used by travel assistance insurers, whose conceptual paternity it is necessary to recognise.

AGENTS: KEY TO THE PROCESS

In the classical claims handling structure the agent is the communication channel between the client and the company, and vice versa. In addition to this, the agent carried out a significant part of the administration process relating to the claim in his offices. The increase in loss frequency therefore led to the need to increase his level of staff, leading to an increase in expenses which were not sufficiently covered by the increase in his income.

Agents were therefore faced with the dilemma of either achieving greater income (through an increase in the commissions ratio) or ceding part of their functions, and prominence, to the insurance companies so that these could take charge of these functions without (at that moment) a reduction in their income. The agents obviously chose to cede management and re-design their staff structures.

LOSS ADJUSTERS. A DISAPPEARING SPECIES?

Another group which would be affected were the loss adjusters. It seemed that the new claims handling system would not use their services in repairable losses, given that, under the «assistance» structure, a repairman would be sent directly and no adjusting of losses would be done below a certain threshold level. What would become of them?

Some joined the assistance structure as repair team supervisors, and the rest, thanks to strong growth in the market, continued to practice their profession as before.

The loss adjusters did not disappear, some became specialised in this new segment of their market and, as a whole, this profession continues to grow.

REPAIRMEN: THE END OF THE GOLDEN AGE

This article began by saying that repairmen were a scarce, and expensive, resource in those days. The country was experiencing an economic boom, and few quality professionals were specialised in home repairs, and those who did specialise in these types of repairs were generically referred to as «botchmen» – not because of the poor

STEPS TO BE CARRIED OUT BY THE POLICYHOLDER	LOSS HANDLING SYSTEM	
	CLASSICAL	ASSISTANCE
CLIENT'S VISITS TO THE INSURANCE COMPANY'S OFFICE	Minimum 2	None
NECESSARY TO SIGN THE CLAIM FORM	Yes	No
TELEPHONE CALLS TO INSURER	None, in principle	One
LOSS ADJUSTER VISITS	Minimum 1	None, in principle
SIGNATURE OF SETTLEMENT DOCUMENT AND CHEQUE CASHING	Yes	No
FIND A REPAIRMAN	Yes	No
ESTIMATED RESPONSE TIME	Various days	Few hours
PROBLEMS WITH THE REPAIR	Policyholder solves	Insurance company solves
PAYMENT TO REPAIRMAN	By policyholder	By the company
DISPUTES OVER LOSS ASSESSMENT	Frequent	No

quality of their work – but because they were often looked down upon by their colleagues.

But, just as everything which goes up must come down, the Nineties brought with them an economic crisis, and the «botch-man market» showed an excess supply of specialised labour, thus bringing prices down.

The insurance companies and the repair companies which supplied them therefore found that the main problem which had previously existed which prevented the development of an assistance management system had disappeared: there was a new availability of good professionals in sufficient quantity and at reasonable cost.

This group of professional people who are exclusively specialised in home repairs today (at the peak of an economic boom cycle) have professional prestige, are reasonably well paid and – above all – have the secu-

rity of knowing that they have a stable order book which is protected against adverse economic cycles.

The combination of all these factors has allowed the Spanish insurance consumer (even though he or she may live right above an insurance office) to simply pick up a telephone, call the assistance response centre of his or her insurance company (24 hours/365 days a year) and receive a visit from a repairman a few hours later. The consumer will only receive a visit from the supervisor (loss adjuster) if there is some problem, or a complaint had been made on the part of the consumer, or, at random, in order to check on the performance of the repairman. The only thing the consumer has to do is to sign their approval of the work done. In these cases (the greatest proportion of our losses) the damage is repaired directly since there is no economic compensation. ■