

THE DAB HAND IN INSURANCE

Loss adjusting calls for upright and well-rounded professionals.

WEARING MANY hats on the job is quite common these days. It may be only called for at certain times and that alone can be quite a task. But to a loss adjuster, wearing many hats is a norm.

Short of being a 'loss buster', a loss adjuster's job description encompasses almost every profession – from the personification of the fictional Sherlock Holmes to public relations and from medical technology to engineering. In this business, one has to know a little bit of everything. 'We are Jack of all trades,' declares Mr Phillip K. F. Fong, deputy managing director of Thomas Howell Kiewit International Loss Adjusters. 'An adjuster's job is very varied and he needs an inquisitive mind,' Mr Fong adds.

Loss adjusting goes back a long way. The independent loss adjusting profession was heralded by the introduction of fire insurance on buildings shortly after the Great Fire of London in June 1661. During the early stages, managers of insurance companies assessed claims themselves, and occasionally engaged the services of specialists, like building surveyors.

As the insurance industry grew, it gradually became impractical for insurers to inspect losses away from the major towns. Thus, arrangements were made by insurance companies for ministers and church wardens to certify claims for losses incurred. This arrangement, however, became quite cumbersome and difficult after the Industrial Revolution, and several of the insurers started appointing assessors, such as valuers, builders and surveyors to act on their behalf.

In 1867, a committee made up of the fire insurance offices led to the first organisation of approved assessors (or adjusters as they were then known), and hence the practice of employing independent fire loss adjusters was recognised as an integral part of the insurance claim process.

Even though adjusters are commissioned by insurers, they are bound to act impartially and to report factual findings irrespective of any impact on their principal. Loss adjusters are independent claims specialists who ascertain the liability of the insurer for a loss within the terms and conditions of the insurance policy. 'How we can please our clients' is not the way loss adjusters approach their work, says Mr Fong. 'That's the last thing on our mind. And it's not the way to do things either. You go in not siding anybody – the insured or the insurer.'

'You've got to be totally objective. You've got to go in and ask what the facts of the case are, what are the circumstances of the loss, is it covered by the policy, and if it is covered, what is the extent of the damage and how do you relate the extent of the damage to the policy,' Mr Fong points out. In the process of investigating a claim, the loss adjuster has to go through several stages (see Table 1).

Table 1

INVESTIGATING A CLAIM

The loss adjuster must first investigate the cause of a loss.

Next, he has to confirm that the policy conditions and warranties have been observed.

He then inquires into the nature and extent of the loss.

Advice is imparted to the insured on how to mitigate losses and the procedure for preparing and submitting the claim.

The adjuster also considers whether there is a third party responsible for the loss and if so, obtains evidence to ensure that recovery of the insurers' and the insured's outlays can be pursued.

Then he examines and checks on when the claim was submitted and normally agrees to adjustments, if any.

Lastly, he presents the final report to the insurers with recommendations on whether or not the insured should be covered by the policy and determines the loss payable and also the amount payable.

Says Mr Lum Siew Wai of McLaren Saksama International Loss Adjusters, 'It takes a while for a person to be a good loss adjuster because it's a practical job. You've got to get your hands dirty. You definitely can't do armchair adjusting.'

Loss adjusters charge fees when submitting their recommendations. Their fees come from the premiums paid by policyholders. According to Mr Lum who is currently in his third year as chairman of the Association of Malaysian Loss Adjusters (AMLA), the amount paid to loss adjusters is proportional to the amount of the loss incurred. The loss adjusters' fees are also levied at a rate commensurate with the time and expertise required to adjust the loss.

Mr Fong laments that loss adjusting is not well known even though it's so old. In the Southeast Asia region, there are less than 10 qualified loss adjusters. 'We are a rare breed,' reckons Mr Fong. In Malaysia, there are now about 40 loss adjusting companies employing approximately 700 staff, of which about 400 are loss adjusters. Malaysia alone has only two qualified chartered loss adjusters (Mr Lum and Mr Fong are members of the Chartered Institute of Loss Adjusters (CILA) in London and five expatriates.

'On the job training is critical for the grooming of a good, competent loss adjuster. A trainee employed by a loss adjusting firm will be assigned to work under the supervision and guidance of a senior adjuster. The trainee will also be asked to enrol as a student member of CILA after the Council of the Institute is satisfied that he is at least 18 years old and is serving as an adjuster either with a firm of loss adjusters of which at least one partner or director is a member of CILA, or under the direct supervision of a qualified chartered loss adjuster.

LOSS ADJUSTERS deal with all kinds of losses – fires, thefts, marine and motor, machinery breakdown, automobile, public and product liability, professional negligence, oil and gas, and aviation. They also investigate life insurance claims but, according to Mr Fong, 90 per cent of the loss adjusting business in Malaysia revolves around general insurance with the remaining 10 per cent in life.

As in any other profession, there are always the black sheep who tarnish the image of all who are involved in the business. Loss adjusting is no exception. Not all adjusters work impartially or for the good of the order. Accusations abound that some are in it to make a fast buck and their objectivity is suspect.

Industry sources interviewed by **Malaysian Business** generally agreed that motor claims leaves the biggest loophole open for manipulation by unscrupulous adjusters. This is usually done by scheming, in cohort with the insurer or the workshop, to jack up or push down repair estimates depending on who the ‘adjustment’ is meant to benefit. And the unprincipled adjuster obtains a cut of whatever the insurer saves or the excess payment the workshop gets.

According to a loss adjuster who declined to be named, fraud is a very dirty word for the loss adjusting industry which thrives on integrity and objectiveness. ‘Going wayward in this case requires the collaborating of few people. Therefore, the adjuster is not the only person to be blamed for being dirty. Sometimes there is also the workshop people, and at other times the insurance company’s claims manager is involved,’ he adds.

In his experience, the loss adjuster says that it is very normal for approximately 80 per cent of the insured to make claims 30 per cent higher than the loss incurred. And as in the case of motor claims, under-counter money is usually given by the insured to hasten the processing of the ‘adjusted’ report or to secure a higher claim amount, he says.

‘I believe that fraud is present in all forms in the industry vis-à-vis the insured against the insurer; and malpractices occur amongst the insurers themselves and loss adjusters and third parties, agents, repairers and some other intermediaries like lawyers and doctors,’ Mr Fong concedes.

He believes that fraud abounds when the economy is not doing well as in the case of a recession, when people cannot make ends meet. ‘When the economy is up and going, nobody wants to be involved in such things because it doesn’t pay to do it,’ he says. He reiterates that an adjuster owes it to his profession to be upright. ‘One must be impartial in this business. Nobody wants a crooked adjuster.’

But fraud detection can be quite tricky. How does one know if the claimant has deliberately made some false claims, overstated the claim or claims for non-existing items? Mr Fong says the skill of detecting fraud comes with experience, and that can take years. However, he has a checklist of indicators of fraud/suspicious claims. The areas to be aware of are the circumstances of the loss; its extent; supporting documentations; financial position of the claimant; and the motives (who stands to benefit).

Overall, Mr Fong says the industry has improved a little, going by the significantly fewer fraud cases. However, in motor claims, Mr Fong admits that there are still a lot of 'inadequacies' that can be improved.

An insurance industry source has this to say: 'It is always the adjusters themselves that are personally tempted to receive under-counter money, not the company *per se*.' The source adds that 'malpractice' in the loss adjusting industry is still at an acceptable tolerance level. 'Overall, professionalism is still in practice. These are the people who are supposed to be clean. Who else can we in the insurance industry trust if they are dirty?'

Loss adjusters must not be confused with loss assessors. There is a difference between them. The industry works on the rationale that if insurers can hire adjusters to handle a claim, so can the insured. Hence, the insured is allowed to actually engage the services of an assessor to negotiate a claim on his behalf.

Mr Fong says however that loss adjusters in Malaysia do not normally assume the role of an assessor because of the conflict of interest that might arise. 'So, to make things easy we prefer to leave this role to the lawyers and people who do not work exclusively for insurers.'

With the prevalence of independent loss adjusters in the insurance scene, is there any need for 'in-house loss adjusters'?

According to Mr Fong, in-house adjusters are around, but the truth of the matter is how one defines the role of in-house adjusters in handling claims. Mr Fong says all loss adjusters must be licensed by the director-general of insurance. 'We must also be approved and recognised by the whole industry because we are also investigators in our own rights.' In-house adjusters, according to him, are no more than claims officials handling selected types of claims. For economies of scale, insurance companies sometimes prefer not to use the independent loss adjusters.

'For example, if you have a 500 rgt motor claim, you don't need an independent loss adjuster because it's just not economical,' Mr Fong explains. 'So there's nothing to stop the insurance company from sending their claims executive to the workshop, taking some photograph, discussing the claim with the repairer and coming up with a figure there and then. It's more efficient.'

Asked if in-house adjusters pose a 'threat' to independent loss adjusters, Mr Fong sounds a confident 'no'. In fact he encourages the use of in-house loss adjusters for simple claim cases to reduce cost. 'To a certain extent,' he explains, 'they sometimes provide better services.' But for larger and more complex losses, insurance companies should use the services of independent loss adjusters because the role of in-house adjusters then becomes a little questionable – how independent are they, how experienced and how qualified are they – are some of the grey areas involved.

In the course of their investigative work and enquiries, loss adjusters also make a lot of recommendations on risk improvement to the insured to prevent further losses. 'Apart from an insurance loss, the insured can sustain a lot of other consequential losses that may not be covered by the policy – physical injuries, trauma, loss of contracts, delays and interruptions – most of

these things cannot be measured in monetary terms,' Mr Fong says. 'A professional loss adjuster owes it to them to prevent a reoccurrence of the loss if he can.'

Mr Fong believes that insurance companies must not just accept the adjusters' report as they are. They should also do a little of their own investigation and enquiries. 'It's good that they have confidence and trust us, but it is also good sometimes to check.'

Even though the general insurance industry has not been doing too great lately, it is no cause for alarm to loss adjusters. 'As long as there is insurance, there will be claims,' says the AMLA chairman. The general insurance industry may be quite drab at the moment, but its impact on the loss adjusting industry is minimal or none at all.

With the cresting economy, a general upsurge in the insurance market is predicted. This also naturally brings a proportionate increase in losses. 'The more you insure, the more losses you're exposed to,' Mr Fong quips. Sources contacted estimate the loss adjusting industry enjoys an annual 30 to 40 million ringgit in fee income.

Loss adjusting companies, according to Mr Fong, are exclusively service-oriented, and thus, should not be involved in other business sectors – manufacturing and properties because there might be a conflict of interest.

Gazing into the crystal ball, Mr Fong opines that the number of insurers should be consolidated to provide better economy of scale and greater risk retention capabilities to service the market. 'This is a good thing as too many companies result in too competitive a market. This tends to bring undesirable practices from some companies including inadequate rates for coverages given.'

He also says that there will be greater emphasis on local ownership and control of the market as professional standards and expertise continues to improve. Loss adjusters, according to Mr Fong, need to diversify their services to keep up with market changes and requirements by:

- streamlining report procedures.
- adjusting retained risks for large corporations.
- computerising and dealing with computer-related losses.
- introducing specialist services in financial institutions, disaster control, aviation, engineering, claims management and risk management.
- getting more involved with major corporations in loss control systems and measures, for instance, contracts to provide risk management services and disaster control policy, and investigation of losses on exclusive basis.
- training to encourage better professionalism and standards.
- providing all round composite services and to consolidate into niche business.