

The industrialisation of UK flood damage repairs

T. Boobier

Pitney Bowes Software, UK

Abstract

The flooding of large areas of the UK in 2007 caused damage to circa 48,000 homes and 7,000 businesses, and will give rise to a total expenditure of circa £3bn. Much of the burden will fall on UK insurers.

This paper reviews the changes that have taken place within the UK flood repair industry over the past 5 years and draws clear links between the ideas provided by Egan in his report 'Rethinking Construction' and how these have now successfully found their way into the flood arena. It considers the movement away from a piecemeal approach to repair into what has become a highly 'industrialised' process, including the role of supply chain management and procurement in the development of these processes.

The non-financial impact of damage on the homeowner is now commonly described as the 'emotional rollercoaster'. Processes have been, and will be specifically modified as far as practically possible not only to reduce the adverse impact of the damage on the homeowners' emotional wellbeing, but also to mitigate cost.

The effects of 'process-driving' the current flood repair solution are also considered, taking into account the impact of the 2012 Olympics. Comparisons are drawn with international situations where there are problems of widespread damage involving many properties.

Keywords: flood repair processes, supply chain, emotional rollercoaster.

1 Introduction

The presence of flooding in UK and Northern Europe is not an unknown phenomenon, with memories of the 1953 East Coast flooding still firmly established in recent memory. However, the UK flooding of 2007 is now seen as



displacing that event both in terms of severity and financial effect. The operating environment for the 2007 flooding event represents a paradigm shift in not only the funding of property repairs, but also the manner in which repairs were undertaken.

1953 can be characterised by funding being many public in nature, with minimal insurer involvement despite the extent of residential properties damaged. 2007 presents a very different picture. The Pitt Report [1] indicates that 48,000 homes were affected, 7,000 businesses, and over 350,000 people had their utilities and water supply disrupted. Whilst a great degree of financial burden still fell on government and the public purse, this later event also involved the UK property insurer community, with UK insurers funding repairs estimated at £3bn [2].

Also the public response to the event had changed, partly due to heightened expectation of the role of government, but also the service offering 'promised' by insurers as part of their insurance contract. Whereby in previous events the homeowner had been expected to arrange the repairs and ultimately recover funding retrospectively under their policy, present day thinking had taken insurers and their representatives into a much more proactive role. In this fundamentally different model, not only did insurers inspect and quantify damage, but furthermore took it upon themselves to arrange the repairs on a direct basis by directly appointing repairers across the entire supply chain.

Less than a year after the 2007 flooding, the jury has started to return its verdict. Where the new system operated correctly, there is little doubt that the key success factors of increased customer service coupled with claims cost management have been achieved. However in many cases, the system failed to operate as expected. Despite the new solution planning for surge management, little consideration seems to have been given as to where the 'tipping point' exists, that is, the volume of incidents whereby a planned, proactive response by insurers for their customers become unsustainable.

2 The move towards industrialisation of the insurance claims process

Over the past five years, insurers have moved to an 'industrialisation' of the claims process. The most obvious example of industrialisation and its benefit rest in the conveyor-belt factories of Henry Ford, the car maker. In 1909 a Model T Ford in 1909 cost \$950. By 1914 it cost \$490; by 1916 it cost \$360. Through the control of the key components, production costs can be reduced, coupled with increased effectiveness of operation.

The application of such mentality to the service industry opened the doors to the mechanisation, or industrialisation, of other elements which were not naturally thought to be commodities, namely retail and professional services. The application of such ideas to insurance claims management was, on reflection, a relatively obvious development, leading to the creation of the insurance claims 'value chain' by management consultants such as Accenture [3].



The value chain recognised that the overall insurance claims process could be broken down into 5 key elements, or 'links in the chain of events'. These are

- Notification – how the insurance claim was brought into the system; for example by letter, telephone call, or over the internet
- Appraisal – the decision, made either on site or in the office, as to whether the insurance contract operated in this instance.
- Assessment – having established that insurance cover was in place, the process by which the extent or scope of the loss under the policy
- Fulfilment – the process by which the policyholder received satisfaction under the insurance contract: repairs, cash, replacement goods
- Recovery – the process by which insurers are entitled through a remedy called subrogation are able to recover their outlays from a third party, such as a negligent authority.

The claims value chain applies not only to flood damage being dealt with under an insurance policy, but any insured property damage including non-insured events. The general concept extends to auto, health, and other insurance products and other 'process driven' environments. It also has international application.

3 The introduction of strategic sourcing techniques

A further important development in what was to become an industry transformation was that of 'function, not profession' – that is to say, a disregard emerged for the traditional order and responsibilities in favour of strategic sourcing.

Strategic sourcing involves a technique undertaken by professional supply chain managers who have recognised that the different elements of the value chain might conceivably be undertaken by other people and organisations. The key criterion was not that of experience or traditional responsibility, but rather that of capability and effective knowledge transfer. It also allows different activities to be carried out in different ways. Functions can be bundled together or alternatively disaggregated; they carried out in different locations; or work done by different professions.

For example

- The notification process which traditionally rested with insurers, where the policyholder had traditionally contacted the insurer directly, might now contact an independent callcentre (perhaps even offshore)
- The traditional approach of waiting for the policyholder to contact the insurer might be reversed, in that the insurer (using location intelligence and combining knowledge of their customer base with the footprint of any incident) might proactively contact the policyholder and in doing so assume complete control of the situation
- The notification, the appraisal and the assessment processes might be reasonably bundled together and managed by the same entity. In doing so, it would be possible to prioritise visits through operating a triage, or perhaps make decisions based on the value of a visit compared to the likely cost of repair. This process has been termed 'intelligent handling'



which is a generic expression for the combined use of data and customer interaction to establish a logical approach to any individual event situation.

- The technique of considering 'function' rather than 'profession' also allowed sourcing professionals to consider which organisations had the correct capabilities to fulfil specific tasks. The traditional role of the insurance loss adjuster who had traditionally undertaken the adjudication and assessment roles was replaced for certain claims in favour of professional engineers and surveyors. (In fairness to the loss adjusting profession, such a challenge forced adjusters to respond by undergoing organisational change, ultimately broadening their service offering and becoming more like engineers and surveyors by offering 'project managed' solutions.) The door has also opened to organisations wanting to specialise in key functions such as the drying process.

4 Moving towards standardisation in flood repairs

The 'disaggregation' of the claims process inevitably started to lead to a process of commoditisation. One of the main challenges of commoditisation is the need to have standards against which the providers of the commodities can be benchmarked. This may be either as part of the precontract negotiation or as part of the service delivery assessment after the contract has been awarded.

Supply chain management techniques coupled with contractually based service level requirements increasingly led to essential activities such as speed of contact, and reporting of claims information to become no more than 'hygiene factors'. Hygiene factors are those attributes or capabilities which organisations must necessarily have to even merit consideration as a vendor of services. In flood repairs, once the minimum elements had been identified and controlled, suppliers and insurers saw their key differentiators as being cost, speed and overall quality. One of the key success factors in flood damage repair is that of drying the property.

One problem of recent times specifically in flooding is that there was limited understanding of what the minimum levels of either drying or repair might be, and at what level customer expectation for quality repairs might be reasonably set. Where standards were already in place, for example in the drying process measured by moisture content of the building, these were applied inconsistently. What constituted a 'dry' property which was ready for repair was often subject to market disagreement between competing suppliers.

Furthermore, different standards were being developed and implemented by individual insurers, repairers and intermediaries to resolve what was essentially a series of similar if not identical problems. Putting aside the issue of duplicated cost, the practical aspect was that adjacent flooded properties were being dried and repaired in quite different ways. This creates confusion. It became apparent that a single set of unified standards needs to emerge.

There was clearly concern however that standardisation would erode an area of competitive advantage, and how organisations will subscribe. The question of



standardisation in the insurance industry was not unprecedented situation albeit that the main previous efforts had been in the standardisation of data through ACORD, with mixed success. Additional guidance was found in wider work undertaken for the UK construction industry by a group led by Sir John Egan leading to a 1998 report entitled 'Rethinking Construction' [4].

At the time of Egan's initial report in 1998, the UK construction industry was plagued by poor performance, high defects, weak cost management and unsatisfactory customer service. Egan's template for change in the construction industry focussed on three key strands

- What were the key drivers for success?
- What were the 'building blocks' which allowed success to be delivered?
- What measurable targets were being sought through the transformation process?

Out of this, a very simple template for the UK property claims industry emerged, which formed the framework for change, and more importantly the rationale for standardisation (Fig 3). In time, this led to the creation of a number of UK cross-industry forums which issued guidelines on the management of claims. These groups were able to demonstrate cost improvement coupled with increased customer service, without prejudicing competitive advantage, and in doing so, started to set the agenda for future changes in the flood repair industry.

5 The age of enlightenment?

With commoditisation came expertise and specialisation, exacerbated by consolidation of the specialist repairer industry, as insurers increasingly seek greater purchasing leverage through bigger and longer deals, or framework agreements. As a result, some organisations have started to claim thought leadership of ideas in this specialist flooding areas. Such leadership demonstrated itself through organisations being prepared to challenge the end to end process, and ask relevant questions such as whether the process was in the best interests of not only the insurers, but all the key stakeholders, which included the insurers, intermediaries, suppliers and of course the policyholders themselves.

Through being able to engage with insurers in such discussion, some suppliers started to transcend their status as commodity suppliers, to become trusted partners. Whilst many bids are still strongly focussed on price, there is often an invitation to add value through commentary, and on occasions this 'value-add' is used by insurers to modify their draft process. Suppliers no longer are simply vendors, but rather are active participants in the design of processes. Some describe this as the start of a form of 'age of enlightenment' within flood damage repairs.

Increasingly these relationships lend themselves more to partnership-type status rather than a commodity. Those mature organisations which are currently viewed as commodities continue to strive to achieve partnership-type status because

- They can be in a preferred position to respond to bids sometime by having an 'inside track'



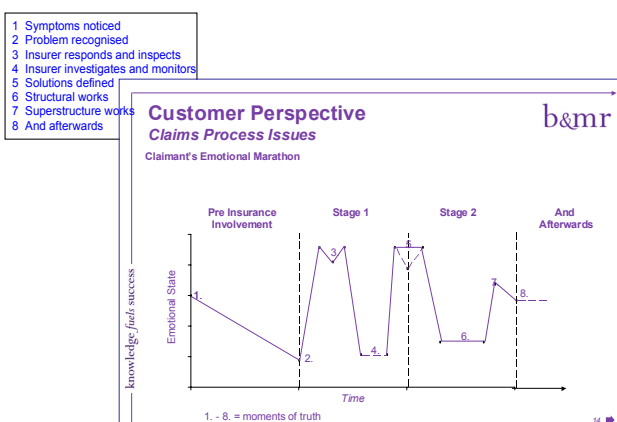
- They have the opportunity to influence process which most closely aligns to their current capability
- They are able to mould future strategy to align with their own
- Through cultural alignment in the partnership model, they are more likely to have empathy with their clients

The benefits are not solely confined to the supplier. The low cost incurred by insurers in switching suppliers is a disincentive to a supplier remaining loyal, especially at a time when insurer margins may be tight and there is an operational need to reduce cost. A closer working relationship can help all parties achieve their targets without making the relationship unprofitable. At a time when, particularly in the general building industry, demand exceeds supply, it remains important for insurers to ensure some continuity of relationship.

6 Process change and the customer emotional rollercoaster

Whilst process change through value chain analysis, commoditisation and partnership relationship management can all reduce the repair cost, it is important to recognise the impact of change – beneficial or otherwise – on the end user, or policyholder experience. Analysis and anecdotal record of the Carlisle flooding in 2005 began to recognise the emotional impact of flooding on the psychological and mental state of those affected. Work is already being done to better understand this, but it is helpful to contextualise this, and recognise that there is a clear link between what we describe as the emotional rollercoaster, and the cost of a flood repair operation. In recognising that link, we can then state to use the management of the customer experience to further mitigate cost and improve service.

The Customers 'Emotional Rollercoaster' - Subsidence



(Courtesy B&MR)

Figure 1.



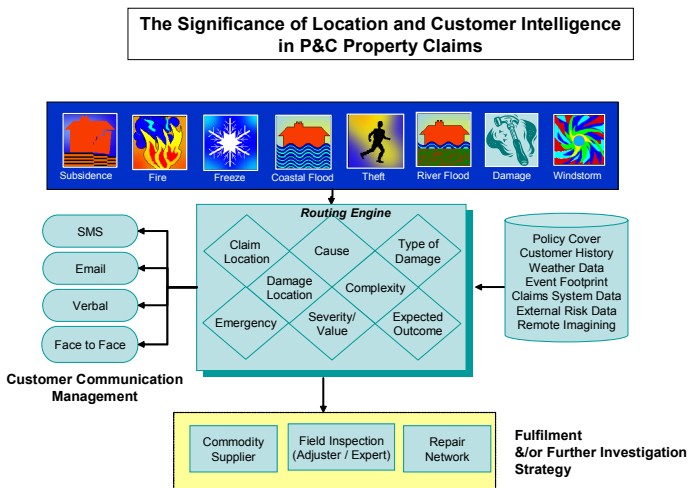
Based on research by (BMR) for a similar complex claim, subsidence, it is known that the customer undergoes different levels of anxiety at different stages of the flood claim. These anxiety levels may be short or long term in duration dependent on the stimuli which creates them.

Anxiety levels appear to influence policyholder behaviour. Policyholder behaviour requires management by the insurer or their representative. Therefore there is a cost implication. At its most simple, lack of communication of the progress of a claim or likely target dates will lead to an complaint through an inbound communication which can be costly for the insurer to resolve, if only in management time. At its more subtle, if the policyholder believes that the repair process has become unnecessarily protracted, then initially they will seek compensation, and then in time seek punitive damages from the insurer or supplier.

Management of the customer behaviour is a key driver in the control of claims costs by insurers, and that customer behaviour is directly influenced at a macro level, through the wider process, and at a micro level through individual and specific customer communication management.

7 The 'win-win' scenario

When Henry Ford automated his car production line, it is unlikely that he anticipated the same principles applying to the repair of flood damaged property under the insurance contract. Through analytic techniques directly imported from other industry sectors, there is now much greater cost control and better



Ref TreeRat Ltd

Figure 2.

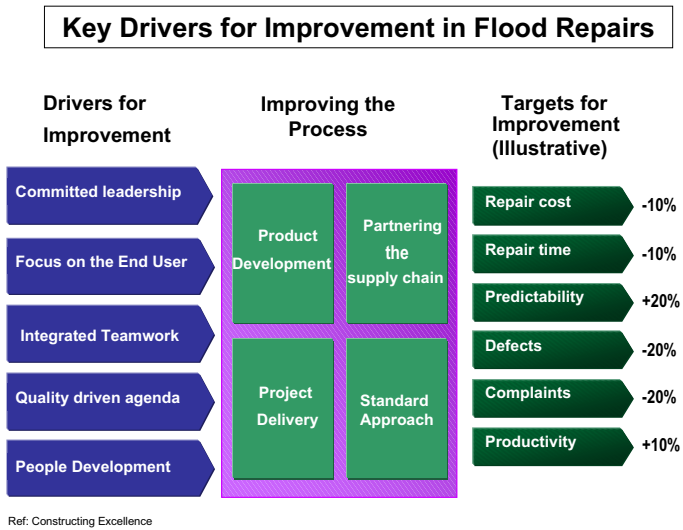


Figure 3.

understanding of the repair process. Through process reengineering, key functions are better understood than ever before, and are capable of being manipulated to maximum advantage.

On the other hand, there is now much better knowledge of the effect of a major flooding incident on the victim, which we describe as the emotional rollercoaster. We see that the emotions incurred by the victim affect their behaviour during the process of the claims and repair.

It is a small step to aggregate these two elements. Process change can be made which mitigates emotional anxiety. Reduction of anxiety on the part of the victim reduces dissatisfaction, and the propensity to complain. Fewer complaints reduce cost, and the tendency of a disaffected customer to change insurer at renewal. All of these have a cost impact which drills down to the bottom line of the insurer's profitability.

8 ‘2012’ and where it starts to go wrong in the UK

In 2012 London will host the Olympic Games. The date of the event is immovable. There continues to be massive urban regeneration and continued Housebuilding. This is not a south eastern phenomenon, but rather an effect which ripples across the UK and parts of Europe. Those in the construction industry are in a powerful position, as demand exceeds supply. The usual effect of this is one of increased costs, rather than reduction. A ‘pinch point’ seems on the horizon, as insurers increasingly seek to reduce their claims cost and strike harder deals with organisations in the contracting industry who can obtain greater profit elsewhere.



In addition, the major floods of 2007 appeared to reveal vulnerability within insurer supply chains, resulting in homeowners again being left to make their own arrangements. The net effect of a major flood was that the larger suppliers struggled to meet the demand, and invariably some (not all) would fall down on service delivery. The industrialisation of the flood repair process seems fine for normal or even slightly increased volumes. Anything greater than a 'blip' results in the industry resorts (at least in part) to old ways.

9 International perspective

Flood repairs funded by insurers is a mainly UK phenomena, although other parts of the world have funding provision, for example in the United States.

If there is one common theme between flooding in all territories – both developed and underdeveloped nations – it is that of the impact on the victim. Greater understanding of the emotional element plays a major part in understanding the right way to approach the problem. It is naïve to suggest that the victim is 'upset', or even 'distraught'. Such descriptions only touch the surface. The ability to predict, and then to manage behaviour through the overall repair process will become essential. The focus starts to move away from the repair of the property, to the management least in part of the affected individual.

The second major element to consider is that of the veracity of the supply chain approach in situations of extreme weather. Process models may be resilient for limited increases in volume, but may start to fall down in severe conditions regardless of procurement tests for capacity in surge conditions. As the UK industry learned, there is great expertise within the supply chain and within specialist organisations. It is essential that as processes are developed for the future, that the expertise of these organisations is recognised, and that they may have valuable contributions to make in terms of ideas and innovation.

10 Conclusion

As an industry, there is better awareness of the process, the behaviour of the victim, and most importantly, the weaknesses of the system when capacity is stretched. We are in highly knowledgeable position. As flood mapping improves, the capability of the insurance industry and service providers to understand, and to manage, supply demand imbalance will also improve. It is highly likely that new supply chain models will emerge, with greater emphasis on regional suppliers.

Technology is also likely to play a factor. Future flood solutions may have a higher degree of automation. Deeper process understanding will influence automated workflow models, and customer communication strategies during a flood event. Who knows what changes insurers will contemplate in terms of their policy coverage? Change is inevitable, and it is impossible to predict the future with certainty. However, we can at least be certain of one thing. That is that the flood repair process of the future will bear as little similarity to the traditional process, as the Model T Ford bears to today's latest model on the road.



Acknowledgements

The author, Tony Boobier has been actively involved in the flooding problem for over 20 years, holding positions of seniority within insurers, repairers and inspection companies. One of the founding members of a cross industry Forum on flooding, he is currently Strategic Insurance Manager for a major international firm specialising in location intelligence.

References

- [1] Pitt Report 2007 – Interim report ‘learning lessons from the 2007 flood’
- [2] Estimate of UK flooding costs 2007 (Pitt Report, ABI and others)
- [3] Accenture: The Insurance Value Chain
- [4] Rethinking Construction: The report of the Construction Task Force to the Deputy Prime Minister on the scope for Improving the quality and efficiency of UK construction 1998

