Insurance POST

Supply chain focus: How TPAs view the changing landscape

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NEED TO KNOW

- Tendering has shfted to include a deeper dive into a supplier's future business plans
- Suppliers bemoan the lack of expertise in terms of those charged with choosing the suppliers

Days of the insurer beating the supplier up are a little bit dated

Insurers are now demanding as broad a territorial coverage as possible

Supply chain procurement continues to evolve against a backdrop of consolidation among both insurers and third-party administrators. Edward Murray looks at how tendering is changing from the demands on suppliers to the length of partnerships

Winning a contract from an insurer can transform a supplier's business overnight, but unless the relationship is thoughtfully conceived and proactively managed it will not generate the mutual benefits sought by both parties.

In recent years insurer tender demands have increased in both scope and scale. The timeframes over which relationships are expected to run is changing, while geographical considerations are also taking on more importance.

This article examines these issues from a supplier's perspective, looking at the impact of changes and exploring where further adjustments could be made to improve the commercial outcomes for all stakeholders.

Large composite insurers have run in-depth and detailed tendering processes for a long time. Third-party suppliers have always been integral to enabling insurers to complete internal processes and to fulfil claims.

However, the question insurers are asking suppliers today is not 'can you do the work?' but 'can you do the work in the way we want you to do it?'.

A shift to a deeper dive

"Whereas before, questions might have focussed more on technical expertise and technical knowledge, there has now been a shift to questions that do a deep dive into the wider business, a firm's strategic objectives, priorities and future business plans," says Rhod Richards, partner and head of business development, DAC Beachcroft Claims Solutions.

He adds: "Put simply, insurers want to be sure that they are partnering with the right organisations that share cultural values and, crucially, firms that have the financial robustness and business acumen to support the insurer's own goals in the medium to long-term."

Peter Marsden, managing director at National Windscreens, agrees. He says: "The tender documents are getting a lot more extensive than they ever were and they are probing into parts of the business that they were not interested in before."

A lot of the deeper analysis is driven by the **regulatory demands** that insurers have to meet and the more complex environment in which they are now operating.

Marsden comments: "While insurers are regulated by the Financial Conduct Authority they have to comply with certain complaints ratios and the speed at which complaints are resolved. We are heavily involved in making sure we comply with the insurer's requirements, so they can comply with the FCA's regulations. A lot of it feeds down from the regulations that insurers have to deal with."

The challenge for insurers is to balance regulatory demands with the move towards greater cultural alignment and the ability to appoint suppliers that can deliver technical excellence at the point of need.

Expertise shortfall

However, it seems that in some tendering processes, the people appointing specialist suppliers do not have the specific expertise required to properly assess the technical competence of those they are appointing.

This lack of understanding is a major concern for Andrew Bussey, a director at Smithers Purslow. The structural engineer and building surveying firm specialises in complex and large loss claims with particular focus on listed buildings, high net worth and non-traditional properties.

He accepts that his company is a niche supplier and that insurers must assess the financial, operational and cultural set-ups of prospective partners. But he worries that these considerations sometimes come at the expense of technical capabilities.

Bussey says: "We provide niche services on high end losses and difficult jobs such as bespoke buildings, ugly fires and so on. We will do a presentation to a supply chain team and most of the people in the room have never been near a fire like that or have any experience of the coalface whatsoever."

He adds: "It is absolutely vital that people who are in charge of **buildings claims** and who know the challenges that go with them, are part of the supply chain selection process. We have done presentations in front of people where the questions asked have made it very clear that they do not have any depth of understanding of the area."

While parts of the supplier selection process are a sore point for Bussey, he, like others, believes that insurers are working harder to develop partnership for the medium to long-term. They want to work in conjunction with suppliers, rather than simply running an outsourced service agreement and leaving suppliers to their own devices.

This more involved approach is self-serving and comes on the back of hard-learned and expensive past experiences, according to Chris Cowen, client relationship manager at Auger, a technology specialist serving the UK insurance industry in drainage and water mains services.

He comments: “As insurers align their procurement and supply chain management they are increasingly aware that the more hands-off they are in a claim, not only do costs increase but complaints increase exponentially.”

Clearly, neither outcome is desirable, and so there is a greater desire to use suppliers as integral parts of the insurance operation, rather than third parties that are kept at arm’s length.

Closer collaboration

Marsden certainly believes there is a push towards closer collaboration. He explains: “We would like to think there is a move towards longer relationships. The days of the customer beating the supplier up are a little bit dated. We look to enter relationships and partnerships with our insurance customers. We are open and transparent with what’s going on so that they understand our business and we try very hard to understand theirs.”

This more integrated approach has manifested itself in a move towards longer contracts. In the past, multi-year contracts were not always the norm and when new supply chain managers took up their post, many sought to make their mark by reviewing and changing the incumbent suppliers.

In reality, this resulted in many insurers trying to re-invent the wheel, creating little in the way of improved outputs in the long-term and destabilising operations in the short-term.

Bussey comments: “In many cases what was in place worked very well and too often things were changed just for the sake of change.”

Richards agrees that insurers are moving away from this approach and he adds: “Insurers are now looking for longer term strategic supply chain relationships and talk very much in terms of strategic partnerships rather than ‘supply’.

"From my experience, insurers want relationships that can be developed and built upon in ways that ensure the insurer's own business and customer, broker and wider stakeholder offering is as strong as it can be in a highly competitive market."

Decline in supplier numbers

To some extent, market dynamics are behind this move. Fewer suppliers are capable of meeting the demands of insurers, while there is an argument that working with fewer third parties makes it easier to drive efficiency, consistency and quality standards.

Richards says: "Over the years, the number of suppliers in the supply chain has decreased dramatically; in legal services (for example), the numbers have fallen from as many as 35 firms (18 years ago) to fewer than three or four firms now; on rare occasions, there are panels of only one, especially for highly specialist work."

Longer and more collaborative relationships enable both parties to grow closer together over time and establish very powerful working relationships. They create certainty as Marc Lafferty, chief revenue officer at Edam Group, describes: "It takes time to build up key relationships between businesses and many supply chain/procurement managers would be reluctant to lose this in favour of moving into the unknown, regardless of what is offered by the potential alternatives."

But as insurers look to build longer, more certain partnerships, they cannot let closeness become cosiness. The relationship must still be audited robustly so that it represents best rather than convenient practice. Indeed, by proactively managing relationships it is possible to generate significant additional value for both parties.

Marsden explains: "We had a presentation with a major insurer recently and it was really to their actuaries and underwriters so they could understand what advanced driver assistance systems are and what recalibration meant for costs. What we have to do? Why we have to do it? How long it takes? The technical expertise required and so on.

"It was not just about telling them about our service around glass repair, but also the other technical developments that are being incorporated into cars such as headlights and auto-dipping beams, for example. There can be thousands of LED lights in a headlamp and so repairs run to thousands. We can give the insurers additional information to our core product offering."

Such industry-specific expertise and insight gives insurers incredibly valuable information and for motor insurers it feeds directly into one of the biggest challenges they are currently facing.

Marsden adds: “The biggest dilemma that most of the insurers have at the moment is how to structure their premiums and excess levels for cars that are equipped or not equipped with ADAS features.”

If the relationship was purely functional, then suppliers would be loath to invest the time and resource in making such presentations and insurers might be reluctant to listen to partners with which they only had a short-term arrangement.

Where these exchanges of information are part of the on-going partnership then suppliers can demonstrate expertise and commitment while insurers can improve their pricing and product offering.

Technology sector stands alone

The one area where supplier relationships are not all tending towards longer terms is **technology**.

John Price, chief operating officer at IT provider Scheme Serve, explains: “12-month contracts are now typical as opposed to the five and 10-year ones that we may have seen some years ago. The reason for that is that nobody wants to end up with a commitment to a technology that might get changed out down the line, and particularly in light of current merger and acquisition activity which could leave them with two or more different IT solutions. Insurers want to keep their options open to turn one off or move them to another platform as quickly and as easily as they can.”

Looking at how this could alter the make-up of contracts, he adds: “It might mean that suppliers start to look at changing contract terms - providing get out clauses during the longer-term contracts that says, for example, that if you happen to lose capacity, then you can get out of the contract for nothing.”

Time is not the only consideration for suppliers and insurers when signing contracts.

Geographical coverage is also an important factor. As insurers seek to work with fewer partners, they also want broad territorial coverage wherever possible.

Geographical coverage

Lafferty says Edam Group is UK-focused, but has experience of trying to cement international arrangements. He explains: “Edam Group only operates in the UK, but having worked within global organisations previously I feel that there are challenges on whether decisions can practicably be applied consistently across an international organisation."

Marsden says National Windscreens has created a reach beyond its own UK operations by partnering with others: "UK, European and global demands are now being put on suppliers. We predominantly cover the UK ourselves and we are party to a consortium called Automotive Glass Europe. There are 20 European countries in there and they are all organisations in their own right that are partners, so we can provide a service to some of the European insurers."

However, he accepts this arrangement does not create complete consistency and adds: "We have a UK agreement with the insurer. In terms of service delivery, how smoothly the claim goes through, and the level of service provided, we try to meet the same contract terms through our partners. But in terms of price there is not a match as different countries have different pricing structures."

Given the size and scope of relationships between insurers and suppliers, it is not surprising there are still some crinkles that need to be ironed out. But agreements have evolved significantly and the move towards closer and longer partnerships is driving benefits beyond price and efficiency.

For the first article in this series, **'Supply chain focus: Aligning cultures when choosing partners', click here.**

For the third article in this series, **'Supply chain focus: How ADAS is shifting the goalposts in motor repair', click here.**
