



In focus: Russia

CLAIMS HANDLING IN RUSSIA

In June, Swiss reinsurance broker Reunion AG held its third roundtable discussion in Montreux, Switzerland, discussing the coverage of engineering and construction risks in Russia. What follows is a snapshot of a part of the discussion focused on claims handling and communication.

Igor Prandetsky, director of Reunion AG, was clear on the importance of this topic from the outset: without a professional claims handling process, there can be no insurance and reinsurance in Russia, he said.

Evgeny Malachinskiy, country manager for Russia for Cunningham Lindsey, gave a presentation in which he reviewed the practices in the loss handling and settlement process in construction in Russia.

He spoke specifically about a very big loss at an electric substation located in Moscow. During the course of high-voltage testing, one of the transformers caught on fire causing significant damage to the building and the substation. The eventual loss was around €62 million.

Generalising from this specific incident, he went on to explain some of the challenges around the claims handling process in Russia.

One, he said, is that loss adjusters in Russia are not considered as experts. “Our legal status is still undefined so it is completely up to the judge how to regard a loss adjuster. Often, this means your counterparty still can simply ignore or neglect what you say,” Malachinskiy said.

He also explained that strict legal guidelines govern the documentation that must exist around a claim. This can be a source of frustration, he said. “But for local insurers to be able to pay a claim a pack of documents must be provided and each document properly filled in, signed and stamped.



Otherwise, insurers can be fined heavily, or their operating licence can be withdrawn.”

He said dialogue between all parties and accurate documentation was essential, especially when negotiating a claim. “When handling construction erection claims in particularly big claims, it is imperative you have all the necessary documents such as damage reports to understand the damage and the scope of repairs,” he said.

Finally, he touched on the language used in policies and whether damaged equipment could be restored or should be replaced. Using the example of the loss at the electric substation, he said that although the equipment

could be restored, the insurers decided to compensate the replacement costs because they believed they would not have been able to defend their position in court.

“In Russia, the judge would have probably considered that the policy meant brand new equipment, the insured would have ended up with something different in repaired equipment and it would have ruled it a breach,” he said.

Another issue can be the extortionate cost of specialist replacement equipment because only a small number of suppliers make it—this dynamic can increase the costs dramatically.

Prandetsky noted that the picture around claims handling in Russia has become more complex as insurance legislation has developed and the variety of risks has also increased.

Dr Andreas Shell, global head of short tail claims at Allianz Global Corporate & Specialty, then gave his perspective on claims handling in Russia.

He explained that insurance is still a relatively new concept in the country and, therefore, some people are still wary of the philosophy behind it.

“Culturally, a lot of people still think that insurance companies just take premium but never pay,” he said. “This is not a good start for a partnership, which is what an insurance contract should be.”

He also said that professional qualifications for the industry are still relatively new, with many qualifications only starting in the mid-1990s.

“The expectation cannot be to have many highly qualified insurance experts. There are people who have worked in insurance for a long time but this new generation will receive an education in this field which they then will put in practice. This will be another entry point for international standards to be introduced in Russia,” he said.

He also claimed that the Russian authorities seem sceptical of the industry, given the number of checks that they make with tax authorities, currency control and the supervisory agencies. “They make it quite difficult to do business and to handle claims,” he said. “For example, tax inspections hamper the payment processes of claims which means you must be really careful around how payments are made and good documentation. There is a lot of red tape and bureaucracy around making payments.

“That is not beneficial for clients. That atmosphere is often not cooperative but actually more confrontational.”

He said he rarely sees court disputes around claims. The company also struggled with finding executives willing to make a decision on claims. “We constantly struggle to find somebody who can actually make a decision and settle the claim with us. There is nobody who will take responsibility. Usually, it’s left to committees, which slows down the process.”

Ulrich Werwigk, a senior claims manager at Swiss Re, then spoke about Swiss Re’s claims management especially in the line of business engineering claims, along with colleague Philip Sager.



He made the point of the importance of the claims payment as it delivers on the promise of the re/insurer, in his case Swiss Re, to pay in the case of a loss. “What is crucial is close cooperation. We are coming from an international perspective and we see the Russian market as different, with some historically different approaches.”

He said that even across Europe, big differences can exist in the way claims are handled. “This shows how complex and how difficult claims handling between countries can be and means we have to consider different market practices. Our goal is to understand your market practices because that makes it easier for us to pay fast. It is very important to have cooperation,” he said.

He also said that he believes claims experts can and should help underwriting and risk management departments in businesses.

GOOD COMMUNICATION

In the final session, Eric Bentz, engineering claims manager at SCOR, covered risk transfer and loss adjusting. He stressed the importance of communication throughout the process, especially around the terms of indemnification, and the legal framework that underpins the process.

“Before and after a loss it is important to communicate but with so many parties that is not always easy,” he said. “The insurer should be close to the insured but when there is a claim you have the loss adjusters involved. They might require more technical detail. So you need communication between loss adjuster, the insured and the panel.

“Then, you need to also keep in mind the legal context and the jurisdiction of the policy. This comes down to the wording of the direct policy and jurisdiction in the insurance contract. Then you have legal advisers involved and that makes communication even more complex.

“When a claims notification is started, you start the loss-adjusting process. Then you need more information available and more technical detail. There is the question of policy liability and whether the wording is clear.

“The next step is the agreement between the insured and insurers in regard to the liability of the policy. Sometimes the insured believes it is more covered than it actually is. This again comes back to communication.

“Last, you apply all this to the indemnification of the insured. A key issue is that the insured makes a claim in an acceptable time frame.”

A topic that was widely touched on during the debates was the release on July 1, 2013, of the amended City Construction Code in Russia, which regulates for a joint liability of all parties engaged in the construction, including the government agencies.

Aleksandr Potitov from Liberty Insurance, said he saw two big issues emerging: personal injury indemnification, which does not only include

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Mikhail Ermishkin

the actual cost of damage but also additional fixed compensation similar to moral damage compensation; and in the case of residential construction, the point that the developer or another key person in charge can be held responsible for personal injury.

That could include compensation to building workers and construction workers for the contractor and subcontractor, which in the classical section of construction all risk (CAR)/erection all risk (EAR) is excluded.

“We will have to work in this environment and the law and the courts will base their decisions on that new version of the code. But we want to understand the implications of this,” he said.

During the general discussion that followed the various presentations, Mikhail Ermishkin, head of the engineering underwriting department at Pamosch, explained that he is seeing improvements in the process and culture around claims handling in Russia with a greater emphasis being put on the use of independent loss adjusters.

“When we deal with clients over major losses, our insureds request two additional conditions. First, they ask for information on the reinsurance protection for major risks in the top layers and mostly European and international reinsurers are involved. The second thing they want is an independent expert. They want a loss adjuster to be involved in the loss assessment. That is a positive trend.

“I take these things as a positive sign that the market is moving to a better insurance culture especially on major risks. And I do hope that Russian insurers will enjoy a mutual understanding with loss adjusters and western reinsurers.”

Peter Naumenko of British Insurance House, agreed that things are changing for the better.

“The Russian insurance market is taking a more civilised shape,” he said. “As regards claims settlements I do not know of any cases where a government authority has prevented a civilised settlement. The statistics on the Russian market are very favourable—many countries are worse. Any insurer that wants to do serious business in construction engineering risks would need to do it properly,” he said. □

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For a full transcript of the discussion, visit the website of Reunion AG in October at: www.reunion.ch/publications