

# PIIQ PERSPECTIVE

## CLAIMS: THE CASE FOR ADVOCACY IN THE AGE OF ANALYTICS

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The role of analytics continues to grow and evolve throughout the insurance industry. As data sources become more comprehensive and sophisticated, the utilization of predictive analytics has become an essential element in evaluating risk.

While the role of analytics and trending is an important piece, data cannot be the sole determining factor in evaluating claims, particularly in the aerospace industry, where a balanced approach between analytics and advocacy is the best way to accurately capture the complexity of any particular insured's claims landscape.

### Pure analytic approach to claim handling

Segments within the insurance industry where the balance weighs heavily in favor of pure analytic decision making and little, if any, advocacy find success primarily because of the comparatively simplistic nature of the applicable coverages and claims. In the US, data analytics and predictive analysis first started to gain a foothold in the mid to late 1990s primarily in the property/casualty markets<sup>(1)</sup>. Initially, the automotive industry began using analytics to drive risk evaluation, safety initiatives and development of claims handling metrics and cost cutting measures. This data-driven approach to handling automobile claims also became the norm for handling US based workers compensation matters. In the workers compensation realm, and some would argue equally in the automobile realm, the claims lend themselves to a singularly focused, data driven path to resolution. The quantification of these types of claims can be relatively straight forward across an entire portfolio. The claims as an entire book present common issues and can be valued by using defined billings or in the case of workers compensation matters using scheduled, fixed cost ranges placed on injuries to certain areas of the body and other defined parameters. In these types of claims, the precise data points can be used to quantify the ultimate outcome and is a commonly accepted method when resolving claims of this nature. Because the variables and complexities are particularly low, there is little need for a claims advocate, and a purely analytical model to claim resolution is the most efficient and makes the most sense.

However, the implementation of this approach would have significant challenges in the aerospace industry where the risks constantly evolve and the claims are often quite complex in terms of the

*“Analytics and the ability to successfully quantify risks, trends and outcomes only benefits the insurance industry as a whole. Having a robust and disciplined analytics capability is required in today's market environment and can provide tools and data-driven decision making for clients and insurers alike.”*

*Mike Raminski Piiq Risk Partners,  
Global Analytics Leader*

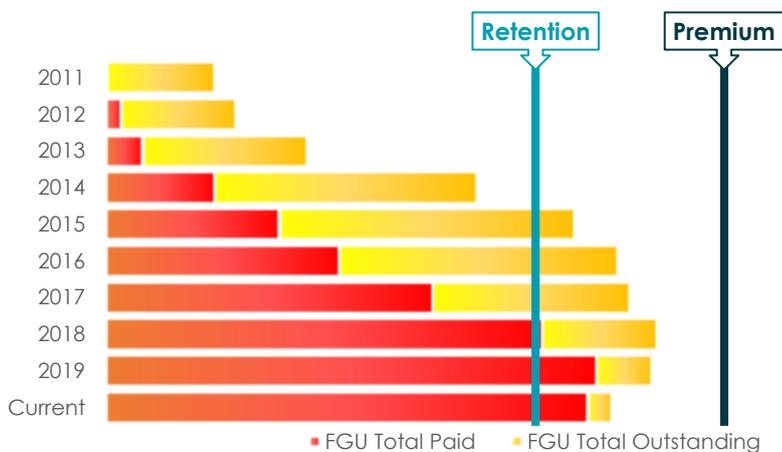
occurrence itself, the coverage terms and conditions, not to mention the commercial considerations, contractual positioning, and varying resolution strategies.

From the inception of the London market, the claims broker has always been the key conduit of information between the insured and the numerous insurers that participate on any given aviation risk. The claims advocate remains the key resource available to an insured in addressing complex losses. The exponential growth and evolution of the aviation sector during the late 20<sup>th</sup> Century created previously unforeseen coverage questions as policies were adapted to catch up with the ever-changing aviation landscape. This put the claims brokers front and center to represent their clients in the management of complex loss discussions with markets who were seeing types of claims not necessarily anticipated when underwriting the initial risks. It is those types of claim scenarios where immediate post claim advocacy around issues such as wordings, definitions, timing, terminology and parameters are most important and an irreplaceable resource to aerospace clients.

## Balanced approach: analytics & advocacy

A balanced approach between analytics and advocacy is the most comprehensive method to accurately capture the complexity of any particular insured's claims landscape.

### Sample Exhibit: From Ground Up Reported Triangulated Movement



While this sample exhibit from Piiq Analytics is instructive as to the claims history, analytics alone cannot tell the full story.

NB: Graph for illustrative purposes only

The background, resolution drivers and complexity associated with the claims that make up the figures in a loss run cannot be ignored. The numbers alone cannot account for common claims considerations and resolution strategies that are specific to the aviation industry.

In the days following a claims event, one of the paramount considerations always is the applicable contracts. The expectation by all sides is that the various contractual terms and conditions associated with any given aviation-related activity will be carefully constructed and there will be clear contractual allocations of risk by and between each party so in the event of a loss there is clarity of responsibility.

The reality of the post incident contract review can be eye opening to clients and other involved parties. Within our industry, it is common for the parties involved in the claim or contract to be good business partners that work together on many projects or initiatives. They will typically have strong commercial relationships that one or both parties do not want jeopardized by claims activity. Through the utilization of analytic tools, a party is able to predict the impact of loss of a particular project or transaction, but the value of relationship, past present and future, cannot be fully forecasted by the data. An effective claims advocate recognizes the value of the analytics as well as the intangible considerations when advocating on behalf of the client.

Moreover, the parties may determine that the best path to resolution is a sharing or funding arrangement. For example, in a larger complex claim, an Insured could have accepted a minor share of the total settlement simply to achieve finality in an expedited manner prior to incurring significant defense fees, but looking purely at a loss run the numbers alone only show the dollars contributed but don't speak to the specific Insured's contribution which was in fact de minimis in comparison to the other parties or in comparison to what it could have been.

The aerospace industry is becoming increasingly more reliant upon and sophisticated in the use of analytics, but because of the nature and complexity of the risks and claims, the role of a claims broker that can effectively utilize the analytics while also evaluating the entire picture of a claim will continue to be a critical function.

## A final note: claims advocacy in a post Covid environment

Lloyd's is one of the last face-to-face financial centers with a physical trading room while others have gone digital<sup>(2)</sup>. The major advantage of the proximity of participants in the London Market has been the continual development of robust and productive working relationships, which are undoubtedly instrumental to the successful resolution of complex claim issues. Aviation insurance is a global business and this practice has remained the preferred method for the majority of claims brokers, and insurers alike. The landscape is now changing. The modernization strategy at Lloyd's even includes a plan for a virtual room to enable trading and personal connections, evidencing that it is not so much the meeting format, but the live personal connectivity that builds upon well-developed relationships. In this changing environment, our Piiq claims team continues to believe that there is great value in personal exchanges, and we embrace efficiency-driven changes that complement our long standing, trusted industry relationships. Although face-to-face communication is presently divided by a computer screen to safely communicate on claims and coverage issues, we adapt and most importantly, remain committed to delivering this critical service for our clients.

<sup>(1)</sup> "Predictive Analytics Aids Performance, Balances Underwriting Cycles for Commercial Lines Insurers." A.M Best Special Report. Trend Review. April 2, 2018.

<sup>(2)</sup> Ralph, Oliver. "Old School Trading under Threat as Insurers Rethink Life at Lloyd's – Coronavirus Forces one of the last Face-to-face Financial Markets to go Digital." Financial Times. May 12, 2020.

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Neil is an integral leader in Piiq's global claims team and is based in London. Neil is responsible for providing claims servicing and execution on client focused solutions ranging from complex loss advocacy through to market presentation. Prior to joining Piiq in May 2020, Neil was a Vice President in the Marsh aviation claims team handling all sub-sectors of the aviation claims market most notably major aerospace and airline clients. During his 11-year career, Neil has developed and maintained excellent relationships with the claims market as well as the global network of service providers utilised in the claims arena.

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