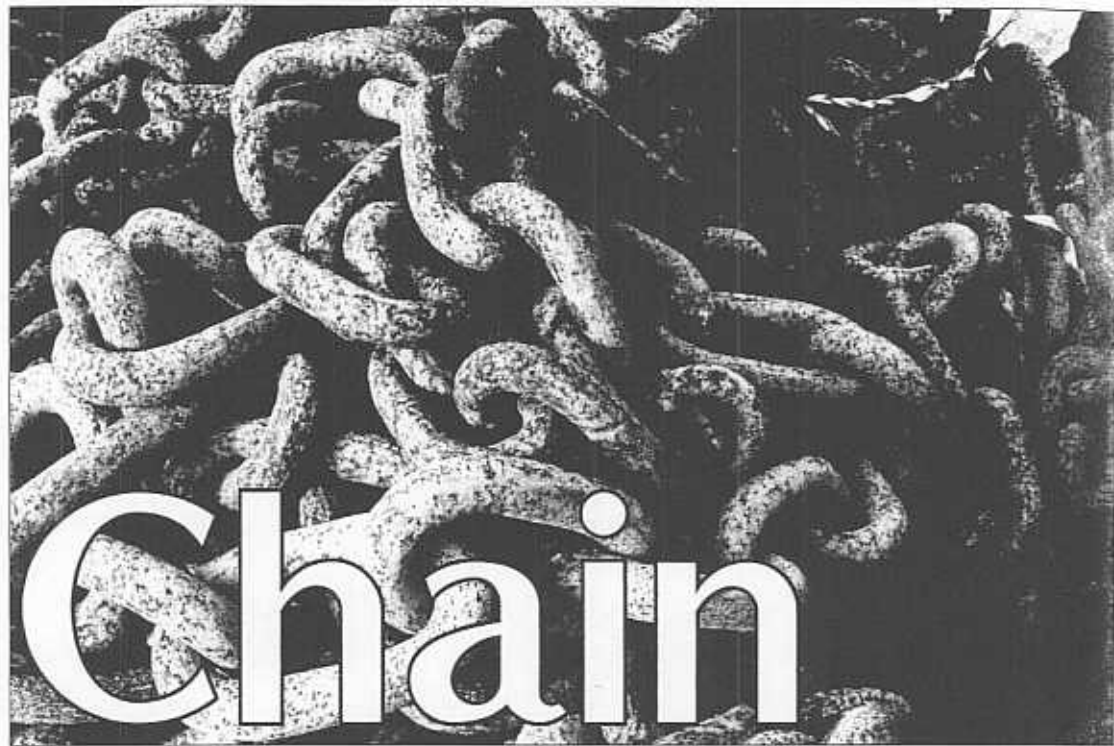


In the light of the deal between Lloyds TSB and Royal and Sun Alliance, how are insurers making supply chain management more efficient? And how might this affect smaller suppliers and overall service? **Stephanie Denton** investigates.



Chain reaction

In October last year, Royal and Sun Alliance and Lloyds TSB Insurance announced their decision to enter into an agreement to tender and procure building and contents services.

The deal sees RSA manage the building and contents supply chain for Lloyds TSB household claims, with both then continuing to provide and administer their own notifications.

Phil Loney, managing director at Lloyds TSB Insurance, said at the time: "A collaboration with RSA would give us good access to additional procurement expertise, enabling us to enhance our purchasing processes and our claims service for our existing customers."

"It is a huge move for two insurers to agree to use the same service providers and formats," explains Stewart Murray, UK supply chain manager for RSA. "It is providing the right claims solution for both companies and the necessary leverage. We don't want to have a network like we had two years ago but are looking for large players in their own markets."

As well as gaining access to larger suppliers, Mr Murray adds that there are three main benefits with this type of procurement. Firstly, it improves customer service because you are delivering the capacity to shorten the claims process — there is an alignment between the insurers and the supplier. The process is transparent and you free up time and resources and can focus on service delivery," says.

Secondly, he adds that there is a cost benefit based on significant savings. And finally, he believes this new process can dramatically reduce cycle time for RSA. He explains that this is a by-product of the process because the system enables RSA to act with one customer for one process which also

improves customer service.

Furthermore, Mr Murray believes the deal benefits suppliers as they will be able to reduce their costs to sale. "Suppliers with many customers interact with different terms but this will mean they can service two customers with a single service."

However, other suppliers disagree that this procurement method is in their best interest. Bill Sibley, chairman of the Response Group, which has just decided to exit the insurance market, says: "RSA did a deal similar to this with Halifax a couple of years ago which caused nothing but confusion. There is a lot of disillusionment in the market at the moment because contractors see the insurance industry as very fickle."

Volatile market

Mr Sibley says contractors are concerned about working with insurers because the market is so volatile. "Insurers have changed suppliers from large companies to smaller companies and then to networks. Who says they won't change again?" he asks.

It is not just swapping companies that worries suppliers. By using such methods, big insurers are squeezing out the small suppliers because they are looking for lower costs.

Bob Spencer, British Damage Management Association chairman, says: "As supply chain

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requirements have focused on national coverage, we have seen a reduction in the number of regional specialists."

Mr Sibley agrees, adding: "RSA and Lloyds TSB probably believe that by joining forces they will get better buying power but this doesn't matter because the cost of labour won't go down. We are not manufacturing but providing a service and this limits the level to which you can drop prices."

"More work does not make a difference in cost, maybe for some materials but this only really works on jobs like housing associated construction. For individual jobs, however, people want something in keeping with the homes — so it is impossible to bulk buy or buy in advance," he explains.

However, Mr Murray defends RSA's decision: "This is not just two insurers getting together and playing hardball with the little man. This is not about screwing suppliers out of cost but creating a 'win-win' situation for the supplier and both insurers."

Kevin Wood, group chief technical officer for loss adjuster Ashworth Mairs Group, supports the idea but raises a concern about trade-offs: "If we were to embark on the same kind of procedure it would be because you wanted to save money and improve customer service. Generally though it is to the benefit of one at the expense of the other."

The state of the contractors market

In response to conflicts within the industry, building contractors that work on insurance claims have formed an accredited association that currently has 200 members. Eric Czewionka, founder of the Association of Insurance Building Contractors, says: "The main aims of the AIBC are to increase the overall level of education and professionalism of its members, to provide to the insurance industry a benchmark by which to judge contractors and to fulfil the real need for an additional layer of vetting of quality that does not currently exist."

Kevin Wood, group chief technical officer for Ashworth Mairs Group, cautiously supports this but says: "If the association goes ahead, we would like to see a code of conduct but really we prefer to set our own standards."

However, Mr Czewionka explains that by careful selection and vetting of contractors, the association can effectively offer the insurance industry a guarantee of quality and service, not currently available elsewhere.

Norwich Union's head of property and supply services, John Davies, is supportive in principle of what the AIBC is trying to achieve: "95% of builders employ fewer than five people and for these groups the AIBC could bring a voice and help improve health and safety," he says. "We take a partnership approach and we would be concerned if our suppliers felt they could not articulate any problems they have with us directly. However, there is a place for an association for small building contractors and if it is appropriate NU may join with this group."

This view is supported by James Grant, managing director of Multiassistance, who complains: "When you are dealing with builders, for example, there are a shortage of specialists and about 400 000 missing skilled people. Some trades, therefore, command high prices. The question I would ask when someone has additional bargaining on price is: are you forcing builders to reduce rates at the cost of time on the job? Could this, therefore, be reducing the quality of service?"

John Davies, head of property and contents supply services at Norwich Union, concurs: "I am sceptical that this deal can improve service levels. From the outside it looks like a buying club and this is OK for steel and concrete but our concern is in terms of service. The claims experience can be what differentiates the business and we think that joining with others will lose this competitive differentiation."

Diluted message

Another service concern raised by Rob Withers, managing director of Withersnet.net, is that while insurers think they are dealing with big market players there is often subcontracting where insurers have no control. He says: "At contractor level, it is natural that any organisation in procurement must tick all the boxes but some of the large organisations that don't fulfil this themselves, just subcontract to small to medium-sized enterprises on the ground. This makes the end-user remote from the insurer."

Consequently, Mr Withers believes insurers using this approach are adding to their costs while their message is being diluted. "The big concern with subcontracting is that the end-customer experience is remote from the insurer," he explains.

Mr Sibley agrees: "They may believe they are just using a small number of companies but these companies are simply contracting work out and this is increasing the distance from the coalface. Insurers don't want to deal with SMEs directly but then they lose out because they distance themselves further from the customer."

After facing this problem himself, Mr Withers saw a gap in the market and helped form Withersnet with Bearings Foundations and Acorn Foundations. The service sees three SMEs joining together to use their collective power to offer comprehensive coverage for subsidence. "Many suppliers are strong in their own region but they can't do it all. Joining together is certainly the only way forward for SMEs," he says. "This is good for customer service as we are all shareholder directors — so it means something to us to get it right."

Unfortunately, the one thing that both suppliers and insurers agree on is that their relationship is not currently working. Mr Murray admits there is a huge gulf between the insurance companies in the FTSE 100 and the 179 000 VAT-registered builders in the UK: "It is always difficult where two industries have a relationship. Insurers need builders to provide good customer service but builders don't always understand this. The first major obstacle is the different customer ethos," he says. "Builders need to behave more like a business."

However, contractors believe that insurers have a lot to learn too. Mr Sibley says: "The way the insurance industry manages relationships shows they have little knowledge of the building industry. If they continue to employ people with little or no experience of our industry then the problems will continue. Having no idea about the way we work creates a conflict between us doing a good job and what the insurers are willing to include in a policy."

Mr Sibley believes this is because insurers do not manage expectations and this is echoed by the Financial Ombudsman Service's Annual Review of Complaint Trends: "Under some policies, if repairs are needed in conjunction with a claim, the insurer appoints a repairer to carry out the necessary work. Disputes about the quality of repairs carried out in these circumstances are becoming a growing feature of the complaints that we deal with involving building (and contents) insurance. Insurers' marketing material often stresses the advantage to customers of having the insurer take care of arrangements for any repairs. This can

Small suppliers are often not set up to deal with big insurance contracts.

naturally lead to customers having high — an sometimes unrealistic — expectations. Insurers had an effective means of overseeing the quality of the repairers they appoint, then seems to us that there would be far fewer complaints of this type"

This is unlikely to happen until insurers manage contracts properly, according to Mr Sibley. "In some cases, contracts are just seen as a formality, payment terms are not stuck to and contractors are not managed. Insurers mismanage contracts and don't seem to understand that contractors cannot be turned on and off like water — we can't afford to have 100 people standing around waiting for work only to discover they are not needed at all."

Communication problems

This is not the only area where communication can cause a problem. Mr Wood says small suppliers are often not set up to deal with big insurance contracts. "In our experience suppliers either want to be a part of these or not — there are no half measures. This is true of their structure and they either fit with insurers, providing 24/7 cover with interpersonal skills at insurers' standards, they do not."

In response to these issues, the Association of Insurance Building Contractors (see box) which represents the needs of building contractors, has been formed to help improve this relationship and insurers agree there are several simple solutions.

Mr Davies says: "We share ideas and have a real partnership. If you create an atmosphere with suppliers whereby they think they are one month in and out the next then they will only focus on the short term. A lot depends on your approach to suppliers — you can have an adversarial one or a partnership — and this drives the suppliers' perception."

Mr Sibley supports this and adds that suppliers need to have a greater role in dialogue: "Insurers do not involve suppliers, so there are unfulfilled expectations on both sides. Using builders to assess how feasible repairs could see a drop in complaints because customers will know what they will get."

"Insurers need to encourage stronger relationships," he concludes with a warning to the industry. "As long as contractors are seen as dispensable, experienced companies will continue to leave the market."



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