



ANTICIPATING THE FUTURE: THE EVOLUTION OF COMPLEX CLAIMS MANAGEMENT

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THE GLOBAL RISK LANDSCAPE IS FAST CHANGING

Multiple megatrends are converging which change the nature of risks that communities, entities, and businesses are exposed to. CAT Loss events will become more frequent, and quantum of losses will substantially magnify. Managing complex claims will require insurers to rethink their claims strategy.

FIVE MEGATRENDS WILL HAVE AN OUTSIZED IMPACT ON COMPLEX CLAIMS

The world is becoming more complex and interconnected with multiple megatrends in play. Five megatrends are reconfiguring commercial risks, and thus the claims management landscape.

Megatrends impacting the insurance industry



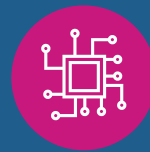
Geopolitics

- US-China strategic competition
- Technology decoupling
- Russia-NATO conflict
- Heightened terrorism risks



Climate Change

- Increasing natural disasters
- Net-Zero transition
- Competition for habitat and natural resources



New Technologies

- New technologies (autonomous, AI, IoT)
- Emerging ecosystems and platforms
- Advanced materials (e.g. microplastic)



Cyber-security

- Cyber risks
- Inter-connectivity
- Increased points of attack



Urbanisation

- > 2/3rd population in cities by 2030
- Concentration of facilities and infrastructure



Geopolitics

The BlackRock Geopolitical Risk Indicator¹ is at the highest level in a year with US-China strategic competition, risks of major terror attacks, technology decoupling and Russia-NATO conflict at a high likelihood. A geopolitical fallout will impact global markets, cross-border supply chains and infrastructure. Insurers must be able to respond and support clients at pace and at scale.



Climate Change

According to NASA, the summer of 2023 was earth's hottest since global records began in 1880². In 2022, the world witnessed USD245bn in natural catastrophe losses of which only an estimated ~45% were insured³. Natural catastrophes, which are worsening in frequency and severity year on year, destroy property, infrastructure, and livelihood sources, displace individuals and companies and cause disruption to corporate supply chains.

Companies face major litigation risks around climate adaptation and disclosures. Insurers must be able to help clients secure their assets quickly and make good the insured losses. Further the path to Net-Zero is fraught with multiple transition, liability and physical risks for economies and entities, and insurers must be ready to step in with both insurance solutions and claims capabilities to support this transition.



New Technologies

Autonomous technologies, precision engineering, additive manufacturing, bio-manufacturing, microplastics and personalised medicine and other new technologies continue to be adopted across multiple sectors. Different sectors are coalescing their services and products into platforms and ecosystems. These technologies, platforms and ecosystems engender risks which are usually new, wide-ranging, and complex. We are already witnessing events such as technology malfunctions, large scale product and cyber recalls, while impacts on health and ecosystems from new materials like micro-plastics are not yet known. Insurers will need to keep pace with this dynamic landscape from both a product and claims perspective – not doing so will render the industry's role in new and emerging sectors insignificant.



Cyber-security

Of all new and emerging technologies, data and analytics, cloud computing, AI, 5G and edge computing have driven significant inter-connectivity across economies, infrastructure, and systems. While these have delivered significant productivity and efficiency gains, they also create and amplify security vulnerabilities. The addition of more interconnected devices ("IoT's" – both industrial and personal) increases potential points of attack, leading to likelihood of more cybersecurity breaches. Exposure of corporates to intangible risks such as IP breaches has also increased significantly. Globally, the cost of cyber-incidents is estimated at \$8trn⁴, with >90% of the market uninsured. Insurers not only require enhanced underwriting capabilities but also specific technical skills and collaboration to respond to cyber-incidents.



Urbanisation

By the year 2030, an estimated two-thirds of the world's population will live in cities. Urban centres are expected to consume 60-80% of global energy resources, contribute up to 70% of the global gross domestic product (GDP), and influence 35% of GDP growth⁵. Cities, while acting as focal points for innovation and economic activities, will grapple with issues like migration, political discontent, conflict, terrorism, and crime, becoming potential sources of large losses.

The changing risk landscape is further exacerbated by the confluence of the megatrends creating likelihood of what experts call 'poly-crises.' Insurers will not only require enhanced underwriting and product capabilities but also deep and global claims expertise.

SOURCE:

¹Geopolitical risk dashboard (blackrock.com)

²Summer 2023 Record High Global Temperatures (svs.gsfc.nasa.gov)

³Continued high losses from natural catastrophes in 2022 (swissre.com)

⁴Cyber Risk Accumulation: Fully tackling the insurability challenge (genevaassociation.org)

⁵The mega-trends (ec.europa.eu)



COMPLEX CLAIMS MANAGEMENT WILL REQUIRE A RETHINK

The increasing complexity of commercial claims demand that insurers have capabilities across the end-to-end claims value chain to support the insureds.

The entire claims value chain will be impacted (illustrative scale of impact)





01

Initial Response

As the frequency and severity of claims events increase, insurers will need to respond quickly, not only to mitigate excess loss costs but also to ensure that the experience of the client is optimal and appropriate reserving is made. The causes of claims can be new and varied, and insurers must be able to quickly check policy coverage, triage effectively and identify stakeholders (brokers, lawyers and loss adjusters and other insurers) and assign downstream responsibilities for resolving the claims.

The claims' function will also need specific industry and technical knowledge. Data and analytics will play a significant role in aiding the triage and orchestration of response and resolution.



02

Assessment and Investigations

This stage of claims management will demand specialist skills and knowledge across the adjuster population, some of which will be in short supply, especially in niche subjects such as electric cars, batteries, ESG, cyber security and energy storage. Where the claims are global in nature, local presence and coverage or the ability to have an expert on the ground will become essential. Insurers will require trusted and distributed global team of specialists, particularly for international programmes.

Stakeholder management capabilities will be essential especially with a large group of partners and stakeholders, including the media. Use of technology will be important in coordinating the assessment and investigations. Insurers will also need sophisticated estimation tools to quickly determine the size of losses and steps to mitigate losses effectively – not doing so risks poor capital management: both over and under reserving.



03

Litigation Management

Loss definitions in policies are broad in nature and settlement of claims is often driven by experience concerning coverage aspects and applicable case law. With novel risks emerging, litigation during claims management will only increase as matters will be “fought out” and not settle amicably. Widespread increase of litigation funding reduces barriers for the insured, meaning that social inflation is no longer a US specific issue, but increasingly more and more prevalent across Europe, too.

The (ongoing) legal ramifications of COVID-19 business interruption claims illustrate this. A sizeable number of test cases were sponsored by Insurance Regulators and Supervision bodies across jurisdictions to dispute Insurers view of (non-) coverage⁶ due to “no physical damage” and/or “pandemic exclusion” wording.

US litigation industry will continue being a heavy strain to European insurance carriers being accustomed to write generously wide ranged covers while US law firms become more experienced in finding ways to trigger coverages in extraordinary dimensions.

Insurers will need to revisit policy and terms and conditions wording periodically to ensure they are up to date with the megatrends and expectations of the markets.



04

Reinstatement

Reinstatement will become challenging due to shortages of labour and material during loss events. This is critical from delivering timely reinstatement and consequential loss containment. Insurers must build latency and safeguard strategic suppliers' networks and claims ecosystems by assessing supply chain capabilities identifying potential partnerships for new capabilities across the fintech and sector landscape and aligning claims capabilities to the underwriting loss exposure portfolio.

In addition, sustainable and CO₂ saving measures must be developed and installed to accompany and replace reinstatements on losses.

SOURCE:

⁶OECD, Responding to the COVID-19 and pandemic protection gap in insurance (oecd.org)

HOW SHOULD INSURERS PREPARE?

Making a claim is the most important journey for an insurance customer. Customer retention and lifetime value are determined by the responsiveness and fairness during the claims process. In the face of changing global risk landscape, it is inevitable that insurers will need to bolster their claims capabilities.

- 01 Step-up risk horizon scanning capabilities** to recognise and track the megatrends for emerging risks and sharpen their exposure management capabilities to effectively monitor and respond.
- 02 Review and reshape claims strategy and approach** to align with underwriting and likely claims events. Embed sustainability and CO2 reduction across both underwriting and claims in the insurance value chain.
- 03 Define and build key capabilities required** such as deep subject matter expertise, technology and platforms, data analytics, global coverage, and access to broader ecosystem of partners.
- 04 Make strategic choices** on how best to operationalise capabilities across the claims value chain. E.g. should the insurer manage claims inhouse or use specialist TPAs for all or select parts of the claims value chain.
- 05 Proactively identify opportunities** to develop new propositions focused on prevention, advisory and engagement to manage risks and reduce losses.



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GIUSEPPE DI RISO
MANAGING DIRECTOR
ZURICH

gdiriso@alvarezandmarsal.com
 +41 78 94 67 967



JULIA HEIDELBACH
SENIOR DIRECTOR
SWITZERLAND

jheidelbach@alvarezandmarsal.com
 +41 78 94 32 543



DORJI WANGCHUK
DIRECTOR
LONDON

dwangchuk@alvarezandmarsal.com
 +44 744 254 6737



STUART HERRON
SENIOR DIRECTOR
LONDON

sherron@alvarezandmarsal.com
 +44 743 592 5688



TIM HARRISON
DIRECTOR
LONDON

tharrison@alvarezandmarsal.com
 +44 754 521 3385



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