

REINSURANCE LOSS ADJUSTING

Using diplomacy and pragmatism to create extra value

If, as is frequently cited, problems with communications are those which most typically complicate the claims handling process, the task of the Loss Adjuster acting purely in the interests of Reinsurers requires a certain skill to ensure that straightforward or distressed claims are brought to a successful conclusion in a timely and efficient manner.

Standards of professionalism in the execution of the role of a Loss Adjuster vary considerably throughout the world, as does the quality of the reports that they produce. Add to this the number of possible delays in a Loss Adjuster's report being produced, reviewed by the Cedant, processed by the local Reinsurance Broker, passed to the international Reinsurance Broker, before eventually being received by the Reinsurance market, it is inevitable that Reinsurers can sometimes have concerns regarding the content of the report that they eventually receive.

Richard Gross, Chartered Loss Adjuster with Integra Technical Services explains "in such circumstances, the Reinsurer will frequently seek to involve an 'international' Loss Adjuster, in whom they have confidence, to intervene in the claims handling process on their behalf, especially if the Reinsurance Agreement is subject to a Claims Control or Claims Cooperation Clause.

Stephen Thorpe, Managing Director – Asia Pacific Region, Integra Technical Services suggests "this can also occur when local insurance markets cede most of the insured risk to international Reinsurers. South East Asia is a good example, especially as insured values can be substantial and involve high risk industries, such as Petrochemical, Power Generation, Mining and Construction. In either case the Reinsurance Loss Adjuster can perform two very different roles."

Where there has been a major and complex loss, they can bring the support of Reinsurers with them to partner with the local Loss Adjuster. This can lead to quicker decision making on the adjusting strategy and ultimately a faster and more efficient settlement. Richard suggests that "where some hard decisions need to be made the Reinsurance Loss Adjuster can ask the difficult questions, share concerns that Reinsurers might have, for example policy liability or indemnity related, enabling the local Loss Adjuster to preserve their relationships."

Sometimes cases will be encountered where the adjustment process has not gone well and the claim is headed toward formal dispute resolution. Bringing a fresh perspective to the issues in dispute, the Reinsurance Loss Adjuster can secure a resolution without the need for expensive and protracted litigation.

The inevitable result of Reinsurers appointing their own Loss Adjuster is that there will be two separate Loss Adjusters involved in the claims handling process. Stephen suggests "if a swift, amicable and equitable resolution to the process is to be achieved, the Reinsurance Loss Adjuster has to be aware of the key challenges and exercise a degree of diplomacy and pragmatism."

CASE EXAMPLE

MAJOR PETROCHEMICAL FIRE

A petrochemical plant in Thailand was severely damaged by fire. The risk was placed with a local Cedant that retained just 1% of the risk. Integra Technical Services were appointed as the Reinsurance Loss Adjuster concurrently with the Cedant's Loss Adjuster. By working closely with the local Loss Adjuster, Integra Technical Services were able to introduce specialist expertise to the team and secure key outcomes:

- Agreement on root cause, providing certainty to the Insured and a policy response within three months;
- Agreement to an interim payment schedule, ensuring the Insured remained cash neutral and Reinsurers had certainty on the timing of cash calls;
- Introduction of critical path and loss mitigation expertise, saving more than five weeks of Business Interruption losses.

KEY TIPS

Apart from the normal considerations (expertise, knowledge etc.), Reinsurers are advised to take account of four key challenges:

1. Language – the Reinsurance Loss Adjuster will typically be required to participate in meetings with the original Insured, Cedants, Retail Broker, local Reinsurance Broker and local Loss Adjuster. Where English is not the normal language of business, these discussions will be conducted in the local language and it can be helpful for the Reinsurance Loss Adjuster to be fluent in that language.

2. Culture – the way business is conducted varies greatly from country to country. It is important to be alive to these differences, whilst simultaneously maintaining the strict professional and ethical standards expected of by the international Reinsurance market.

3. Legal – the Reinsurance Loss Adjuster needs to be conversant with insurance laws and regulations in the country the loss occurred. As local insurance markets become more mature and more regulated, the original Policy and Reinsurance Contract can be subject to local law and jurisdiction. This is particularly the case where the role of the Loss Adjuster is clearly defined in local insurance regulations, which according to Richard “is becoming the norm in many countries in Latin America.” This can mean that the local Loss Adjuster must act independently, only considering the arguments presented by Insured and Insurer – not Reinsurers. When the local Loss Adjuster issues opinion on coverage and quantum this has be communicated

to both parties simultaneously and it is legally binding unless challenged within very tight time constraints.

4. Expectations – as is the case in the handling of all claims, proper expectation management is key to success. At times, this can involve communicating facts and opinion, which Reinsurers may be reluctant to hear. A poorly drafted Policy text, combined with local law and jurisdiction can often result in the suggestion to negotiate a settlement which, in the view of Reinsurers, may not necessarily reflect the “spirit and intention” of the coverage.

