

Forensic claims analyst issues warning as insurers fail to focus on audits

Audit warning

As insurers fail to fully commit to audits, claims leakage figures are escalating



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A specialist forensic claims analyst has warned that insurers need to take claims auditing "far more seriously" in the wake of the High Court case brought against Endsleigh.

Post exclusively revealed in May this year that Endsleigh faced a £30m High Court showdown with Southern Rock, and Markerstudy, over its alleged failure to provide "technically accurate" claims handling for the two companies (www.postonline.co.uk/2069754), for which a "mutually acceptable agreement" with Southern Rock was struck in November (www.postonline.co.uk/2123580).

Chris Wylde, managing director of specialist claims auditing and management consultancy firm, CWMC, pictured right, who has been a forensic claims analyst for the past three years on this case, said that the problems that emerged are "typical" across the industry.

"Part-audits are very common, but management is not giving it the focus and attention it deserves," he told Post. "I believe there should be a



forensic claims-led review of all the data and management information that insurance companies hold."

Average leakage

Wylde said that, in the past three years, CWMC has audited 11 insurers, including the top five, and looked at more than 6000 claims.

"Of the last three big audits, the average leakage that we have identified across them has come out at 12%," he said. "In the past three years, the best insurers that we have seen were running at just below 3% leakage and the worst at 19%; in the last audit we did 20% of every claim we looked at had leakage."

He continued: "Average claims costs these days will vary between insurers, but if you looked at one of the last audits we undertook, where the average motor

claim cost was £3000 a claim, that 12% leakage equals £360 per claim going down the pan."

Wylde added that although claims handling is not "an exact science", most insurers would be aiming to try and keep claims leakage at under 3%.

"The thing that surprises me is that insurers have got 65% to 70% of their premium going out in claims cost, but you don't see the level of commitment to claims monitoring or auditing as you would, for example, on the Financial Services Authority compliance side," he said.

"If you take treating customers fairly compliance, for example, you have the whole raft of most senior management worrying about it, but who worries about the 65% of money going out of the window?"

Wylde argued that there is a "lack of understanding" of what an effective audit programme can bring an

insurer and that, for some of its clients, his firm also conducts a review of its claims statistics.

"It is a very cost-effective additional audit tool that no one seems to do; they tend to focus on the bottom line. At audit no one ever looks at correct or incorrect allowance of no-claims discount for example. It is amazing how many times they get it wrong, which annoys customers or makes them go somewhere else and this could be avoided with an effective audit," he added.

Effective procedures

Wylde suggests that to avoid these problems, among other things, when the insurance company outsources claims handling, it must have effective technical audit procedures and programmes in place and not rely on its usual supplier management and procurement systems, which also means having the right to audit explicitly spelled out within its outsourcing contract.

