

Sustainable Claims Management

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November 2010

An initiative facilitated by



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1 Executive Summary

ClimateWise is a global collaboration of leading insurers focused on reducing the risks of climate change. All ClimateWise members commit to abide by the ClimateWise Principles, which cover climate risk analysis, public policy, customer awareness, investment strategies and the impact of their business operations. Members also commit to independent public reporting against the ClimateWise Principles.

ClimateWise Principle 3.3 guides members to increase the proportion of insurance claims that are carried out in a sustainable way. Actions in line with this principle should reduce any negative impact of insurance claims on environmental and/or social capitals, and should be economically affordable for both the insurer and the insured (the customer).

The aim of this review is to recommend how the insurance industry as a whole could increase the sustainability of insurance claims. This report focuses on domestic property claims, taking into account the lessons learnt from similar initiatives within the motor and commercial property sectors.

The short term nature and renewal churn of general insurance contracts makes it difficult for insurers to increase the sustainability of insured property via costly long term solutions. However, this review identified many low cost or no cost opportunities for insurers to increase the sustainability of the process by which insured property is indemnified (the claims process).

The barriers preventing these opportunities from being realised are considered to be as follows:

- Documentation about the environmental impact of the claims process is poor, partly due to a lack of appropriate management information from suppliers. This lack of information on environmental impacts prevents the identification, assessment and adoption of improvements that have sustainability benefits.

- There is a general perception that sustainability improvements are unaffordable; but the lack of adequate information means that the actual cost of sustainability improvements cannot be assessed and informed decisions cannot be taken.
- There is a 'replacement' mind set in the industry, which means damaged assets are often replaced when they could be repaired at lower environmental and financial cost. This mind set is influenced by 'new for old' policy wording, incentives within supply chains and the lack of information noted above.

In cases where these barriers have been overcome, sustainable claims processes (such as reducing unnecessary replacement of building components and/or contents) have created multiple cost savings and benefits including:

- Reduced time scales for repair, which reduced business interruption and disturbance for the customer and increased customer satisfaction.
- Reduced material and energy usage, which creates additional savings because less resources are used in the production and transportation of new materials.
- Reduced waste and waste disposal requirements.

Best practice examples of sustainable claims processes had some common features. In most cases, a framework for reducing environmental impacts and/or costs was established by:

- Setting targets and benchmarks against which to measure results.
- Involving and engaging key stakeholders and suppliers by briefing them on sustainability targets and/or holding joint discussions on sustainability targets.

- Incentivising suppliers (contractually or financially) to co-operate in sustainability improvements.
- Training and/or informing suppliers on how sustainability targets can be achieved.
- Measuring and monitoring environmental impacts and reporting against targets.

Case studies show that measuring and monitoring the environmental impacts of claims and incentivising suppliers to identify and implement sustainability improvements can enable better decision making and increase the sustainability of the claims process, at low cost or no cost.

In order to improve the sustainability of the claims process across the insurance industry, therefore, it is recommended that leading UK insurance companies commit to:

- Developing voluntary Sustainable Claims Management (SCM) guidelines by 1 April 2011.
- Industry-wide reporting against SCM guidelines, with the first reporting period to start on 1 July 2011 and the first SCM report to be prepared as at 1 July 2012.

SCM guidelines would provide practical guidance for insurers on how to reduce the environmental impact of the claims process through measuring and managing claims, incentivising and engaging suppliers and making process changes.

Insurers should commit to voluntary action and industry-wide reporting against the aims of the SCM guidelines, which are to:

- Establish industry-wide targets to reduce the environmental impacts of the claims process, against which each insurance company can measure and report their progress.

- Raise the awareness and uptake of sustainable materials and repair processes across the insurance industry.
- Reduce new material usage and to prevent unnecessary waste throughout the claims process.

This process should respect at all times the commerciality and competitive responsibilities of all participating organisations and should be flexible enough to be relevant to different business strategies and mixes.

In order to develop SCM guidelines and a framework for reporting that takes into account individual companies' commercial constraints, the next steps that the industry needs to take are to:

- Form an industry-wide steering group to oversee development of the guidelines, supported by an appropriately funded body.
- Seek expert advice on key SCM metrics and industry-wide targets for improving sustainability of the claims process (that are suitable for the whole insurance industry, given the diversity across insurers and their suppliers).
- Develop measurement systems, collect data in line with the metrics, work with their suppliers to identify low cost ways to meet the targets and review their current claims process against the targets.

Lessons learned from these steps should be shared across insurance companies to develop the SCM guidelines and the details of their operation. The resulting guidelines should help the insurance industry cost-effectively increase the sustainability of claims.

2 Introduction

Acknowledgements

This report was researched and written by Ramona Meyricke, University of Cambridge, on behalf of ClimateWise. The research was led by a steering group of qualified insurance practitioners and claims experts co-ordinated by the Cambridge Programme for Sustainability Leadership. The steering group was made up of representatives from: Allianz, Aon-Benfield, Aviva, AXA, Chartis Insurance, Lloyd's, The Association of British Insurers, The Co-operative Insurance and Zurich. Thanks are also extended to the following organisations that assisted with the research: The British Damage Management Association, CWMC Ltd, RBS Insurance, The Royal Institution of Chartered Surveyors, TrygVesta and Gemma Loosley at Creativegems for designing this report.

Purpose and scope

ClimateWise is a global collaboration of leading insurers focused on reducing the risks of climate change. Launched in 2007 by HRH The Prince of Wales, ClimateWise brings together over 40 international members from Europe, North America, Asia and Southern Africa.

All members publicly commit to abide by the ClimateWise Principles, which cover climate risk analysis, public policy, climate awareness amongst customers, investment strategies and the impact of their business operations. Members also commit to independent public reporting against all of these commitments.

ClimateWise Principle 3.3 guides members to increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers.

The purpose of this report is to identify opportunities to increase the sustainability of insurance claim management across the insurance industry as a whole, in the United

Kingdom. This has been identified by ClimateWise members as an industry-wide challenge.

A sustainable claim is one that is economically affordable (for both the insurer and for the customer) and does not have a negative impact on environmental or social capitals now or in the future. The ultimate goal is for the insurance claims process to have no negative impact on the environment. Progress towards this goal can be made by actions that make the claims process more 'sustainable'. Actions that 'increase sustainability' should:

- Reduce any negative impact of claims on environmental or social capitals, now or in the future.
- Be economically affordable, for both the insurer and for the customer.

The primary focus of the report is on domestic property insurance claims. Relevant areas of cross-over with commercial property and motor insurance claims are highlighted where lessons learned might be transferable to domestic property claims.

Selected examples of sustainable claims are reviewed across Europe, the United Kingdom (UK) and the United States (US). A full review of the international insurance market, however, is outside the scope of this report which focuses on the UK.

Domestic property was chosen as the focus of this report because:

- 27% of the UK's carbon emissions come from domestic property, a further 17% come from non-domestic buildings (Department for Communities and Local Government 2009).

- Most home owners do not have the spare cash to make improvements to their home and/or do not prioritise sustainability. Businesses, on the other hand, are more able and willing to finance low cost or no cost sustainability improvements.
- Changes have already been made to make motor insurance claims more sustainable (see Appendix A). However, these cannot be directly translated to property lines because motor and property claims are very different.

Within this scope, the objectives of the report are:

- To research what leading industry players are already doing to promote sustainable claims, what opportunities exist and what barriers they face.
- To consult with international partners to compare current practices, opportunities and barriers in different geographical settings.
- To identify appropriate stages in the claims process where legislative, industry or market interventions could improve sustainability.



- To recommend steps that will deliver improved sustainability and/or inform future action on this matter in the UK context.

Outline of report

Chapter Three contains a brief overview of the property insurance market in the UK and outlines opportunities to significantly improve the sustainability of property insurance claims, in a way that would be affordable for the insurer and the customer.

Appendix B and Appendix C contain further details of the UK domestic property insurance market, its claims experience and relevant regulation, as well as a map of claims process and details on supply chain structure, incentives and management and policy wording.

Chapter Four reviews current practice in claims management and the barriers that prevent insurers from increasing sustainability of claims.

These barriers can be overcome. Chapter Five outlines opportunities for improving the sustainability of claims through a series of case studies. The focus of the case study analysis is to illustrate how insurers have been able to reduce the environmental impact of their actions.

The findings from the review of current practice and best practice lead to the recommendation that the insurance industry develops voluntary guidelines for the managing of the environmental impact of the claims cycle. Chapter Six outlines the business case and the next steps for developing for Sustainable Claims Management guidelines.



Terminology

The report was principally written for members of the insurance industry, but it is intended to be accessible to a wider audience too. Some technical terms used in this report, therefore, may require a degree of explanation for some readers.

A domestic property claim usually involves reinstatement of the insured property (buildings and/or contents) to its pre-loss condition via some combination of repair, replacement and/or rebuilding. Hereafter, the term ‘reinstatement’ is used to refer to any combination of repair, replacement and/or rebuilding used to restore property to its pre-loss condition ¹.

‘Claims process’ or ‘claims cycle’ refers to all procedures related to the origination, settlement and management of an insurance claim. That is, the ‘claims process’ encompasses all actions from design of policy, through: sale, first notification of loss (FNOL), claim settlement, claim fulfilment and monitoring and reporting (which informs the design of future policies).

The costs and impacts considered in this report are estimates over the claims process, of costs under the direct influence of the insurer. For example, the environmental impacts from insured events, such as a fire, are not included because the insurer cannot directly influence them; also costs that occur after claim fulfilment, outside of the claims process, are not considered because this level of detail is beyond the scope of this review ².

The supply chain is the combination of all parties (e.g. FNOL staff, loss adjustors, tradesmen and repair professionals, building material suppliers, internal management staff etc.) both inside and outside the insurance company, involved in the claims process.

Supply chain management is the co-ordination of all of these parties.

¹ Within the insurance industry, reinstatement refers to the process by which the building and/or contents are restored to pre-loss condition in the event of total loss. We adopt the broader definition above which includes restoration to pre-loss condition in the event of partial loss.

² It is recommended that other definitions of cost, such as life cycle costing (LCC), are considered in subsequent work on sustainable claims management. LCC is a more comprehensive way of measuring environmental impacts, as costs are defined over the lifetime of an asset, to include up front and ongoing costs such as repair and maintenance.

3 Sustainable claims management and property insurance

Context and motivation

As demonstrated by the growing international membership of ClimateWise, interest in sustainability within insurance organisations is growing. At the top level, this is primarily motivated by the recognition of the systemic risks posed to the industry by unmanaged climate change. Other drivers for sustainability include legislation and regulatory standards, the cost savings that can be achieved by reducing material and energy usage and corporate social responsibility policies.

Reducing emissions from buildings is an important part of the UK's transition to a low carbon economy because nearly half of the UK's carbon emissions come from buildings (Department for Communities and Local Government 2009).

The costs of home ownership and maintenance mean that most home owners do not have the spare cash to make sustainability improvements to their home. Home owners typically only make improvements to their home when a 'trigger' event such as damage or purchase occurs³. The insurance claims process, therefore, provides a valuable opportunity to increase the

sustainability of domestic properties. In addition to increasing the sustainability of the insured property, changes can be made to the claims management process itself, so that the claims cycle has less of an environmental impact.

Changes have been made to make motor insurance claims management more sustainable. For example, there are standards and certification centres for repair methods, training, equipment, materials, and process management (see Appendix A). A number of insurers have recycling schemes for motor parts. However, the schemes in motor lines cannot be directly translated to property lines because motor claims are very different to domestic property claims. For example, buildings are more diverse than motor cars, which means that repair jobs are harder to standardise and parts from one property cannot easily be used in another.

This report focuses on ways that the insurance industry can increase the sustainability of domestic property claims, but cross-over with commercial property and motor claims is highlighted.



³ Businesses, in comparison, are usually more able and willing to pay the up front cost make to improvements that have a positive net present value (because they create long-term energy, material and/or cost savings).

UK domestic property insurance market overview

Appendix B contains details on the UK domestic property insurance market, its claims experience and relevant regulation. It is likely that regulatory changes will drive improvements in energy efficiency of buildings and waste management in the future. Many parts of reinstatement work, however, are not covered by regulation. This means that there may be scope for the industry to make sustainability improvements beyond the minimum standards set by regulation, provided these changes are economically affordable for the insurer and the customer.

The actions of the insurance industry are constrained by the nature of the domestic property insurance market. Contracts are short-term and the customer can switch product or insurer when the contract term expires. An insurer cannot be expected to pay for improvements to insured property unless benefits accrue back to the insurance company within the term of the insurance contract. Without significant educational efforts, customer demand for long-term contracts is likely to remain low. This limits the possibilities for insurance companies to directly pay for sustainability improvements in insured properties.

For these reasons, this report focuses on how insurers can reduce the environmental impacts of the claims process, rather than the insured property. For the industry as a whole, it appears that there is scope to significantly improve the sustainability of the claims process, in a way that would be cost neutral or profitable, by reducing material and energy usage in the claims process.

Increasing the sustainability of the claims process

The six steps in the claims process are: notification, validate legitimacy, quantify and/or scope damage, prepare a repair schedule and costing, cost settlement and claim fulfilment. There is diversity in how insurers complete the claims process, particularly in respect of the degree of outsourcing of loss adjustment, the use of cash settlement and the supplier arrangements for claim fulfilment (e.g. sole supplier, building network or customer's own builders).

There are many different stakeholders along the supply chain, who may have competing objectives. Key stages, stakeholders and decisions in terms of sustainability are outlined below, and Appendix C describes the claims process in detail and discusses issues regarding supply chain structure, incentives and management and policy wording that are crucial to sustainable claims management.

In the repair scheduling and costing stage the key decisions are:

- Which contents and/or building components should be removed and replaced, versus repaired.
- The recommended repair materials and method.
- The replacement items selected to replace damaged property.



Building or contents claim fulfilment is carried out by tradesmen (hired by the customer or insurer). Tradesmen are influenced by the repair schedule and choices made by the customer, but they make key decisions on:

- Which contents and/or building components are actually removed and replaced.
- The materials and methods actually used to repair building components.
- The replacement items used to replace contents or building components.
- The waste management procedure.

The influence an insurer has over the key decisions made in the claims process depends on factors such as: the structure of its supply chain, the degree to which cash settlement is used and the contractual arrangements between the insurance company and its suppliers. In particular:

- It may be harder to influence a network of small independent firms than in a sole supplier.
- An insurer may have more influence over its suppliers if it is a major client of the supplier.

- It is harder to influence key decisions when cash settlement is used, because the insurer does not employ the tradesmen who complete the repair or set the contractual terms that will influence decision making.

- The contractual terms between the insurer and its suppliers (including performance monitoring and payment arrangements) exert a strong influence on the decisions made by suppliers. Contracts based on unit costing, or that isolates one stage of the reinstatement from the total costs of reinstatement, can create incentives for suppliers to over-order materials, overstate the repair specification and create unnecessary waste.

The degree of influence an insurer has over the key decisions is also influenced by policy wording, corporate culture, customer demands and competitive factors.

In summary, there are many opportunities to improve sustainability of the claims by changing the way in which key decisions are made in the claims process. As insurers have different claims processes and supply chains, however, the ways in which they can identify and take up sustainability opportunities is also likely to vary.



4 Current practice in the UK and overseas

A survey was carried out of insurance industry representatives, and domestic claims experts within UK insurance companies to assess current practices in claims management and steps being taken by insurance companies to increase sustainability.

The focus of the survey was on how companies identified and influenced points in the claims process where key sustainability decisions are made. The questions explored the level of internal policies and reporting on sustainability, how the insurance company engaged with its suppliers and customers in relation to claims sustainability and the barriers preventing sustainability improvements.

There were 16 respondents, covering 10 UK insurers and 6 responses from insurers in Belgium, Ireland, Scandinavia and the US. Experts gave responses in relation to motor and domestic property lines.

Comparison of current claims process and supply chain

A summary of the responses from insurers working to improve the sustainability of the claims process is shown in the following table:

Internal policies and reporting	Yes (out of 16)
Does your company:	
Have aims or targets to improve sustainability in the reinstatement process (e.g. through waste minimisation, material use or energy efficiency)?	7
Have formal policies, procedures or training in place to keep employees up to date with sustainability legislation and issues (e.g. material or energy efficiency)?	6
Report on the sustainability of all or part of the reinstatement process? For example, reporting on waste minimisation, material or energy efficiency?	3
Monitor and publish sustainability performance internally and/or elsewhere?	5
Compare performance with other sites in your industry?	5
Have any form of external, or public, reporting on sustainability for the claims process?	3
Have benchmarks against which to measure results?	4

Supply chain	
Does your company:	
Vet suppliers during the procurement process to establish compliance with environmental legislation?	6
Include environmental performance targets in supplier contracts (e.g. targets for the percentage of damaged goods that are repaired rather than replaced, or for reduction of waste or recycling)?	3
Require that your suppliers have an environmental policy or policies for waste management?	5
Audit suppliers on their environmental performance and/or compliance with environmental policies and legislation?	4
Encourage suppliers to report on the sustainability (e.g. waste minimisation, material use or energy efficiency) of their activities?	4
Provide payments or financial incentives for suppliers to increase the sustainability of reinstatements?	2
Ensure that sub-contractors and site operatives are briefed on aims for sustainability (e.g. waste minimisation, material or energy efficiency)?	3
Include environmental performance targets in supplier contracts (e.g. targets for the percentage of damaged goods that are repaired rather than replaced, or for reduction of waste or recycling)?	3
Customers	
Does your company:	
Provide customers with information on alternative options for reinstatement and on the sustainability of each option?	3
Provide customers with additional information on sustainability, not directly related to the reinstatement, at the time of loss adjustment or claim verification?	2
Encourage insured property to be repaired rather than replaced, if possible?	8

Overall, the most common sustainability initiatives currently in place were: aims or targets to improve sustainability and/or encouraging insured property to be repaired rather than replaced. The main findings from the survey are discussed below.

Sustainability reporting and monitoring

The extent of internal policies and reporting on the sustainability of claims varied across insurers. Most reporting was qualitative or being developed. Internal training on sustainability was low.

Along the supply chain, most insurers either vetted or audited suppliers for compliance with environmental legislation. Some insurers also require suppliers to maintain their own environmental policies. Few respondents included specific, measurable targets and/or performance indicators in supplier contracts or required suppliers to report on sustainability.

Documentation of the claims process was a problem, partly due to lack of management information from suppliers. Some insurers were working with their suppliers to address this in order to better manage sustainability and resource use. While most insurers were committed to monitoring and reporting on sustainability, less than half the respondents had monitoring and reporting on the claims process that itemised material usage, methods and waste management.

Cost was the main piece of management information collected. The 'hidden' costs which are not being consistently reported included:

- Time scales and/or alternative accommodation/business interruption costs
- Material and energy usage
- Waste disposal and recycling costs
- Transportation costs.

The lack of adequate information made comparison of cost efficiency, resource efficiency and environmental impacts across the industry difficult. Concerns were expressed about a lack

of industry benchmarks or averages for claim cost and/or resource usage.

Customer engagement

The average customer is primarily concerned with cost at the point of purchase of a policy. At the point of making a claim, customer satisfaction is driven by the length of time a claim takes, the disruption or stress it creates and the nature and quality of the repair.

Customers do not actively demand sustainable solutions, because sustainability is not a primary concern for the average customer; however it may be valued as an additional benefit provided claim cost, timing and disruption do not increase.

Over time, customers and companies have become more aware of 'green' issues and it is likely that customers may be receptive to options for repair that are 'green' but still provide 'like for like' replacement of damaged property.

A survey of households commissioned by M&S Home Insurance (2010) revealed:

- 61% of households in Great Britain would be interested in an insurance product that reduces the environmental impact of their home in the event of a claim.
- Customers have more appreciation for tangible environmental benefits which help them to save energy and save money. Sustainability improvements that do not help them to save energy or money (e.g. recycling) are not valued as much.

Any change to the claims process must be acceptable to customers and in their interest.

There is likely to be a large degree of resistance to changes that cost more, take longer to carry out, or are more intrusive now or in the long term.

Barriers

Discussion with insurers revealed the following perceived barriers to improving the sustainability of claims:

- The perception that sustainable claims cost more was the key barrier. Domestic customers do not want to pay more for sustainable solutions, and there is a perception that they cost more (although the actual cost of sustainable solutions is often unknown).
- There was also a lack of knowledge of how the claims process could be made more sustainable; this knowledge rests with builders, tradesman, engineers and sustainability experts and is not common knowledge within an insurance company.
- Information silos within a company and within the industry prevent knowledge sharing between experts. For example, the tradesman conducting repairs on site have minimal communication with the team within an insurance company designing policies.
- New technology or processes might have unintended consequences, and might create repeat work or cost overruns if the job is not done right the first time or is of poor quality.
- There is no agreed metric for sustainability or method for understanding the impact of a change.
- Regulatory risk is high in this area because there are many existing regulations and they are changing.
- There are risks to reputation if sustainability changes or new claims processes have unforeseen adverse consequences or lead to work that is not done right the first time. Litigation was a major concern in the US, but is less of a concern in the UK.

Another barrier to increasing the sustainability of claims is the 'mind set' of customers and insurers. 'New for old' policies mean some customers expect 'new' replacement goods. This may reduce customer acceptance of recycled or repaired goods. Likewise, both customers and insurers may perceive replacement as a superior means of claims settlement. However evidence suggests that in some cases repair results in higher customer satisfaction due to reduced time scales, disruption and cost.

It is important to note that in many of these cases it is not possible to assess how real or significant these barriers are because there is inadequate information to assess the financial and non-financial costs in sufficient detail to identify overspend, or to assess total (financial and non-financial) impact of a process change.





Summary

This report does not contain enough information on international insurance markets to give a global perspective. It is, however, noteworthy that despite some individual examples of good practise, no insurance industry outside of the UK market was found to have significantly increased the sustainability of property claims across the whole industry, as a collective.

In the UK, the perception that sustainable repairs cost more is the major barrier preventing insurers from identifying and implementing sustainable claims management.

In many cases the actual cost of sustainable repairs may be less than the perceived costs, but managers cannot quantify the cost of alternative approaches because management information is not sufficiently detailed. Reporting on claims is usually limited to total costs over the claims process, and little information is available on the quantities of materials and energy used and/or waste at each stage of the claims process.

This means that managers cannot easily identify overspend or over-ordering, or compare alternative processes that could reduce material usage and waste.

To improve the sustainability of claims, one needs to be able to identify and take up sustainability opportunities. In order to do this it is necessary to measure and monitor the environmental impacts at each stage of the claims process in sufficient detail.

A move to 'holistic' monitoring across the claims process could enable better management of cost efficiency and resource efficiency in the insurance industry ⁴. More 'holistic' monitoring and management information could feed into a management process that increases the identification and take up of sustainability opportunities.

Improving claims management could have multiple benefits. For example, it can inform better policy design, reduce claim costs and/or reduce the time during which the customer is inconvenienced or unable to use all or part of their property.

⁴ Life cycle costing, which considers material and energy usage, waste and resilience over the whole lifetime of the insured asset, not just the claims process, is not covered in this report; however it is a step that could be taken next to further improving the sustainability of claims.

5 Best practice in the UK and overseas

This section looks at examples of best practice in sustainable claims in the UK, the US and Europe. Examples of best practice in sustainable claims from domestic property and motor had some common features. Most examples shared a focus on reducing cost, resource use and waste, or on increasing repair and reuse. The insurer created a framework and incentives in order to embed principles within the supplier, but the technical detail was left to the experts. Also, the whole supply chain was engaged in solutions.

The sustainable claims solutions reviewed created cost savings for the insurer and had additional benefits such as:

- Reduced time scales and/or business interruption which increased customer satisfaction
- Reduced material and energy usage
- Reduced waste and disposal requirements
- Reduced transportation of materials and suppliers.

Case studies of sustainability action being taken by insurers

Many measures are already in place along the motor and property supply chain that increase the sustainability of repair. The key sustainability actions being undertaken by insurers at present are: repair over replacement schemes, specialist waste management and recycling schemes, green policies and environmental procurement and monitoring.

The case studies below describe several best practice projects and highlight the sustainability improvements achieved and the factors that were central to the projects' success. The primary focus of the case studies is on domestic property claims, but motor and commercial property examples are included where lessons learned in the case studies might be transferable to domestic property claims.

Repair over Replacement: Motor

One insurer needed to reduce indemnity spend in motor repairs in order to remain competitive in an increasingly difficult motor insurance market, against a backdrop of increasing inflation in the repair industry. They decided to share the challenge with their suppliers, by moving to fixed pricing and passing risk to their approved repairers. With fixed costs and reduced uncertainty, the insurer could pass benefits on to its customers through savings in premiums. The problem came when rising input costs started to drive up costs for the approved repairers. A 'replacement mindset' had emerged in the sector, with the preference being to replace parts instead of repairing parts. This led to increased indemnity spend, reduced repairer profits and a loss of employees' skills in panel beating. To get a sustainable cost reduction, all parties needed to reduce physical waste and unnecessary costs. Through a focus on reducing waste, sustainability became the route to the following benefits:

- An ongoing cost reduction
- The supplier reducing their operational carbon footprint and energy bills by 34%
- Wasted parts were reduced by 42%
- Increased customer satisfaction (quicker to repair than wait for replacement parts)
- Saved 30 jobs while increasing the skill set of the workers.

The total investment required by the approved repairer was around £67,500 and paid for itself within one month. A combination of technologies enabled the overall result, but having a process to successfully integrate new technologies was also important. To do this the insurer adjusted its pricing model with its supplier, allowing the supplier to profit from the new way of working (holding, not reducing the fixed price).

The supplier could make money by increasing labour costs, while the insurer would still save by holding indemnity costs flat. Engagement and collaboration between the insurer and the repairer was essential. Responsibility for the cost was placed with the expert repairer, but open and fair commercial arrangements enabled all stakeholders to benefit.

Another insurer advocates repairing damaged (motor) parts and/or re-using non-safety critical parts as the preferred method, rather than replacing. Repairing rather than replacing is a lower-cost and time-saving measure because the disposal of old parts is avoided, as is the consumption of energy and raw materials going into producing new parts. As an example of the savings that can be achieved, a Peugeot 307 side panel repaired rather than replaced equates to a saving of £753. Sustainability improvements include:

- No disposal of old parts
- Less use of new materials (with associated resource use and transport costs)
- Reduced assembly and repair times
- Reduced painting work
- Side panel repairs reduce the carbon dioxide emissions by 60%.

Factors that helped the insurer achieve this sustainability improvement were training, measuring and monitoring environmental impacts. Motor engineers are required to sit an internal training programme that covers the use of recycled green parts, the importance of promoting the repair of damaged panels as opposed to replacement wherever possible and the avoidance of writing-off repairable vehicles. The insurer measures and monitors the environmental impact of this scheme by calculating the reduction in carbon emissions (embedded in new material saved) and the amount of waste saved from going to landfill.

Another 'Repair over Replace' policy to reduce the proportion of new parts used in motor repairs resulted in a 15% increase in the number of body panels repaired. The main factor that enabled this change was that the insurer created a financial incentive for approved repairers to reduce parts used during the claims process. The insurer pays the repairer 50% of the cost saving from repairing parts which would have otherwise been replaced. This encourages suppliers to increase repair rates, and is a more 'sustainable' incentive structure than paying the repairer for the cost of hours worked, or materials ordered, plus a margin.



Repair over Replacement: Domestic property

Following water damage, repair often involves 'strip out' (the removal of render and plaster on floors, walls, ceilings). This work greatly extends the project duration and cost, as well as adding to the destruction and the stress for the occupants of the property. The benefits of repair over replacement in this context are:

- No disposal of old finishings (render and plaster on floors, walls, ceilings) reduces waste to landfill
- Less use of new materials eliminates the associated energy, material and transport costs.

Repair over replacement schemes have proven successful and cost effective for the insurer. Significant benefits can be achieved following large scale flood damage. In one case study, damage management specialists made recommendations to the insurer to minimise the building strip-out and dry the houses with the plaster in place using drying methods that would dry properties in days instead of months. By drying the houses with the plaster in place very little strip-out work was required. Floor boards, wiring, plumbing etc were all left in place. This method had multiple benefits:

- Overall the strip-out, drying and refurbishment methods adopted were up to 40% cheaper than 'traditional' methods.
- Reducing strip out and using alternative drying technologies meant drying time was reduced from up to two months to one week and refurbishment work started within one week of drying and was completed in three weeks per property.
- This significantly reduced the time occupants were out of their properties from months to weeks.

Insurers are implementing numerous initiatives aimed at maximising repair or restoration over replacement of parts (to reduce waste and unnecessary replacement). One scheme targets minimisation of strip out of property affected by water damage through the introduction of a Repair Order to Aid Drying (ROTAD), whereby suppliers are required to complete a documented request to strip out a property prior to drying. This monitoring process has significantly reduced the instances of strip out. A separate initiative aims to increase rates of repair on electrical equipment by requiring an expert assessment of whether repair is viable on all relevant claims.

'Repair over replace' is also being rolled out by some insurance companies for small to medium sized domestic repairs. For example, one insurer is targeting a 65% repair for damaged windows (frame and/or glazing) deemed suitable for repair. The benefits of repair over replacement in this context are:

- No disposal of old parts, reduced waste to landfill
- Less use of new materials and associated resource use and transport costs
- Reduces claim times and hassle, as claims can be completed on first visit, rather than requiring multiple visits to the domestic property by different tradesmen
- Reduces finishing work required.



In other situations it may be possible to increase the efficiency of the repair process, so that damage is limited and/or repairs are less intrusive for the customer. Limiting damage and/or the extent of the repair can reduce repair time, disruption, cost, waste to landfill and the use of new materials (with associated resource use and transport costs). Examples of this are:

- Appropriate and prompt action following water damage can limit secondary damage by stopping the flow of water and ‘stabilising’ degradation (such as mould growth, deterioration of structure etc.) until drying can occur.
- Patch repairs to windows, or encapsulation of asbestos in ceilings, can be used instead of more extensive and disruptive repairs.

In summary, repair over replacement (or increasing the efficiency of the repair) may reduce time and inconvenience to the customer and also create multiple environmental and cost savings. Some repairs, however, are more acceptable than others. Customers are unlikely to be swayed by sustainability benefits if the repair is not functionally and aesthetically acceptable.



Waste and recycling measures: motor

Some insurers use more recycled parts in motor repairs by promoting the re-use of non-safety critical parts when repairing a vehicle. This has real environmental benefits in terms of energy saving and reduced carbon dioxide emissions, reduced waste, avoids resources used to create new parts, and reduces transport of materials.

Many insurers have tried to establish a robust supply line for recycled parts. As part of these efforts, it is important that suppliers are provided with guidance on recycling initiatives.

Waste and recycling measures: domestic property

Steps are being taken by insurers to reduce waste and increase recycling including:

- Setting targets for reducing waste
- Paying suppliers or a waste management company to manage waste in an environmentally friendly manner.

For example, insurers can employ specialist waste management companies to manage waste in an environmentally friendly manner. One waste management company commits to recycling 75% by weight of all waste received by customers; in 2009, 83% of the 641 tonnes of waste sent to a waste management company by one insurer was recycled.

Waste and recycling measures: commercial property

There is more scope to improve waste management and recycling in large-scale commercial property because there are higher volumes of more standardised products, confined to a smaller area.

Case studies from the construction industry illustrate the savings possible from improving waste management on commercial projects. For example, the Greenwich Millennium Village (GMV), a large commercial development involves the new build of 1,400 new domestic properties on London's Greenwich Peninsula. The development is designed to minimise environmental impacts and maximise the overall sustainability of the project.

To date the majority of targets set by the GMV project have been met or exceeded. Targets that pertain to waste, materials and construction methods include:

- Reducing construction waste by 50% (A reduction of 76% was achieved)
- Reducing water consumption by 30%
- 20% of materials by value to be sourced from reused/recycled material
- 25% of material by weight supplied within a 50 mile radius of GMV site
- All insulation materials used contain zero ozone depleting substances.

Substantial waste reductions and cost savings were achieved by a sustainable waste management process that can be summarised as follows:

- Establish a company or site benchmark against which to measure results.

- Contractually oblige sub-contractors to co-operate in waste minimisation as part of their tender.
- Ensure that all suppliers of materials provide returnable or practicably recyclable packaging.
- Ensure that sub-contractors and site operatives are briefed on project aims for waste reduction and segregation.
- Engage all site workers with toolbox talks, briefings and poster campaigns.
- Identify the key waste products likely to arise during construction and implement waste reduction plans for these key waste products.
- Partner with a waste management contractor to maximise recycling and reduce disposal costs.
- Agree on-site re-use and recycling as part of quality management.
- Monitor and publish waste performance figures on site and elsewhere.
- Compare performance with other sites in the industry.

Many of these principles can be translated to the domestic claims process in order to improve sustainability, whether in the context of new or existing buildings.



Green insurance policies

Insurance companies are starting to introduce 'green' features into domestic property insurance policies. From 1 January 2010, in the UK, some property insurance policies include these 'green' benefits at no cost to the customer:

- Appliances such as dishwashers, washing machines, refrigerators, dryers, fridges etc. are replaced with new A-rated energy-efficient models (See Appendix D for typical energy savings and cost savings for the customer on energy efficient appliances).
- Severely damaged property is rebuilt in line with level 4 of the Code for Sustainable Homes (the highest rating is 6). This involves the use of sustainable materials and improving the energy efficiency of the property. Rebuilt homes emit at least 44% less carbon dioxide than building regulations stipulate.

In the US, many insurers offer policies with 'green' benefits, including some or all of the additional features below, at costs in the order of US\$ 25 pa for sums insured up to US\$ 350,000:

- Pays to replace damaged materials and contents in line with standards set by the US Green Building Council.
- Provides energy efficiency upgrades to building materials, lighting, roofing, plumbing, heating and cooling systems.
- Hires accredited 'green' builders and tradesmen and contributes to the cost of domestic property energy efficiency certification.

In Scandinavia, one insurer offers customers a monetary incentive of NOK 50 000 towards energy efficient measures in the event of a rebuild after total property damages.

'Green' policies are an important signal to customers and offer incentives that put sustainability on the consumers' agenda. They are also a demonstration of leadership by the insurance industry, which may influence the rest of the market. However, on their own green policies have a limited sustainability impact because a) total rebuild is infrequent and b) the energy savings available from energy efficient appliances are a small part of the overall resource usage in claims (which includes embedded energy use in the production of materials used, replacement goods, transport, energy and waste created in the claims process). It is therefore recommended that efforts are focussed on increasing the sustainability of the claims process, in addition to developing green policies.

Other best practice steps

Insurers can actively encourage sustainability along the supply chain by:

- Vetting suppliers during the procurement process to establish legislation conformity.
- Encouraging and helping suppliers to develop and implement their own environmental action plans.
- Extending environmental action plans into specific and measurable targets and performance indicators.
- Auditing or monitoring suppliers against the targets in their environmental policies (or environmental targets and performance indicators in contracts).
- Collecting meaningful data on materials, energy and waste and regularly reporting on this data, using it to review and improve the claims process.

Summary

Insurers can reduce the cost of claims by implementing sustainability measures such as:

- Reducing strip-out, eliminating unnecessary reinstatement work and/or increasing rates of repair.
- Increasing the use of reused/recycled material instead of new material.
- Reducing waste and improving waste management.

The case studies illustrated that once the costs of additional time, materials and waste management are taken into account, the total claim cost for replacement usually exceeds that of repair. Repair can have additional benefits in terms of reducing time for settlement and increasing customer satisfaction and retention.

The case studies achieved sustainability improvements in a range of ways, but shared common steps such as:

- Establishing targets and benchmarks against which to measure results.
- Incentivising suppliers (contractually or financially) to co-operate in sustainability improvements.
- Training and/or informing suppliers of sustainability objectives and targets and how they can be achieved.
- Measuring and monitoring environmental impacts and reporting against targets.

These examples illustrate that detailed, holistic reporting on total financial and environmental costs (rather than narrow cost measures such as financial unit costs, or the cost of a single stage in the reinstatement) across the claims process

can enable better decision making and create financial and sustainability benefits.

Developing best practice guidelines for measuring and managing the environmental impact of claims could unlock savings in terms of duration, cost, energy and materials used.

In addition to technical guidelines, incentives need to be in place to change supplier behaviour. Several companies found that financial incentives (such as capped pricing or offering suppliers a share of cost savings) encourage suppliers to reduce their resource use.



Recommendations

In order to improve the sustainability of the claims process across the insurance industry, it is recommended that voluntary guidelines are developed by the industry to address the measurement and management of the environmental impacts of the claims cycle.

Sustainable Claims Management (SCM) guidelines would provide practical guidance on how insurers can reduce the environmental impact of the claims process through measuring and managing claims, incentivising and engaging suppliers and making process changes. These guidelines should be developed and taken forward at the industry level, by the majority of companies within the UK insurance industry.

Specifically, it is recommended that leading UK insurance companies commit to develop voluntary SCM guidelines by 1 April 2011, with the first reporting period to start on 1 July 2011 and the first report to be prepared as at 1 July 2012.

This process should respect at all times the commerciality and competitive responsibilities of all participating organisations and should be flexible enough to be relevant to different business strategies and mixes.

Insurers should commit to voluntary action, commensurate with their ability allowing for commercial constraints, against the aims of the SCM guidelines⁵, which are:

- To establish industry-wide targets to reduce the environmental impacts of the claims process, against which each insurance company would measure and report their progress.
- To raise the awareness and uptake of sustainable materials and repair processes across the insurance industry.

- To reduce new material usage and to prevent unnecessary waste throughout the claims process.

Sustainable claims management guidelines

Sustainable claims management means the measurement and management of the environmental impact of the insurance claims cycle. SCM guidelines would encourage all companies in the insurance industry to measure, monitor and share information on the environmental impact of claims.

As well as meeting corporate social responsibility concerns, good claims management can reduce the financial cost of claims and prepare insurers for future government regulation on carbon emissions, energy efficient buildings and waste management. There are also co-benefits for customers such as: reduced time and disruption caused by reinstatement and possible premium savings if there is a large drop in the cost of claims.

The operation of SCM guidelines and reporting should allow for the diversity in insurers' business models and supply chains, and for the commercial constraints on insurers.

Practical guidance that could be covered by SCM guidelines is summarised in Appendix E and in the box on the following page.



⁵ As the guidelines would be voluntary there would be no penalties for not following the guidance. However, where deviation from the guidelines occurs, an explanation of why the guidelines were not followed and how any relevant barriers could 'reasonably' be overcome could be requested.

Example of sustainable claims management guidelines

Measure the environmental impact of the claims process:

- Decide measurement boundaries, scope and methodology.
- Collect activity data on non-financial measures such as material used, energy usage and waste etc.

Reduce the environmental impact of the claims process:

- Identify stages in the claims cycle where changes could improve sustainability.
- Set a baseline against which to measure reductions in environmental impact.
- Consider setting reduction targets.
- Develop an action plan and set up specific reduction initiatives.

Manage the environmental impact of the claims process:

- Build a solid business case for sustainable claims management.

- Consider developing a sustainable claims management policy.
- Allocate responsibility and resources for managing the environmental impact of the claims process.
- Engage and incentivise your employees and suppliers.
- Develop systems and procedures to ensure the quality of data on the claims process.
- Regularly review progress against sustainability targets.
- Consider industry benchmarking of claims data.

Extend sustainable management down the supply chain:

- Choose which suppliers to work with initially.
- Communicate with these suppliers by giving feedback on questionnaires, agreeing what improvements need to be made, and providing ongoing support.



Key risks of the recommendations

Voluntary guidelines may introduce extra costs for insurers in the short term, in terms of developing guidelines, measurement and management systems, changing procedures and training staff. Incorporating non-financial measures into reporting and supply chain management may require changes to reporting systems, supplier contracts and product management. These costs might not be immediately offset by the benefits of sustainable claims management, because it will take time to embed new supply chain processes using the new data being gathered. This risk can be reduced by developing monitoring systems and targets that lever off existing systems and information that is readily available, and that minimise any additional work for insurers and their suppliers.

There is also a risk that an insufficient number of insurers adopt the voluntary guidelines. A 'critical mass' of companies need to adopt the guidelines in order for industry benchmarking to be effective and for benefits to be shared and realised. This risk can be managed by establishing a strong business case for the guidelines that quantifies the costs and benefits of sustainable claims management. Linking the SCM guidelines to ClimateWise reporting will also reduce the risk of insufficient support.

Finally, developing voluntary guidelines could lead to unwanted government intervention. However, the risk of government regulation of insurer's internal reporting is low, especially if voluntary leadership sets the agenda.

Next steps

In order to develop SCM guidelines and a framework for reporting that takes into account individual companies' commercial constraints, the next steps that the industry needs to take are:

- Form an industry-wide steering group to oversee development of the guidelines, supported by an appropriately funded body.
- Seek expert advice on key SCM metrics and industry-wide targets for improving sustainability of the claims process (that are suitable for the whole insurance industry, given the diversity across insurers and their suppliers).
- Develop measurement systems, collect data in line with the metrics, work with their suppliers to identify low cost ways to meet the targets and to review their current claims process against the targets.

In the short term, expert input should be sought to determine suitable metrics and systems for monitoring the major environmental impacts of the claims process. Initially this could be trialled on a limited, well defined scope e.g. the three types of domestic property claims with the highest annual claims cost.

Once metrics are agreed on, insurers should commit to collecting this information within their own organisations in order to develop 'sustainable claims management' guidelines in relation to process changes, incentivising and engaging suppliers and the measurement and management of the environmental impact of insurance claims.

Finally, the information collected on the costs and the benefits of these changes should be shared across companies, so a discussion can be held around whether it would be worthwhile to take this forward at the industry level. If so, a structure for reporting against the guidelines and for sharing best practice across the industry should be developed.

Lessons learned from these steps should be shared across insurance companies to refine and develop the SCM guidelines and the details of their operation.

The role of insurance brokers

Brokers represent the buyer, rather than the insurance company, and try to find the buyer the best policy. Brokers are not directly involved in claims fulfilment, as their principal role is in the sale of the policy and negotiating claims settlement for their clients.

This report has recommended developing guidelines for sustainable claims management to be taken up across the insurance industry. This was identified as the most significant first step the industry could take to improve the sustainability of claims.

If this recommendation is taken up, the information collected and benchmarked can inform changes in terms of the claims process and insurance policies. Brokers will be crucial for all changes affecting customers, as they are client experts and have more customer contact than most other stakeholders along the insurance supply chain.

This can be leveraged to achieve sustainability benefits in many ways. Brokers will have an important role:

- Working with insurance companies as they change reporting systems to develop metrics that are meaningful and useful to customers purchasing insurance.
- Working with underwriters to assess the risk of certain clients and understand impacts of any sustainability changes in policies.
- Communicating the impact of changes in the way insurers manage domestic claims to customers. For example, if customers are given a choice of repair or replacement they will need information on which to form a view.
- Supporting the roll out of voluntary guidelines and/or benchmarking by not recommending companies that fall below reasonable minimum standards.



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Industry agreed technical specifications exist in the motor repair industry, to ensure a consistent standard and specification for the claims process. PAS 125 is the industry agreed technical specification for the process of vehicle body repair. It provides body-shops with the processes and procedures directly related to the safe repair of accident damaged vehicles. PAS 125 details minimum requirements for competent personnel, appropriate and well-maintained equipment, suitable repair methods and quality for repair materials). In order to increase the safety and technical soundness of repairs, PAS 125 focuses on the four key elements of repair: methods, people, equipment and materials and process management.

The Thatcham BSI Kitemark is a certification scheme which demonstrates that a company meets the requirements of PAS 125 on an ongoing basis. The Thatcham BSI Kitemark is based on industry agreed standards, involves trained auditors and provides impartial certification. The primary motivation for technical specification for vehicle repair was that motorists want to be reassured following an accident that their car has been repaired to the highest safety standards available. Secondary considerations were standardisation of the quality and timeliness of repairs.

Commercial pressures are forcing body shops to achieve the PAS 125 - Thatcham BSI Kitemark for vehicle body repair. If they do not, they risk losing insurers' business. The technical specifications introduce extra costs for most body-shops, as accreditation involves many hours of extra work, filling in forms, overhauling procedures and training staff. However, the benefits in terms of safety, quality and timeliness of repairs offset these costs.

Motor repairs can be standardised to a greater degree than property repairs, because the underlying insured asset (the motor vehicle) is a standardised product. Despite the fact that property is not a standardised product, it may be possible to develop specifications for stages of the property claims process where common principles apply. For example, the British Damage Management Association offers training and accreditation in damage management practices that covers general business practices (such as customer care, complaints handling, ethics and professionalism) as well as technical modules on damage limitation, claims process and risk assessment and monitoring after an event such as fire or water damage. Any certification scheme or best practice guidelines should deliver benefits, such as increasing customer satisfaction and cost effectiveness, which exceed the costs of their implementation and ongoing maintenance.

UK domestic property insurance market

There were an estimated 26 million households in the UK in 2007 (ABI, 2009), of which about 70% are owner occupied. In addition, about 170,000 new homes are built each year, increasing the existing housing stock by about 0.5% per annum.

In 2007, 76% of households had some expenditure on contents insurance, while 64% had some expenditure on buildings insurance. Average household expenditure on domestic insurance was £165 pa on contents insurance and £202 pa on buildings insurance in 2007. Growth in both domestic contents and buildings insurance averaged just below 3% pa from 1997 to 2007 (ABI, 2009).

Domestic property insurance products represent about 17% of the total UK insurance market. The UK market is reasonably concentrated with the top 10 insurance companies providing 85% of domestic property insurance products (based on net written premiums) (ABI, 2009).

At present, the vast majority of domestic property insurance contracts are for one-year, with the customer either renewing or switching product or insurer when the contract term expires (ABI, 2010). The increased use of online distribution channels and insurance policy comparison sights may influence renewal and switching activity.

Short-term contracts and renewal churn are a barrier preventing insurance companies from increasing the sustainability of the insured property. This is because most sustainability improvements require a significant up front investment, but have long-term payback period. Furthermore, the savings created by sustainability improvements (such as lower energy usage) accrue to the property owner and are not shared with the insurer under current policy designs.

To overcome this disconnect between the party paying for the improvements and the party to whom benefits accrue either customers need to contribute to the cost of sustainability improvements and/or part of the savings created by sustainability improvements need to benefit the insurer.

The latter option requires a long-term contract. Long-term contracts are more complex than traditional domestic property insurance contracts and entering into one is a more significant decision than is the case with one-year contracts. ABI (2010) research found confusion and uncertainty amongst customers in relation to long-term contracts for domestic property insurance.

Focussing on improving the sustainability of the insurance claims process, rather than the insured property, circumvents these issues.



UK domestic property claims experience

Gross incurred claims for insured properties (domestic and commercial) are in the order of GBP 5 billion per annum, of which roughly 60% or GBP 3 billion relates to domestic property.

The number and size of total domestic property claims (total claims cost, for contents and buildings insurance, for all perils, across all insurers) is summarised below ⁶:

Number and size of total domestic property claims 2004 to 2009

Year	Gross claims incurred (£m)	No. claims ('000)	Average cost per claim (£)
2004	2,543	2,842	895
2005	2,928	2,863	1,023
2006	3,190	2,868	1,112
2007	3,984	3,045	1,309
2008	3,246	2,789	1,164
2009	3,272	2,504	1,307

Source: Association of British Insurers, Property Claims Data (2009)

In terms of domestic property claims, weather and escape of water (EOW) are the perils with the highest gross claims incurred over last 10 to 20 years. Insurers paid out similar amounts for EOW claims as for weather claims in 2008 and 2009.

From 2004 to 2009, EOW accounted for 21% of gross domestic claims incurred, and weather (storm and flood) accounted for 20% of gross domestic claims incurred.

Percentage of gross domestic claims incurred from 2004 to 2009 by peril

Fire	Theft	Weather	Escape of water	Subsidence	Accidental damage	Other
11%	11%	20%	21%	6%	13%	18%

Source: Association of British Insurers, Property Claims Data (2009)

⁶ There is no breakdown available of the gross cost of claims incurred (by all insurers) between contents and property insurance. If premiums reflect the cost of claims incurred (on average, over the long term), however, the cost of claims incurred is likely to be split about 50:50 between contents and buildings insurance (as the ratio of average household expenditure on contents insurance to expenditure on buildings insurance is 165:202) (ABI 2009).

The claim amounts for weather are more variable than for other perils (e.g. five times average payout in 2007) due to the large variation in the random occurrence of extreme weather events. Of the weather claims, on average 50% were for storm damage, 15% were for pipe damage and 35% were for flood damage.

Two factors determine the gross claims incurred: the claim frequency and the cost per claim. The greatest numbers of claims are due to weather (flood or storm) and accidental damage; however the highest cost per claim occurs for fire and water damage.

Frequency and cost profile of typical repairs

Peril	Frequency	Average cost per claim	Building components usually damaged
Accidental damage	High	Low	Doors/Walls/Windows
Storm	High	Low	Roof/Tiles
Theft	Med	Low to Med	Contents/Doors /Windows
Escape of water	Med	Med to High	Ceiling/Flooring/Walls/ Electrics
Flood	Low	High	Doors/Flooring/Walls
Fire	Low	High	Everything





Regulation in the UK

Minimum standards affecting building work in the UK are set out in the Building Regulations. At present, the focus of the Building Regulations is energy efficiency, delivered through the performance of windows and doors and controlled services such as heating and lighting. Legal minimum standards are in place for the energy efficiency of fittings (such as windows and doors) and services (heating systems, insulation of pipes and ducts, mechanical ventilation and cooling, fixed internal and external lighting and thermal elements) in buildings that are repaired or newly built.

The Building Regulations do not cover other sustainability issues such as material usage and waste management. Also, many finishes, fixtures, fittings involved in reinstatement work and items replaced under contents insurance are not covered by the Building Regulations.

The UK Government has rolled out a major programme of energy efficiency improvements to homes. This means that the scope of the Building Regulations is likely to increase over time. Sections of the voluntary

Code for Sustainable Homes (Department for Communities and Local Government, 2006)

may be mandated by incorporating them into the Building Regulations.

Insurers' suppliers are bound by the regulatory minimum when arranging repairs on a property, so repair costs could increase if property must be repaired to a higher standard than its pre-loss condition by law.

Minimum standards affecting waste management in the UK are set out in the Building Regulations and the Waste Electrical and Electronic Equipment Regulations, as well as other regulations governing the removal of toxic or hazardous materials.

In future, the regulation and the cost of material and waste disposal in the UK could increase due to:

- Tighter regulation of waste management throughout the EU
- Landfill taxes increasing from £14 to £35 per tonne by 2013
- Taxes on primary materials such as the Aggregates and Climate Change Levy
- A drive to increase obligations to recycle packaging waste.

Appendix C: The claims process, supply chain structure, incentives and management and policy wording

Claims process

The claims process typically involves the repair and redecoration of walls, floors, ceilings and other parts of the house. Damage varies, however, depending on the property and the insured event. Also, the claims process varies across insurance companies, as insurance companies have different business models and different supplier networks.

In general, however, a typical insurance claim will pass through the following phases:

Stage of claim	Who is responsible?	What decision is taken?
Notification	Usual handled by insurer's call centre.	
Validation	Usually handled by insurer's call centre.	Based on the information available, is the customer covered for the damage they are reporting?
Quantum and scope of damage	Depends on the size of the claim: small claims handled in-house over the phone, whereas larger claims handled by an in-house or an external loss adjustor.	What is the extent of the damage? What is covered by the insurance contract?
Repair schedule and costing	Depends on the size of the claim: small claims handled in-house over the phone, whereas larger claim customers get two quotes; or loss adjustor or tradesman visits the property.	What are the repairs required? What are the repairs covered by the insurance contract? How much will the repairs cost?
Cost settlement	Insurance company (and there may be some negotiation with the customer).	Is the quote for repair cost reasonable? Settle in cash or arrange repair?
Repair fulfilment	Roughly 50% are settled in cash with the customer arranging their own builders and tradesmen. Other 50% are handled through the insurer's building suppliers, who may be subsidiaries of the insurance company, sole suppliers or part of a network. Whether the claim is settled in cash or not, important decisions are made by the tradesman.	Tradesmen make decisions on waste, materials and method used (details are explained below).

From the point at which a claim is reported, the claims process will typically depend on the estimated costs of claim incurred (e.g. small to medium size claims may be handled in-house by the insurer, large claims which are typically passed onto a loss adjustor) but follow a similar claims process.

The claims process typically involves the following steps once a claim is reported:

- The insurer assesses the extent of damage. A surveyor or a loss adjustor may visit the site, or contact the customer by phone.
- A loss adjustor or the insurer verifies the scope of repairs covered under the insurance contract.
- A loss adjustor or the insurer verifies the entire scope of repairs required and a schedule of repairs is prepared, including which parts of the building require replacement and/or removal, versus those that can be repaired. For example, the schedule would list removal of damaged elements and other work involved in repair and replacement.
- A quote is prepared for how much the scoped repair will cost and the insurer must sign off the quote for repair cost. If the required repairs are not fully covered under the insurance contract, or involve significant betterment ⁷, the insurer may discuss options for splitting the repair cost with the customer. This procedure is event specific and property specific, and the insured repairs differ significantly from case-to-case.
- The insurer decides between cash payout and contracted repair. (The level of customer involvement and flexibility in terms of whether they can receive a cash-payout and/or use their own builders varies from insurer to insurer; if insurer favours cash settlement then the main role of the loss adjustor is to verify the scope and cost of repair).

- If the insurer arranges the repairs, they will usually have an established group of suppliers and tradesman who carry out all of their repairs.

There is diversity across insurers in the degree to which stages of the claims process are outsourced and the degree to which cash settlement is used. For example:

- Some insurance companies carry out the whole claims process in-house, because loss adjustors and the repair network are subsidiary companies of the insurance company.
- Some insurance companies carry out loss adjustment in-house, but outsource the repair to a repair network and/or have contracts with individual suppliers.
- Some insurance companies outsource the entire claims process to the loss adjustor who employs a repair network and/or individual suppliers.
- Some insurance companies favour a cash-payout route which reduces the use of repair suppliers.

Critical stages of the claims process in terms of sustainability are:

- During notification and scoping stages there is an opportunity to prevent secondary damage, and to increase the efficiency of repairs so unnecessary repairs are not carried out.
- During the repair schedule and costing the decision as to which elements/parts should be replaced rather than repaired is critical and requires expert knowledge and judgement.

⁷ Where the reinstatement process improves the customer's financial position, e.g. if property cannot be restored on a 'like for like' basis and must be upgraded, the principle of betterment may apply.

- During claim fulfilment, critical decisions are made regarding:

- The materials and methods selected
- The replacement items selected
- The waste management procedure.

If the insurer uses cash settlement they have less influence over claim fulfilment because the customer can employ their own builders. These builders may be more influenced by the customer's directions than by the insurer's schedule of repairs. Insurers can retain a degree of control over the repairs carried out under cash settlement by only paying part of the cash-payout up front and withholding the remainder until an invoice is submitted to the insurer for the repairs undertaken.

Regardless of whether a cash settlement or repair arranged by the insurer is undertaken, the insurer can still influence sustainability decisions during the notification, scoping and costing stages.



Supply chain structure

The insurer usually has contracts with building professionals who will carry out assessment of damages, quotes and repairs. These supplier arrangements vary across insurers. Some common structures are:

- The insurer or loss adjustor contracts a **Managed Repair Network**.
- The insurer or loss adjustor contracts **several independent sole suppliers, some of whom may be conglomerates that span many building trades**.

Few single building companies have the capacity and/or the capability to supply the wide range of building repair work that an insurer requires (very small repairs to large refits). So insurers typically have two or more suppliers, who may be part of a supply network (which may include large national building companies and small specialist companies). These companies may be subsidiaries of the insurance company.

The extent to which the insurer can influence its builders is important to making sustainability improvements. If the insurer has direct contractual agreements with the builders who carry out the repair, they are more likely to be able to influence the building procedures.

In general, it is easier to ensure consistency in repair work with a sole supplier arrangement than if the insurer contracts a network of small independent firms.

Supply chain incentives and management

As above, reinstatement of insured property can be a complex process, with many stages, requiring input from different professionals. The way in which professionals are contracted creates incentives that influence how they complete their work.

A common contracting arrangement is 'unit costing'. In the context of reinstatement, this means cost is calculated per unit supplied; typical units are hours of work or units of material used. The total cost will increase with the number of units, but it is common for the unit cost to decrease as quantity of goods or services supplied increases. Contracts based solely on unit cost, which neglect total cost of reinstatement, can create perverse incentives for suppliers to over-order materials and/or overstate the repair specification (so more goods or services are supplied than necessary). This drives the unit cost down, but drives the total cost up.

Second, if suppliers are only monitored on the basis of the work that they complete, they are unlikely to try to reduce any costs that are 'external' to this work. For example, if tradesmen are not monitored on the waste that they create, they have little incentive to reduce waste.

A stylised example of how unit costs may reduce, while the total cost increases follows. Reinstatement of flooded property is generally completed in three stages: strip-out of material damaged beyond repair, drying and reinstatement. High levels of strip out will reduce drying costs (as less material remains to dry) but may increase reinstatement costs and waste management costs (because more material needs to be replaced). If each stage is carried out by a different tradesman, and the tradesman hired to strip out the property is paid on a unit cost basis, there is an incentive to strip out more material than necessary. As strip out increases, drying costs are reduced, but reinstatement costs and waste management costs increase, so the total cost of reinstatement may be inflated.

In terms of monitoring the supply chain, therefore, it is important to monitor the costs of each stage in a reinstatement, as well as the total cost of the entire reinstatement.



Key sustainability decisions in 'Escape of Water' repairs

This example illustrates how to identify the stages in the reinstatement process where interventions could improve sustainability.

Home insurance generally covers EOW in respect of loss or damage caused by escape of water from burst pipes or a radiator. (With most domestic property insurance policies, the 'trace and access' cost and the plumber's fees for replacing the damaged pipe are not included in EOW cover, so losses must be borne by the customer).

There is diversity in the specific repairs undertaken because domestic properties and the damages they may sustain are very different, and because tradesmen may take different approaches to carrying out similar repairs. However, usually the value of the claim is substantial because EOW can damage ceilings, walls and flooring. The rooms affected also need to be re-decorated once the fixtures are repaired (more often than not, claims on the first floor of multi level buildings require repairs to both the first and ground floors).

The repair process usually involves the following steps, in order:

- A surveyor assesses the extent of water damage (depth, duration and type of water).
- Damaged items are divided into three groups: those that require removal, those

that require replacement, and those that can be dried and repaired on site.

- Tradesmen remove materials that require replacement or drying off site, and then 'strip-out' damaged render and plaster on floors, walls and ceilings.
- Drying is typically carried out by specialists contracted by the insurer.

Specialist tradesmen are then contracted for:

- Repairing and redecorating parts of the ceiling and insulation that are damaged.
- Repanelling and repainting of walls.
- Reflooring and replacement of carpet, lino, cement or wooden flooring.
- Carrying out electrical and pressure tests.

As can be seen above, critical decisions are made early on in the repair process that affect subsequent steps in the repair. Once render and plaster on floors, walls, ceiling are 'stripped-out' they must be restored at a later stage. This work greatly extends the project duration and cost, as well as adding to the destruction and the stress for the occupants of the property (ABI, 2010). Developing best practice guidelines and/or industry standards or guidelines for when materials should be 'stripped-out' could deliver savings in terms of duration, cost, energy and materials used.





Policy wording

Policy wording is the basis of the insurance contract and establishes the rights and expectations of the customer, and the obligations and mind set of the insurer. The policy wording has an influence over the entire claims process, from the types of claims that will be reported through to the way in which these claims will be handled and fulfilled.

The general approach to claims management is to reinstate property to its pre-loss condition by repairing and/or to replacing items on a like for like basis, unless regulations specify that upgrades must be incorporated. If it is not possible to replace a damaged asset with an identical (or like for like) model, the insurer will usually replace the damaged asset with a new version of equivalent standard. The possibility of increasing the sustainability of the claims process is not typically considered.

This approach to claims is related to policy wording. In commercial property insurance, the policy wording and indemnity typically obliges the insurer to 'restore insured property to pre-loss condition'⁸. Domestic property insurance contracts often go further and guarantee 'new for old' replacement of damaged building and/or contents. This 'new for old' guarantee may be conditional on

the sum insured being adequate, or on other factors such as the new item being available at comparable cost.

Policy wording influences the customer's expectations. Customers with a 'new for old' guarantee may expect replacement of insured building and/or contents with new goods and may view alternatives, such as repair, as inferior.

The policy wording can also influence the degree of control the insurance company has over the claims process. That is, an insurance company may have a large degree of control over the cost if it is specified in the policy wording that the insurer will use its own builders, but less influence over the repair when this is not the case.

Recently, a number of policies have incorporated 'green for old' replacement of damaged building and/or contents, in line with energy efficiency or sustainable building standards (see Chapter Six for more details). Introducing 'green' policy wording is one way to increase the sustainability of claims.

⁸ Business interruption insurance extends coverage beyond the time that it takes to physically restore the property. This provision covers additional expenses that allow the business to return to prosperity and help the business restore revenues to pre-loss levels.

Appendix D: Energy saving benefit from appliances, insulation and draught proofing

The Energy Savings Trust publishes information on government grants and energy and cost saving measures at: <http://www.energysavingtrust.org.uk>

The following table contains a summary of the energy and cost savings that can be achieved by replacing an average appliance purchased new in 1998 with an Energy Saving Trust Recommended model of similar size (assuming an electricity cost of 12.96p/kWh).

Appliance	Fridge Freezer	Upright/Chest Freezer	Refrigerator	Dishwasher
EU Energy rating	A+ or A++	A+ or A++	A+ or A++	A
Annual saving (£/year)	36	22	12	12
Annual CO ₂ saving	140 kg	80 kg	45 kg	48 kg

The following table contains a summary of the energy and cost savings that can be achieved by draught proofing and installing insulation in a gas heated semi-detached house with 3 bedrooms (assuming a gas price of 3.80p/kWh). Installed costs and paybacks assume that installation is undertaken by a professional installer and both loft and cavity wall insulation costs include a subsidy which can be obtained under CERT.

Measure	Draught Proofing	Filling gaps between floor and skirting board	Hot water tank jacket	Primary pipe work insulation (visible hot water pipes)
Annual saving (£/yr)	Around £25	Around £20	Around £35	Around £10
Installed cost (£)	Around £200	-	-	-
Installed payback	Around 8 years	-	-	-
DIY cost	Around £100	Around £20	£12	Around £10
DIY payback	Around 4 years	Around 1 year	Less than 6 months	Less than 1 year
Annual CO ₂ saving	Around 130 kg	Around 110 kg	Around 190 kg	Around 60 kg

Measure	Cavity wall insulation	Internal wall insulation	External wall insulation	Energy Saving Trust Recommended double glazing
Annual saving (£/yr)	Around £115	Around £380	Around £400	Around £135
Installed cost (£)	Around £250	£5,500 - £8,500	£10,500 - £14,500	-
Installed payback	Around 2 years	-	-	-
DIY cost	-	-	-	-
DIY payback	-	-	-	-
Annual CO ₂ saving	Around 610 kg	Around 2 tonnes	Around 2.1 tonnes	Around 720 kg

Measure	Loft insulation (0 - 270 mm)	Loft insulation (50 - 270 mm)	Floor insulation
Annual saving (£/yr)	Around £150	Around £45	Around £50
Installed cost (£)	Around £250	Around £250	-
Installed payback	Around 2 years	Around 6 years	-
DIY cost	£250 - £350	£200 - £300	Around £100
DIY payback	2 - 3 years	5 - 7 years	Around 2 years
Annual CO ₂ saving	Around 800 kg	Around 230 kg	Around 270 kg

Appendix E: Practical guidance possibly covered by SCM guidelines

Measuring

Unless something is measured there is no way to assess whether it is getting better or worse, or to assess the cost and benefits of changing a process.

It is currently difficult for insurers to assess the cost of changing the claims process because meaningful non-financial measurements (e.g. material use, waste and energy use) are not being collected or made available to management.

In order to manage the claims process to achieve sustainability improvements, the first and most important step is to measure environmental impacts such as: the type and quantity of materials used, amount of energy used in claim fulfilment, the type and quantity of waste generated per claim.

Measuring the environmental impact of the claims process is a necessary part of being able to influence and change the claims process in order to reduce its environmental impact.

Before environmental impacts are measured, it is advisable to:

- Decide the scope for measurement, i.e. which business lines to include; and the scope of environmental impacts to be covered.
- Choose a methodology for measuring the environmental impact of the claims process.

The methodology chosen should align with the other measurement and reporting systems used within the insurer and by suppliers. For example, if pricing is done per claim, environmental measurements should also be collected per claim (so long as this level of aggregation provides sufficient detail for management).

Measurement and management guidelines should be integrated with existing business functions, and designed so that they can be scaled up if they are successful or modified if they are not.

The methodology should be achievable and realistic for any suppliers providing measurement data. Suppliers will have different levels of maturity and different abilities to provide details of environmental impacts. It should be noted that introducing reporting may be more onerous for some businesses than for others. For example, Managed Repair Networks are likely to already have detailed reporting on material use, energy use, waste and waste management. Wherever possible, measurement systems for environmental impacts should lever off existing systems.

Once the scope and methodology of measurement are agreed on, the next step is to develop systems and procedures to ensure that measurement of the environmental impact of the claims is accurate, reliable and timely.

Management

Measurement should be designed in conjunction with a strategy to manage claims in order to reduce environmental impacts.

Sustainability targets should be relevant to a company's business objectives, vision or goals, so that there is consistency between general business targets and sustainability targets. Targets should be specific and measurable e.g. increase the percentage of total waste recycled from 50% to 75% in three years.

Sustainable claims management could involve steps such as:

- Targeted action at stages in the claims cycle where changes could significantly reduce environmental impacts.
- Consult and engage the professionals who carry out repairs and have specialist knowledge, to identify ways to reduce the environmental impact of claim fulfilment.

- Set a baseline (against which to measure reductions in environmental impact).
- Set reduction targets and an action plan to achieve these targets.
- Allocate responsibility and resources for the proposed actions to achieve reduction targets.
- Communicate targets, responsibility and resources to suppliers (that is, what standards are expected, how to meet them and the resources available to do so).
- Regularly review progress on reducing environmental impact against targets.
- Review the measurement and management systems developed to ensure they remain appropriate.
- Consider industry benchmarking of claims data.

Engaging the supply chain

By introducing sustainable claims management within insurance companies, insurers create incentives for their suppliers to manage environmental impacts.

The long-term aim of sustainable claims management guidelines is to 'push' environmental measurement and monitoring all along the supply chain.

Incorporating environmental performance indicators and targets into supplier vetting and contracts will encourage suppliers to identify sustainability improvements that can be made to the products or services they supply to insurance companies. Furthermore, raising awareness of the multiple benefits of sustainability improvements could trigger change within their own business. For example, if insurers were to prioritise engaging tradesman who specialise in sustainable materials and repairs, this would provide an incentive for suppliers to develop sustainability expertise.

SCM guidelines could create incentives for suppliers and building contractors to improve their 'green' expertise and target sustainability improvements to domestic properties.





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An initiative facilitated by



Designed by Gemma Loosley,
Creativegems: www.creativegems.co.uk

Printed using vegetable inks and alcohol free processes. Printed onto 9 lives Offset uncoated paper. FSC 100% recycled. NAPM approved recycled.