Intangible losses are too often borne by the company balance sheet due to gaps in cover

New dimensions in risk

Welcome to this special FERMA edition of On the FrontLine, Crawford’s thought-leadership publication. As we prepare for the FERMA Forum 2019 in Berlin and reflect on the forward-looking theme of the conference – ‘Step into the Future: a New Dimension in Risk’ – it is clear that just as the risk landscape continues to shift and evolve, so too must the risk and insurance industry adapt and innovate.

While many of the traditional physical risks continue to challenge global organizations, including natural catastrophe and fire perils, the influence of so-called intangible risks is growing. Losses sustained from cyber incidents, supply-chain disruption and non-damage business interruption (NDBI) are too often borne by the company balance sheet due to gaps in traditional insurance products and over-reliance on ‘silent’ coverage.

Crawford® tackled some of the challenges presented by a changing and more complex risk landscape at a recent client event in Chicago, focusing on the need for more granular data-driven risk insight and new (re)insurance solutions that are fit for purpose. During the panel discussions, speakers and delegates debated whether conventional underwriting techniques were still relevant in the face of major and emerging perils.

As an example, our feature on page 4 in this edition of OTF looks at the issues presented by NDBI. Business interruption topped the Allianz Risk Barometer for the seventh consecutive year in 2019, with cyber now the most feared trigger. While BI losses have traditionally relied on physical damage triggers under property policies, these are increasingly insufficient. Insurance underwriters are developing products for NDBI, including denial of access and parametric products, but these are not clear cut as discussed in our feature.

Our corporate and insurance partners are facing a paradigm shift, with multiple potentially market-changing developments converging on the sector. As they seek to adapt to this fast-evolving landscape, so too is Crawford keeping up with critical developments in risk and insurance, from emerging risks and a more stringent regulatory environment to data, technology and analytics — and the opportunities and challenges this presents.

Our recent acquisition of Antwerp-headquartered complex claims specialist Penta represents the ongoing investment Crawford is making to ensure it continues to be our clients’ leading source of specialized loss adjusting services. Meanwhile, we congratulate Lisa Bartlett, who has been appointed to the position of Crawford President, UK & Ireland and look forward to working with her in this role.
Making a connection

As multiple technologies combine to reshape the claims environment, we examine the evolution of the ‘connected claim’

Like every other phase in the insurance cycle, the claims process is undergoing a period of rapid change. In fact, it could be argued that the speed of change on the claims front is outpacing all other areas.

The insurance industry and policyholders are entering the era of the ‘connected claim’ as emerging technologies and capabilities reshape the claims experience, forging a new environment in which losses can be reported, assessed and settled in a fraction of the time required by current claims processes.

For Tenesha Frazier, Global Relationship Leader at Crawford, the pace of this change is being dictated by customer expectation. “A clear driver is the behavioral shift in consumers, with the WhatsApp generation demanding much faster speed of delivery and a more responsive interface which puts them in control. The industry is responding to this, particularly in the personal lines arena, and we are seeing new self-service technologies on the claims front creating interfaces much more recognizable to that generation.”

Crawford is moving this dial forward on multiple fronts. For example, YouGoLook, its assisted self-service app, guides users through a series of steps to document simple claims or request an onsite adjusting resource. Also, it is implementing digital FNOL systems and voice assistants such as Amazon’s Alexa to enable claimants to initiate a first notice of loss, by asking a series of questions to capture claim data which is then uploaded directly to the website of the speaker’s insurer.

Such technologies, Frazier adds, are just one way of putting the customer in a more central position in the claims process. “This is about giving the claimant, whether a homeowner or the risk manager of a multinational corporation, greater control of the claim and the flow of information relating to it. They are in the best position to provide the information to the insurer or the adjuster to get the claim settled quickly.”

This increased empowerment of the insured or the customer forms a part of the wider evolution of the ‘connected claim’. In its entirety, this developing concept is designed to link every critical component in the claims value proposition into one seamless process. This interconnected ecosystem creates a unique environment in which every phase of the claim lifecycle is accelerated through streamlined workflows, resulting in significant benefits for all parties. These include faster indemnification, reduced expense, improved service and higher claimant satisfaction.

For Crawford, that ecosystem is expansive. From self-service applications and FNOL via digital voice assistants, and sophisticated tools for documenting and assessing damage as well as providing VR technology providing 360° loss-site walkthroughs, to on-demand networks of trained individuals who can augment claims-adjusting employees, and more streamlined workflows for data intake and analysis, this connected claims environment is a central tenet of Crawford’s unrelenting focus on improving outcomes for clients and their customers.

This is about giving the claimant greater control of the claim and the flow of information relating to it.
“The overall goal in claims is customer satisfaction,” says Meredith Brogan, President of WeGoLook®, a Crawford company. “The objective of a strong claims response is to match the complexity of resources to the complexity of the claim. Insurers and customers in this instance are looking for the same things: quality outcomes and service delivered consistently.”

According to Frazier, one of the biggest challenges in maintaining that satisfaction and ensuring consistency of service is a breakdown in communication in the claims process.

“Where you tend to see disruption is where the communication chain breaks down between the insured and the other parties to the claim,” she explains. “Establishing a direct link between all the stakeholders and ensuring that the flow of critical data between them is maintained and supported by an effective feedback loop, is how you ensure efficiency, consistency and responsiveness in all claims situations.”

In addition, the introduction of Robotic Process Automation (RPA) is enabling the swifter management of smaller, less complex claims which can be dealt with via an automated settlement function, while effective triage managed by an adjusting expert ensures more demanding losses can quickly be passed to specialist adjusters for assessment.

“That speed and efficiency around the handling and settlement of more straightforward losses is desirable for all,” explains Frazier. “With more technically demanding claims being filtered direct to our expert adjusters for hands-on, intensive management. Not only does that free-up their time to focus on the immediate complexities of the event, but they also have the opportunity to play a more prominent role in supporting clients both pre- and post-loss, focusing on risk mitigation and promoting resilience.”

Data sits at the center of this adaptation to support a more expansive pre-loss role for the loss adjuster. “There’s a lot of discussion around how we can advance our capabilities to better support our clients in the pre-loss environment,” she continues. “That means finding ways to work more closely with our brokers, carriers and insurers on loss-scenario planning and applying our extensive expertise to the huge amounts of data at our disposal to enhance the ability of all stakeholders to anticipate loss and with that insight better avoid or mitigate it.”

For Kieran Rigby, Global President of Crawford Claims Solutions, being able to mine the huge seams of loss data available quickly and effectively is vital to delivering a fully optimized, end-to-end service.

“Data analysis is increasingly becoming the key point of differentiation in our industry,” he believes. “If you look at the amount of data Crawford collects at all stages in the claims journey it is phenomenal. So, we are investing in our data analytics and expanding our team of data scientists. By applying our loss expertise to much more granular data sets that encompass both structured and unstructured data, we can distil that tremendous amount of information into actionable insight and viable solutions for our clients – whether that’s analyzing the key factors driving the claims lifecycle or supporting more effective mitigation measures.”

There are multiple moving parts that are currently reshaping the claims process. The challenge is ensuring that all of those parts are seamlessly integrated into an ecosystem that encompasses the broker, the carrier, the insured and the loss adjuster, and facilitates the meaningful flow of data between all parties. Only then do you have a fully connected claims environment.
Damage or non-damage: It’s all BI to us

WHY TRADITIONAL BUSINESS INTERRUPTION (BI) INSURANCE IS AN UNNATURAL HOME FOR NON-DAMAGE BI LOSSES AND HOW THE INDUSTRY IS INNOVATING TO PROVIDE MORE BESPOKE SOLUTIONS

There is growing recognition that sources of business interruption in today’s risk landscape can be much broader than property damage. As the world becomes more interconnected and reliant on technology, the potential sources of BI have broadened and become more intangible. From ransomware attacks and strikes, to electricity blackouts and supply-chain disruption, the exposure is shifting, with losses becoming more complex and potentially more severe.

“Companies rely increasingly on computers in all aspects of their activities. Any incident which affects computers has the potential to bring entire operations to a standstill,” says Frederique Hardy, Head of Crawford Forensic Accounting Services. “This type of scenario may have a much broader BI impact than, for instance, damage to a building or a piece of machinery.”

Most business interruption wordings provide cover for loss of gross profit where there is physical damage to property to, or in the vicinity of, the insured’s premises. All too often the losses associated with non-damage BI (NDBI) are not covered under traditional policies, with the costs of such incidents potentially borne by the insured.

“We’re seeing an increasing number of occurrences that are non-damage related and at the moment it can be quite difficult to determine which insurance policy they may attach to,” says Hardy. “NDBI losses may be captured in various ways. You might trigger a cyber policy — either standalone or cyber as an extension — or covers such as political risk or extensions to property policies, for example, denial of access. It can feel quite scattered.”

“Traditionally, BI has been part of property policies and has been measured by reference to physical damage,” she continues. “Quantum where the trigger is a non-damage event or occurrence is measured by reference to disruption and can be difficult to demonstrate against a standard BI wording. Insurers are looking to create new products that would cater to these emerging scenarios, but defining the parameters and risk, which can be quite large and complex, is difficult and usually very dependent on each Insured’s unique business model.”

Cyber the most feared BI trigger

For the seventh consecutive year, business interruption was voted the risk of most concern to businesses globally in the Allianz Risk Barometer 2019. What has changed is that cyber, a largely intangible peril, is now the most feared trigger of BI ahead of fire and natural catastrophe. The extensive BI losses caused by a cyber incident may not be picked up by traditional insurance policies, as the well-reported example of Mondelez illustrates (see box).

Non-damage triggers push the boundaries of insurance, explains Thomas Keist, director of Innovative Risk Solutions at Swiss Re Corporate Solutions. While physical BI triggers are well understood and catered to by traditional insurance...
Among the standalone NDBI solutions on offer from CorSo are policies designed to pay out following supply chain interruption, where for instance, a natural catastrophe disrupts a supplier’s business on the other side of the world. Another caterers to the BI caused by regulatory intervention. The E.U.’s introduction of new medical device regulation is one example, which has caused the risk to go beyond product recall.

Another product covers a range of transport disruption issues. “It ranges from the volcanic ash cloud phenomenon to a port blockage and low river level situations,” says Keist.

And then there is cyber. “Cyber is one of the most feared NDBI scenarios and in my view it’s one of the most important scenarios we have to be able to cope with as an insurance industry going forward,” says Keist. “As an industry we’ve just started to understand the risk and to get to a stage where we know how cover needs to be designed to respond the right way.” The bespoke nature of NDBI policies and their wordings is still relatively untested. As a result, insureds are urged to make use of the tripartite relationship to think through potential scenarios and stress test policies to see how they would respond.

“Iurers are looking to develop speciality products they can bring to market to respond to demand for NDBI and those policies will be different depending on the carrier,” says Hardy. “There is therefore much uncharted territory, and when a claim arises, it may be the first time a policy wording is being tested against quantum, which means that the forensic accountants have to work very closely with the claims team to tailor their approach to specific circumstances.”

The correlation between the trigger and loss can be harder to establish for non-damage claims, as can the final quantum of loss, she explains. “If you have a Loss of Attraction claim, is the loss something that may have happened in any event — due to seasonality for instance? The absence of physical damage can make those losses harder to ring fence, and it becomes critical to gain an in depth understanding of the specific drivers of the affected business.”

Hardy recommends taking advantage of the pre-loss services on offer, which use a range of non-damage scenarios to stress test the draft NDBI wordings to see how they would respond in reality when an incident occurs. “We find that claims experts can test theoretical claim scenarios and bring a practical element to the discussion,” she says.

Keist agrees. “Typically, with these NDBI covers you have to spend extra time with the client and broker to define scenarios and really think them through and back test them. Clients that are prepared to pay extra money for an NDBI coverage typically have had certain losses on the NDBI side. So, you can then structure the proposed coverage and back test it on past events to see if it would have responded and the extent to which it would have responded if it had been in place.”

The bespoke nature of NDBI policies is not particularly well-thought through scenarios to add them into a comprehensive product. “Cyber is one of the most feared NDBI scenarios and in my view it’s one of the most important scenarios we have to be able to cope with as an insurance industry going forward,” says Keist. “As an industry we’ve just started to understand the risk and to get to a stage where we know how cover needs to be designed to respond the right way.”
Long live the contract

THE INCREASING COMPLEXITY OF LARGE-SCALE CONSTRUCTION ACTIVITIES IS MAKING THE ROBUSTNESS OF THE PROJECT POLICY MORE IMPORTANT THAN EVER

In the construction world, and particularly in the realm of large-scale projects, the insurance contract is king. Yet at no time in the past has the sovereignty of the contract been more important than now given the myriad forces impacting the construction market.

Consider first the macro and micro factors currently reshaping the foundations of the sector. From government-policy rethink driven by population expansion, to evolutionary changes in urban planning and urbanization, through to technology influences, supply-chain strains and globally low interest rates — forces are shifting.

Come up a level to view the dynamics of the sector itself and these forces for change are no less powerful, as Alex Radcliffe, technical head, Power, Energy & Construction, Global Technical Services (GTS)® Australia explains.

“There are multiple factors pushing the boundaries of what is reasonably achievable in the construction sector,” he says. “These include the feasibility of the project itself; prototype construction methodologies; time and cost deliverables; increasing regulatory and environmental considerations; multiple interdependencies — with complex and strongly interrelated supply chains; complex financial funding; modeling; and project stakeholder relationships.”

Step up a further level to assess the potential increase in exposure that such a surging environment creates, and it is no surprise major incidents are on the rise. In fact, from 2013 to 2017, the global building and construction industry topped the list for the number of large and complex claims assignments managed by Crawford’s GTS, including a 43 percent increase over a two-year-period for global large-loss claims managed.

For many projects, the contractual environment this creates is as complex and detailed as the project blueprints themselves.

“The multinational and industry-specific layers that need to come together when managing complex construction projects and insurance claims are vast,” says Reubin Iqbal, head of construction, London Market, Crawford GTS. “It is vital to understand the contractual matrix in place to ensure that the parties understand their entitlement to any policy in force, which in turn will also manage expectations and ensure a swift claims resolution.”

That such contracts are so vast in scope reflects the range of stakeholders — spanning investors, landowners, developers, architects, construction managers, contractors etc. — as well as the complexity of the build environment and exposure potential that this creates.

“There is certainly an increased need to properly identify and understand the risk elements of any project — whether that is financial, physical or environmental,” explains Radcliffe. “This is key to ensuring a fair allocation of the risks to balance the interests of all parties and ensure successful project delivery. We are seeing a much greater focus on risk assessment and allocation through the key stages of tendering, construction planning, resource allocation and delivery strategies.”

Bespoke coverages for bespoke projects

Project policies are designed to provide cover to all parties to the build. For that reason, their coverage remit is expansive. Policy components will usually include: contractors-all-risks; erection-all-risks; delay in start-up cover — an increasingly common problem; employers’ liability; public liability; non-negligent cover and professional indemnity for defective design.

“Project-specific policies, whether owner-controlled or contractor-arranged, continue to be tailored such that they are offering far more than a traditional material damage reinstatement promise,” states Radcliffe, “and incorporate an extensive array of covers associated with consequential, contractual and financial losses.”

However, the nature of the construction policy for large-scale projects is different to that for other policies, as Iqbal explains: “A key difference is that access to the policy is determined by contractual entitlement. Such contracts have to be watertight and crystal clear with no ambiguity regarding the relationships that bind all parties to the contract. Any ambiguity will inevitably
European run-off: Time to open the toolbox

As more and more carriers see the value in managed run-off, will the European legacy market finally reach its potential?

Once a niche business, opportunities in the run-off sector have raised the industry’s profile in recent years, particularly following moves by a number of Lloyd’s syndicates to divest underperforming books of business. The opportunity is significant. The estimated size of the global run-off liability market is nearly $800 billion, according to research by PwC.

There are signs legacy is becoming a more strategic play for insurance and reinsurance businesses. Run-off allows carriers to exit business that is no longer aligned with their overall direction and helps to streamline merged organizations post M&A.

Insurers seeking to put live business into run-off have the option to handle their legacy accounts in-house, or to sell these assets on to specialist run-off providers. How these books are handled can make a significant difference to carriers in terms of how much reserve capital is required and the capital efficiency that can be achieved.

Crawford Europe has wide-ranging expertise in handling run-off portfolios as a third-party administrator (TPA). Since 2010, Crawford has handled over 60,000 legacy claims across 24 diverse run-off books, 18 of which are being handled on behalf of the original insurer and six on behalf of a specialist legacy carrier.

"Run-off claims differ from traditional claims in a number of important ways," explains Paul Ogni, head of legacy services for Crawford Europe and country manager for Italy at Crawford. "For a start, claims volumes are often known within legacy books, so there is much greater certainty, meaning that active portfolio management can be utilized."

“We have seen a lot of growth within our European run-off TPA business and renewed interest in our services at legacy events hosted by IRLA, AIRROC and other run-off associations over the past 12 months,” he adds. “There has been a great deal of activity in the Lloyd’s market in particular, with RITC [reinsurance to close] deals being carried out as managing agents stop writing certain classes of business as a result of the Lloyd’s performance review or restructuring ahead of Brexit."

Lead to multiple problems and delayed resolution in the event of a claim.”

For Crawford, such a complex environment can put significant stress on its ability to deliver, particularly given the rise in large-scale losses the firm has witnessed. However, the company has focused considerable investment on bolstering its construction foundations in recent years.

“The breadth of expertise that is required to effectively service the construction sector is constantly expanding," explains Andrew Bart, global president, Crawford GTS. “That’s why we have made a major commitment to investing in training and development. We are bringing on board people with specific expertise across the construction arena and applying an accelerated training process and mentoring program to develop their insurance and loss-adjusting capabilities.”

Crawford is also in the process of creating a unified global construction practice, with centers of construction excellence in place around the world. “Construction spans virtually all of the specialist services that Crawford provides,” explains Iqbal, “and what we are creating is a dedicated capability that reflects the unique range of specialist expertise found within the sector, while allowing us to deploy those capabilities anywhere in the world quickly and effectively in the event of a major loss.”

“IT’s about ensuring that we can provide a multi-disciplinary capacity,” concludes Bart, “where we have genuine subject-matter experts and where we are focusing investment to ensure that we are not simply providing short-term solutions but rather long-term support which evolves with the expanding construction needs of our clients. Only by making that level of commitment can we guarantee consistency of service, quality of delivery and depth of capability no matter where our client is operating in the world.”
Crawford buys Belgium-based Penta

**In July, Crawford** announced the acquisition of Benelux loss adjusting firm Penta Expertise & Consult NV. The deal expands Crawford’s offering across the region.

Headquartered in Antwerp, Penta delivers a range of specialized loss-adjusting services for complex claims, with a particular focus on the construction and engineering sectors. Launched in 2003, its clients include major insurance companies, brokers, corporate clients and captives with operations or activities in the Benelux region.

Lieven Gurny has been appointed as managing director of Penta, which will continue to operate as Penta. He will report to Mike Jones, president, Europe, and will work closely with the wider Crawford Benelux team.

Mike Jones said, “Penta is a perfect fit for Crawford. They bring an extremely high calibre of specialist loss adjusters to our organization, operating within a team-oriented and service-focused culture. Our aim at Crawford is to be the leading provider and most trusted source for expert assistance. Acquisitions such as this help bolster our on-the-ground presence and boost the standard of client delivery we are constantly reaffirming.”

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YouGoLook Goes Live in Europe

**Technology is a critical enabler for** intelligent claims solutions and Crawford is committed to being on the cutting edge of enabling technology in the insurance industry. The company’s European operations are leveraging its global investment in technology and have deployed its self-service app, YouGoLook, across Europe. The multi-lingual app allows policyholders to submit their own claim photos when filing motor or property claims thus speeding up the claims process.

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Lisa Bartlett appointed as president, UK & Ireland

**Lisa Bartlett was named** Crawford president, UK & Ireland with effect from 1 October 2019. Bartlett was previously chief client officer, UK & Ireland.

Crawford president and CEO Harsha Agadi said: “Having worked in both the insurance and broking sectors in a variety of senior management roles, Lisa has a deep understanding and experience of the claims sector and the markets in which we operate. She is a strong, dynamic and value-driven leader with an impressive track record of delivering consistent, high-quality performance. Lisa has proven herself to be an excellent leader and her high standards for client satisfaction, people development and operational efficiency are delivering on our mission to restore and enhance lives, businesses and communities.”