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ANALOG ADJUSTING IN A DIGITAL WORLD

By *Sandy Rodgers*

May 2008

The problem with not having enough good property adjusters is finally being recognized, and U.S. domestic insurers are considering how to address this problem. It is disturbing how long it has taken for such recognition. The first published article on this subject known to this author was the *Conning Report (Property-Casualty Claims Management—Adjusting to New Realities—2001)*. It was followed by a 2004 article authored by Ken Brownlee which appeared in *Claims Magazine* in February 2004 (“Where Is Insurance Education Headed?”). One is initially left with the question of why insurers needed so much time to recognize this long-evident problem. A historical review is necessary to determine the solution, as well as to prevent even greater problems in the future—which may not be a popular topic for current claim management and executives. The solution will not be easy, but a change must take place, or the future of property insurance claims adjusting will be in jeopardy.

The Past: The Decade of the 1990s

During the 1990s, there was a fundamental change within the industry which gave increased power to non-insurance business

management and operation personnel. This effectively doomed adjusters. It involved three general areas of management objectives:

- (1) Providing a desirable and competitively priced product/service to the customer
- (2) Creating and maintaining a staff that could satisfactorily service that product
- (3) Producing acceptable earnings returns to shareholders via cost efficient delivery of the product/services

Attaining those objectives was historically addressed in the same order, since the first

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two ultimately determined the business viability. Whether employees actually should be the priority focus was up for debate, since it is the product and delivery which attracts or reduces the customer base. Accomplishing the third and last objective required a strong and knowledgeable workforce that could design, price, and deliver the product efficiently. Somehow those priorities became confused as the 1990s decade began, and just as a cart can be moved to precede the horse, shareholder return was shifted to the forefront of managements' priorities. Various allegations also arose concerning

insurers' attempts to manage that third objective beyond efficient service delivery expenses. Those allegations involved the adoption of "aggressive" claim positions to encourage or intimidate policyholders to accept lesser amounts in claim settlements.

One of the great motivators for this change was the impact of a company's earnings as related to the earnings forecasts of stock analysts. Management's focus became those earnings, while losing sight of what was generating those earnings. The "bottom line" became the

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priority. The easiest way for management to increase earnings was to reduce expenses, but they failed to recognize the impact on customers and employees as financial management rose to the forefront. For employees, the B.S. or B.A. degree was reduced in value as the individuals with an M.B.A became most desirable as potential managers of expenses. These “financial” persons began to take over the management of many insurers, but they really did not understand the insurance business and made decisions based solely on “the numbers,” often at the expense of long-term planning and staff development. One might say that senior management developed myopic vision—meet analysts’ expectations, or else!

Management did a very good job implementing change to accomplish this new management style. At the same time, technology was making enormous strides allowing more data to be gathered, though it was frequently misused, misdirected, or of minimal value. There was recognition that some delivery expenses were necessary, but many believed that technology would reduce and control those delivery costs.

Those with experience in the insurance industry know that claim departments and claim payments obviously reduce earnings. Profitable years were seen by many as years of good underwriting, and bad years considered an indicator of poor claim operations. That perception easily led to the conclusion that changing many claim operations would be appropriate as expenses were the easiest item to impact across all areas without consideration of the indemnity impact. Computers proliferated, and were initially and properly seen as a tool to assist claim operations and adjusters to make them more efficient. This helped, but it

didn’t end here. The term “artificial intelligence” entered the vocabulary, and was heralded as a way to reduce both staffing and the required training and education costs. From a financial perspective it would create a rapid enhancement to earnings. (This approach was ultimately applied to underwriting also.)

Claim authority of adjusters was also affected as authority migrated to financial managers who really did not understand loss adjusting and viewed it as just an expense adversely influencing profits. With reduced adjusting expenses, the analysts’ expectations could be more readily met, and, of course, shareholders liked the resulting earnings increase. Senior management was rewarded accordingly via increased salaries and bonuses, which routinely included stock shares or options, which further increased the emphasis on earnings and stock value. Those who viewed operations from only an immediate financial viewpoint were pleased, but failed to recognize the impact on their future operations.

Reliance on Technology

There were many instances where technology developers failed to understand the insurance industry, and particularly loss adjusting. However, they excelled in knowing how to market their software to support this new financial management style. It is easy to sell a flawed product to a customer who doesn’t understand the complexities that have supposedly been simplified via technology. Technology is great for storing data. It can be a great tool to assist in reaching an objective, but it was and is being used as a method or determinant of a loss adjustment, reducing the application of sound judgment.

Real experts in the claim business would say that “adjustment is a combination of art and science.” Technology, based in science, was developed and used without recognition of the necessary application of the required art. The “art” can only be learned through a combination of claim and insurance education and experience. An experienced adjuster coined a phrase long ago that describes the technology impact on loss adjustments: “Technology turned technicians into typists, and typists into technicians.”

Impact on the Staff Adjuster

What happened to those who saw the ultimate impact of this change in management philosophy? It is fair to say that many in the business felt the adverse impact but were not in a position to halt it. Still others recognized the issue, but did not want to question upper management’s philosophy, since failure to meet the numerical objectives would place them in a position where they would be considered “nonteam players.” Being on the team and positive recognition by their superiors became much more important than taking exception and possibly jeopardizing their careers. Management ranks gradually filled with more inexperienced property claim staff who could adapt to management “by and for the numbers,” but at the expense of quality. This approach continued into the 21st Century, with increasing authority held by nontechnical persons who really do not understand what “the numbers” actually represent.

It became apparent to the “numbers” managers that training and education was yet another expense available for reduction. Education budgets were cut in the belief that data bases created by software producers could

decrease the adjuster’s required knowledge to deliver the services and maintain customer satisfaction. This led to not only inadequate education, but also the teaching of incorrect or improper subject matter. New adjusters began their work with an inadequate but unrecognized lack of knowledge.

Existing experienced adjusters, reporting to managers who did not fully understand the art of loss adjustment, became frustrated with their inability to do their job. Some experienced adjusters endeavored to adjust losses under their new limited roles, while awaiting retirement. Others took early retirement if available. Some also left insurers to join various vendor firms, become independent adjusters, or work for brokers who recognized their value and major impact on policyholders.

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Impact on Outside Expenses

During this period, more claims were referred to defense counsel. This should not have been an unexpected result considering the decreased number of experienced adjusters who had commonly resolved disputes themselves. Adjusters with real knowledge and experience are competent to resolve most adjustment issues with only minimal use of third parties. Those adjusters often used counsel only when they or their manager had determined what should be done, but were unable to reach agreement via discussion and negotiation, an issue of law arose which they could not address, or suit was filed by the policyholder. Even then, the adjuster retained control of the claim and the extent of involvement of counsel or other third parties. The less experienced and inadequately trained personnel must rely on such third-party expertise, often to mask adjuster inability to deal with difficult issues—or the ability of their manager to provide appropriate guidance.

Adjuster control of defense counsels eroded and reliance on outside counsel to make decisions reversed the roles of each party. Certainly it was in counsels' interest to do a good job in exchange for a fee, and in many respects, the counsel effectively took over the claim and the adjuster merely reported on the status. The oversight of counsel also became one of endeavoring to manage what was understood—fees and expenses. The quality of the advice and ultimate result was overlooked. Many situations arose where an insurer defense counsel became involved without actually knowing the business of insurance. However, they did remember what insurers had forgotten—customer satisfac-

tion. In many instances, they satisfied their customer, the insurer, often agreeing to accept lower fees, but at the cost of alienating the insurer's customer via reduced quality. Many experienced adjusters were further frustrated when they saw a “supportive” legal analysis that they felt was incorrect, but could do nothing about it.

There was a time when referral to outside counsel was sometimes seen as adjuster inadequacy. In valid disputes, there were also occasions where the adjuster would receive a legal opinion, but overruled it because the opinion failed to recognize the intent of the insurance contract or that a legal victory would actually set a bad precedent. Reflecting these changes, there are now many published decisions that are in conflict with insurance intent, but are relied upon by others.

A change also occurred in the use of accountants, engineers, and other parties. The adjustment of time element losses provides a good example of this change. Adjusters appeared to lose the ability to adjust these losses, and instead, immediately and automatically referred them to accountants—and frequently neither of them, nor the adjuster's manager, really understood such coverage. It is fair to say that in some cases, the adjuster had no idea what to do on a business interruption loss and effectively abandoned it to the accountant for determination of both coverage application and the loss amount. The accountant had no choice but to attempt a complete loss adjustment. Failure to attempt to do the full adjustment could mean that the accountant had failed to satisfy his customer and he would no longer receive assignments from that adjuster/insurer. This also led to increased litigation.

Impact on the Independent Adjuster

All these changes had an adverse impact on independent adjusters. Independent adjuster fees became another expense management issue for insurers, who lost sight of the “art” of adjustment and compared independent adjusters and their bills to internal expectations of their own staff. This led to an insurer position that only their staff adjusters could adjust losses per the insurers’ methodology and at lower cost. Assignments to independents were reduced, so independents had to then reevaluate their expenses, including compensation. The normal salary and benefits program started changing to one of variable compensation based on the billings by the adjuster. This also contributed to the reduction of personnel and was a detriment to a quality work product.

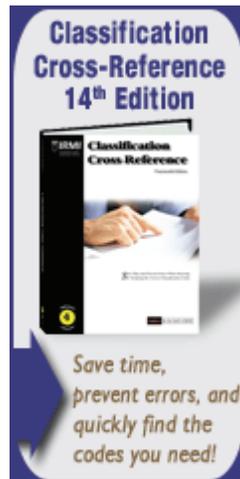
This actually increased industry costs in many circumstances. It became difficult to get multiple insurers on the same risk to agree to use only one independent adjuster as each felt its own approach was better and more cost effective. Even when there was agreement, individual insurers still wanted the independent to follow its own company rules, procedures, and opinions—often at the advice of their counsel. The lesser qualified insurer claim persons involved became the common denominator of the adjustment. To keep the insurer customers, many times the independent had no choice but to adapt to the imprudent controls, stifling processes, and rigid demands. It also had the effect of increasing the time to complete the loss adjustment, generating additional fees for all insurers involved as

well as the operating costs of the independent.

This issue of increased use of outside counsel also influenced the independent adjuster and the overall claim expense of the insurer. Conflicting positions among insurers and their individual counsels became common. (Five participating insurers could result in five different counsels involved, each endeavoring to have its own opinion prevail.)

These modern changes may well be the result of the change in insurer and independent adjuster relations which took place about a half-century ago. At that time, the General Adjustment Bureau (GAB) was actually owned by insurers. GAB, and also other independent adjuster firms, ran their own educational programs for adjusters. Insurers relied on their expertise. A legal issue surfaced involving anti-trust concerns, and insurers divested themselves of their ownership interests. Insurers had always paid for adjustment services, but being owners, they also shared in GAB profits.

Once the ownership interests were eliminated, insurers began to only look at the adjustment costs involved, and how those fees could be reduced—but often absent the knowledge to understand those expenses and services. Over time, insurers determined that hiring their own adjustment staff would allow them to directly control the adjusters and, in many cases, insurers hired adjusters and managers from the ranks of independents. During such transitions, many staff adjusters were trained at the independents’ schools, such as the GAB training center in Denver.



This change led to reduced use of independent adjusters, who finally had to reduce costs by eliminating their educational programs to meet the fee reduction demands of insurers. Ironically, over a few decades, the roles reversed, and independents eventually found that it was more cost effective to recruit good staff adjusters and get out of the basic education business. The training and education was shifted to insurers, who were often ill-prepared to address that need. Today, insurers provide a training ground for adjusters, and those with the best expertise are frequently recruited by independents. Those former staff adjusters with a solid background would have their skills honed via mentoring by the more senior independent adjusters.

Understandably, some independents adapted to the new structures because of continued employment necessity. Others resisted, which led to fewer assignments from insurers. Lastly, many of the most experienced independent adjusters selected the retirement route. This all led to “dwindling ranks” of good independent adjusters, who had traditionally been considered the best source of adjusting expertise for the most complex losses.

The Present: Where Is the Industry Now?

The adjuster ranks now include many poorly trained employees with lower levels of expertise. There are still some who are better educated and skilled, but frustrated with their work, and just wait for retirement at the earliest opportunity. The number of really experienced and knowledgeable adjusters continues to decline rapidly.

Management's focus on expenses, with already reduced employee skill levels, combines to create increasing indemnity payments. Indemnity costs have long been viewed as manageable via increased premiums, and “technological underwriting.” It has been easier for management to focus on expenses because comparing numbers is much easier and requires very little real knowledge of the industry. (Underwriter expertise has been affected in the same manner as adjuster expertise; in many companies a computer program may now determine the acceptance or rejection of a risk).

Increases in indemnity payments are commonly explained by things such as catastrophes or an adverse litigation environment. Both areas certainly influence insurer operating results—but how could adjuster expertise be overlooked for so long? It is easy to overlook that which is not understood! At the same time, senior management's focus on expenses hinders meaningful training and education. A skilled work force is imperative to balance indemnity and expense dollars, but cannot be attained absent managers with appropriate technical expertise overseeing not only loss adjustments, but the training and education of adjusters.

The frustration level of employees has also been overlooked or disregarded by many managers. Brokers have encountered many instances where a good staff or independent adjuster advises of the insurers' position on a specific claim, but at the same time—directly or indirectly—apologizes for the decision. On occasion, it also becomes very apparent that the adjuster knows the position is incorrect as it cannot reasonably be explained. When required procedures are

counter-productive to accomplishing an agreed objective, a good adjuster may effectively apologize to the broker (and sometimes the policyholder) for having to follow such procedure or process.

Skilled adjusters have also indicated that an insurer has obtained a legal opinion that supports a recognized incorrect position—it may not be directly stated, but it may become apparent when the adjuster cannot explain the position when questioned. Adjusters see far more insurance losses than attorneys, and good adjusters were traditionally considered more knowledgeable regarding the underwriting intent and application of policy provisions. It was also not uncommon for defense counsels to privately consult with such adjusters in preparing their defense. The situation has changed. In some instances outside counsel may now endeavor to satisfy its insurer customer by effectively affirming the insurer's position, though it may be incorrect. Such actions ultimately return not only a fee for the legal opinion, but also a fee for trial of the issue—the latter being paid whether the litigation is won or lost. (The same would be true with a potential appeal.) A “battle” might even be won in this manner, but potentially it may ultimately result in the loss of a litigation “war” while increasing expenses.

Where is the customer left? Many, particularly larger policyholders, are more frequently questioning the use of insurance as a risk management tool. The policyholder purchases insurance because of an underlying need for financial security. When a loss occurs, the insured frequently finds that he/she is dealing with a poorly educated and inexperienced adjuster, or one who is totally frustrated, and whose role is perceived as that of an adversary

rather than a business partner. In many cases, when the insurer's position is correct but adverse to the policyholder, the adjuster lacks sufficient insurance education or customer service skills to adequately explain the position to the policyholder. This last issue again is also the result of insufficient claim training and education.

The Future: Can Adjuster and Claim Quality be Restored?

It is easy to address these problems generally. The industry must train and educate their adjusters, with emphasis on the insurance education portion. And adjusters must be allowed to adjust losses. The real question that remains is whether insurers will have the courage and determination to make the necessary and appropriate operational changes to actually produce good adjusters. The immediate problem that surfaces is whether insurers still even have the personnel who can implement such a change and improve adjuster expertise. Ultimately, the question will revert back to the financial impact.

Management Recognition of Claims Impacts

Senior management must adopt a different view of priorities, beginning with the recognition that expense and financial management is only one component of a much larger issue. A successful business must have a well-trained and educated staff empowered to accomplish its goals. That means that employees should be a high priority of a successful business as nothing can be accomplished for the customer policyholders, or shareholders, without a quality staff. Further, adjusters are the best public

relations representatives that an insurer has, and insurers must capitalize on, that resource by providing the proper educational opportunities for employees.

Adjusters know that they will meet policyholders at the worst possible time for that customer, and their actions will determine the customer's evaluation of the insurer and whether the customer will become a proponent or opponent of the insurer. The adjuster must understand that it really is that customer who provides the revenue to pay his salary, cover all insurer expenses, and produce insurer earnings. In turn, management must understand that the adjuster is the best representative of their company to the public and is in a position to have a great impact upon the company's success—whether a claim is covered or not.

The policyholder must become either the first or second priority for the insurer—one can have a spirited debate as to whether the employee or customer has the highest priority. If a good adjuster can “sell” his company to that policyholder, the insurer will also obtain more customers who want that particular

insurer to be their partner in maintaining financial security—and they will make such recommendations to others, both in personal and business relationships. The overall objective is to create a partnership, rather than an adversarial relationship.

The third priority is the insurer's success measured by the value of the return to shareholders. By educating, supporting, and developing the employees, the insurer can enhance revenues via new and retained customers with reduced disputes and litigation. That training must include education on how to deal with losses in a cost-efficient manner and the recognition of necessary versus unnecessary expenses. Individual adjuster expenses must be addressed individually, not by strict blanket rules. Guidelines and good judgment are better than rules and also help develop new managers. Successful implementation should then be seen in the financial results of the insurer. A good claim operation dealing with a quality product insuring an appropriate risk for a proper price should enhance the insurer's profits, and result in satisfied shareholders, retained business, and increased stock values. The opposite approach, as we have seen in the past, will not work.

Claim Management and Operations

Managers who cannot adjust a loss themselves cannot really manage the technical issues relating to claims, or the education or evaluation of the work of technical employees. That does not mean he/she can't manage people. Management must recognize the very technical, if not professional knowledge needed to adjust losses, and know when to rely on really good adjusters to make decisions on their own. The manager's role should be that of encourag-

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ing and supporting the staff, but staying removed from the technical issues if he/she does not have superior knowledge of those issues.

That raises the question of how to evaluate adjusters. One probably can't evaluate their performance without sufficient technical claim knowledge and appreciation of the claim environment—it cannot be done only by reports or numbers. A manager could use others, typically the older and more experienced adjusters with a solid background, who can conduct technical evaluations on their behalf. The ideal would be to have managers who have moved up through the adjuster ranks because of solid technical expertise. But how many currently exist? Auditing of claim resolutions is certainly necessary, but it must be done by persons qualified to have actually adjusted the loss themselves and understand the process and issues involved.

Recruiting and Retaining Good Adjusters

Recruiting and retaining good employees must be addressed together. One suggestion recently offered was to train construction managers to become property adjusters, or marina/boatyard managers to become marine adjusters. This can possibly be done in the field of marine claims. In the property claim area, one will rarely find a quality adjuster who came from a construction background. An adjuster must know insurance, and have a working knowledge of construction, accounting, and various other secondary technical fields. The priority is insurance coverage, and the required investigation to allow a proper coverage application and valuation determination. A thorough understanding of insuring

intent is the basic issue. An adjuster can never be expected to have all the answers on every subject, but must recognize what questions must be raised and resolved on every claim, and how to obtain the necessary information to resolve those questions.

The ability to personally prepare estimates and determine most causation issues is appropriate for small losses, particularly in personal lines. In commercial lines, it is far more important for the adjuster to know the more complex field of insurance, coupled with the ability to evaluate loss causation, value, and the application of policy coverage to each of those areas. Some of the very best adjusters are not qualified to write estimates on even routine, and certainly not the larger and more complex, losses. But their ability to properly adjust a loss by evaluating such estimates is very good. The in-depth knowledge of fields like construction cost estimating should be left to contractors who have that expertise.

A survey of adjusters will find few who entered the industry because of desire; most became involved in the claim business by accident. Often, they just needed a job! It is doubtful that creative programs with flexible work hours and work-at-home arrangements as some have suggested would have any value in recruitment or engender loyalty. By necessity, any good adjuster has always worked flexible hours and also works in hotels, on park benches, in the car, and at home. Loyalty can be best obtained by the employer first being loyal to the employee, and providing the required education, tools, and authority to perform the employee's work. Claim authority must be granted based on the adjuster's proven ability, rather than arbitrarily assigned by a nontechnical manager. Employee/

employer mutual respect is a giant step toward maintaining a high morale level, and high morale has a direct relationship to employee loyalty. Many indications are that morale is currently at an all-time low, and may be getting worse. The myriad of “rules” or “procedures” previously mentioned is fueling the morale problem.

Pay must be commensurate with what the adjuster is expected to do and the level of expertise required. Premium pay is required for those who do a premium job. The level of pay is a separate issue, but must be sufficient to attract and retain good employees. Pay must also be commensurate with meaningful professional titles for adjusters. At one time some firms used not only observed expertise, but also employed a testing program to determine if one should be promoted to positions such as General Adjuster or Executive General Adjuster. Such tests are difficult to design, but are probably the only way to supplement the subjective valuation of the individual’s level of technical insurance and loss expertise.

Along with direct pay it is important to also consider how the adjuster’s expenses are evaluated and managed. Imagine an adjuster with \$1 million dollars in settlement authority on a specific claim producing a settlement satisfactory to all involved for \$750,000—and having his expense report returned because of a violation of a parking “rule.” The expense rejection explanation is that a claim was made for a valet parking charge that exceeded open lot charges by \$2, and expense rules only allow for self-parking. Maybe it was raining and the policyholder was with the adjuster when the charge was incurred—or just a long walk to an open lot. All adjusters encounter such problems, which serve only to reinforce the message that

indemnity dollars are worth less than expense dollars, and the adjuster cannot be trusted with company money. Why is the adjuster trusted to properly use that \$1 million authority, but have no authority on parking price differences of \$2? Such actions send a message that saving \$250,000 in indemnity is less important than the \$2 parking charge.

Expenses must also be managed with the application of art—was the expense reasonable for the circumstances and result? Firm rules and procedures can be applicable to clerical functions—they are not appropriate for technical professionals whose job responsibilities should include appropriate expense management, and also encompass issues of subjectivity. Expense rules are frequently seen as “escapes” for managers who don’t like having to make such decisions, or do not have the ability to address expenses properly. Guidelines rather than rules should be the norm.

Adjuster Career Paths

Turnover seems to be okay as a method of getting rid of “deadwood.” Getting rid of nonperforming personnel (i.e., positive turnover) is certainly a good adjuster motivator—good adjusters generally have no regard for the poor ones. However, allowing “deadwood adjusters” to continue their work for essentially the same pay as a good adjuster creates a significant morale problem. Some poor performing adjusters actually are promoted to supervisors, thus ratifying the benefits of poor results. (The “Peter Principle” is alive and well under these circumstances.) Managers must be respected, or will fail themselves, their subordinates, and ultimately their superiors. They certainly will be unable to attain the desired performance level. If the manager has the nec-

essary technical knowledge or can rely on someone who does, eliminating nonperformers really can be a motivator for other employees. It can also convey the message that performance will be rewarded, and a solid career path exists.

It must also be recognized that many of the very best adjusters really like their job and don't want to enter management. In that case, there should also be a career path for those who want to simply be the very best technicians and adjust losses. Titles should not continue to be dispensed without merit, as indicated in the comments regarding compensation. The industry already has far too many "General Adjusters" or other enhanced adjuster titles that are meaningless and have no relationship to the ability of the individual. Managers must recognize that passing out titles because of longevity or a flawed skills evaluation is a detriment to the insurer and insults the good employee.

Low adjuster turnover can be an indicator of loyalty and good employee morale. It can also reflect poor technical management skills. Turnover should never be considered as a method to "eliminate deadwood"—deadwood adjusters should be identified and eliminated based on their inability to perform the job responsibilities.

Salaries are a frequently overlooked issue for top level adjusters. What would be the return to an insurer if a really good adjuster was awarded a pay raise of even an additional \$20,000 per year along with the necessary authority to do the job? If the adjuster has real expertise, the insurer will recoup that cost many times over via the savings of indemnity dollars—only one claim of any consequence

can produce that savings. But will his manager be able to see that indemnity savings and the skills that produced it? Ironically, the industry has little problem paying high hourly rates for outside experts and attorneys, but there are some internal adjusters with better skills than the outside resource.

Training and Education

Education is the key to producing quality adjusters, and mentoring programs are the only way to do that—especially at the upper levels. Classroom education is also required, of course. Education must cover a broad spectrum of topics for the recently recruited adjuster. As experience increases, the education must continue in a more specialized context, such as retail, service, or manufacturing business interruption, transit, or other specialties. At the same time, the adjuster's work should certainly provide a challenge, but he/she should NOT be assigned losses that exceed abilities—unless a mentor is always available.

The educational process must involve basic underwriting issues. For reasons unknown, there has always been an internal barrier between underwriters and adjusters. Each can provide valuable assistance to the other in many aspects, and each needs to know much more about the work of the other. Together they can frequently resolve coverage issues regarding intent, and each can provide valuable insight to the other. Adjusters should be encouraged to get to know and work with their underwriters.

There is much to suggest that, where possible, adjusters should first learn to deal with personal lines losses. Not only are there far fewer complexities, but it provides a great learning

experience of insurance basics and how to deal with people across a wide range of circumstances.

Mentoring programs are simple in concept but difficult to implement. The first step is to identify qualified mentors—and more than one may be required during the progression of any individual adjuster. Too many times, the mentor is selected without determination of whether the individual excels in the needed skills. It is unfair to all when an unqualified mentor is providing guidance to a less experienced adjuster. (One is reminded of the old description of a long-time employee known to have far less knowledge and skill than his experience would indicate, described as “having 1 year's experience 10 times!”) The senior adjuster in an office may *not* be a good mentor. There have been situations identified where management's most respected adjuster in an office was not the most qualified, and was mentoring adjusters who were actually better than the mentor. That results from inadequate technical management.

A competent evaluation of current adjusters would be in order—but it must be conducted by those competent to evaluate adjusters. A person with the current title of General Adjuster may not have the knowledge one would expect of a General Adjuster. It may be appropriate to also obtain input from his peers, policyholders, brokers, agents, outside counsel—or recently retired quality adjusters who would be willing to provide such identification assistance. Retired adjusters might also be considered for assistance in classroom education—whether such persons were formerly staff adjusters, or independent adjusters. Underwriters might also provide excellent input. It would be helpful to determine the via-

bility of a testing method to assist in evaluating the level of technical knowledge and include narrative questions with subjective components.

Management will face a real challenge implementing a mentoring program, even if they can set up an appropriate program with qualified personnel. Mentoring means that two persons will be on the same loss, at least for much of the time. That creates additional adjusting expenses, especially for the first few years when more quality adjusters are required. Mentoring success is directly linked to management's tolerance for the additional expense of two adjusters working on the same loss.

Reports from a mentor are important to monitor adjuster progress, but the reports themselves must be evaluated carefully. Like many claim reports, a mentoring report may meet reporting objectives, but fail to provide meaningful information on the knowledge and skills progression of the adjuster. The employee, mentor, and manager certainly must work together, and they must understand the objective. Reports of progress are appropriate if they are meaningful—and all involved should be in agreement, including the employee. The difficulty in measuring progress reports is one of having technically qualified management or supervising adjusters who can assess the progress, as opposed to assessment of the report itself.

Staff Adjusters versus Independent Adjusters

Most insurers have increased the number of staff adjusters and in the process reduced their use of independents. This again gave insurers more control in that losses were to be done

“their way,” whether right or wrong. Cost has also been a basis to reduce reliance on independents, as it was less costly to use lesser qualified staff adjusters.

Throughout the industry, most experienced claim professionals recognize that because of exposure to many more varied and specialized losses and well-known industry mentors, there have always been more highly qualified independents than staff adjusters. Of course, there are now fewer independent adjusters. Many have retired because of insurer pressure to reduce hourly rates. They experienced the same frustrations of many good staff adjusters who were trying to adjust losses properly, while being told to do so under set procedures. Independents have also adopted such expense management approaches by necessity. There are still many better qualified independent adjusters than staff adjusters when more complex or specialized losses are encountered, but they are frequently not being utilized properly.

Can Loss Adjusting Be Resurrected?

Certainly the abilities of adjusters can be greatly improved via training and education, but the cost, time, and necessary quality must be established by technically qualified management. Companies must recognize that technology can greatly assist adjusters, but it is merely a tool, not an end unto itself. Recently there appeared in the trade press an advertisement for a 5-hour computer based course “to provide advanced training for the property claims adjuster and those interested in property claims.” The course purportedly covered “every issue” raised in property claims, with “assessment of the legal issues faced.” Upon completion, the adjuster would have a background “sufficient to complete the adjustment

of the most complex property insurance claims.” The cost was only \$100. (It is permissible to laugh.) Sadly, such offerings may actually be purchased by well-meaning claim managers because they are supposedly cost efficient. Will managers understand that there are actually few individual insurance *topics* that can be taught in only 5 hours?

Five years of quality education and experience might be a reasonable time objective for developing a good personal lines adjuster. For a commercial adjuster the 5-year quality education and experience period will, with very rare exception, produce only a reasonably competent commercial adjuster for the smaller and routine losses. The more complex commercial losses require at least 10 years’ experience, but even that is a somewhat aggressive time line. The ability to deal with the “most complex” losses will normally require a longer period—an additional 5 years might be sufficient. In all cases, and at each level, an appropriately skilled mentor will need to be available. The type of loss might also impact the specific mentor used in commercial losses, since many may be quite specialized.

The Future

Recognition of the decreasing number of qualified adjusters is hopefully an indication that management is ready to address this problem. That must be done soon while there are still a number of experienced adjusters available. Some of the best adjusters who have already left the industry might be willing to come back to work, either on a full-time, part-time, or contract basis—if they are convinced that a change is really underway. Likely they would enjoy helping facilitate a change by conducting educational sessions, mentoring, and adjust-

ment review and evaluation that has meaningful impact. They could also assist in the evaluation of current and future employees' technical competency.

The issue of technical management and supervision of adjusters must also be addressed. That will be a difficult problem, as management and supervision currently in place will be resistant to a reevaluation of their technical expertise. Managers without the required technical knowledge have only limited ability to oversee any loss or properly evaluate those doing the adjustment. It may be that the very best experienced adjusters, especially those who have already left the industry, could currently be utilized for this purpose since they can afford to be candid without fear of adverse employer reaction.

It may be a cliché, but the property insurance industry really is at a crossroads. Continued belief that property losses can be essentially automated and adjusted via rules and processes might possibly have some application on the smallest and most routine losses. However, on all other losses, senior management cannot continue to believe that indemnity payments are subordinate to expense controls, or that loss adjusting can be accomplished via processes designed for purely financial purposes. Loss adjusting is a technical field that

cannot properly function when controlled by financial managers.

Can senior management make the change to manage more than expenses and processes? Can management identify the proper personnel with the required technical skills to manage loss adjustments? The historic lows in the number of experienced adjusters, adjuster morale, and more dissatisfied customers has created a unique opportunity for insurers willing to address those issues. Customers expect to pay for a quality product and service—and it is the customers who will ultimately determine the success or failure of any industry or individual company. Adjusters are currently tasked with providing “quality” services to the customer, but typically cannot do so in the present industry environment.

These problems can be corrected, but will require qualified adjusters with the appropriate authority to properly resolve claims without inappropriate nontechnical management “interference.” There must be a change in the internal claim environment. The question is whether senior claim management will allow such changes to be implemented while the required resources are still available—or will they continue to manage only the current financial issues and ignore the ultimate impact on the industry?



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