

# Watch: Find out what's driving claims inflation for commercial liability

**MARK SEATON:** Hi, I'm Mark Seaton and I'm joined by Gary Jackson and we're going to talk about inflation and claims management. So Gary, what are the main drivers at this moment in time in claims inflation for liability?

**GARY JACKSON:** I think, first of all, we need to think about what inflation actually is for, for liability claims. So liability is a long tail class so really we are looking at when we underwrite a risk now what will it settle at in 2, 3, 4, 5 years time even when the claim actually settles. There are a number of factors that are probably driving inflation currently. So one of the big ones is in terms of property losses. So we all know at the moment cost of materials, building materials, etc is very high. Also, the cost of builders contractors is also high, so that means you have some very high inflationary pressures there.

Then turning to injury claims. There are a number of different factors there. So when you look at an injury claim, it's made up of a number of component parts. So for instance, general damages, which is the cost of the injury itself, the pain and suffering suffered by the claimant. That is dictated by what is called the Judicial College Guidelines. Those are set every two years and we are due for a new set of guidelines in April 2024. Those are linked to RPI and RPI is obviously running very, very high currently, so that will lead to an increase. In terms of other factors, wage inflation is also running high. So if someone's injured and they are off work, it means that their loss will inflate over the period it takes to actually settle that claim.

**MARK SEATON:** Can you tell us a bit more about the cost of care and what's driving that particular element of inflation?

**GARY JACKSON:** So this is particularly pertinent on the larger losses. So if someone suffers an injury and then requires care because of those injuries they will require a carer to come in and see them. Now first of all, it's the actual hourly rate for that carer, so that's going up because of the wages increases. But on top of that there's a lot at the moment going on with regard to care packages. So people may need double up care, 24/7 care so for our largest claims, that is a large constituent part of that inflationary pressure. Also, if you have things like aids and equipment prosthetics, those are going up increasingly. So all those add into the inflationary costs.

**MARK SEATON:** And the development of prosthetics as an example, is fantastic for those who who need it and a great medical development but it costs a lot of money and obviously that pushes our costs up quite considerably in the event of a claim that requires prosthetics.

**GARY JACKSON:** Absolutely. And it's not just the cost of one limb so let's use for example, that someone's had their arm amputated. They may need different types of limbs.

**MARK SEATON:** Yes.

**GARY JACKSON:** So it's not just a single one. And also they have to be replaced on a regular basis. So you can see if you have two separate limbs that have to be replaced every say five years, it's a very expensive process. So with that all being said, how does that impact the underwriting side of things?

**MARK SEATON:** Yeah, as you'd expect, we've talked a lot about this recently. We're in a position where we've spent a lot of time and effort, advancing our price and sophistication and part of that has been

looking at how we reflect claims inflation in our pricing to a better degree. And we have to price a risk now and be aware that we may be paying a claim in 4, 5, 10 years time and actually we need to reflect that claims inflation over that period. And we also, when we're looking at a risk which has claims in its history, we have to make sure that we've inflated those claims appropriately from an historic value to today's value and then provide the inflation on top of that looking at the future. So there's a lot of complexities to how we price.

The other thing we look at is make sure that our exposures are fully up to date. So whether it's wage roll, you've talked about how wages are going up and have been for a period of time. Getting up to date wage rolls from our brokers' clients is critically important so that we can provide sustainable pricing, accurate pricing and make sure it fits the needs of both ourselves but also a client and a broker moving forward.

So considering all that, Gary, how can brokers and clients help to mitigate the effects of claims inflation?

**GARY JACKSON:** Probably a number of things that we would ask brokers and clients to do. So one of them would be to keep records, so accident book entries and that kind of thing, just so that we've got those records available to us. We would also say support us when we look to investigate claims in terms of rehabilitation if there's rehabilitation possible for a claimant who's been injured. But probably the overarching thing I'd say, and a key message would be let us know about the claims early.

**MARK SEATON:** That feels like the most critical piece, right?

**GARY JACKSON:** Absolutely because the sooner we can get hold of the claim, the sooner we can get the right experts on it, the sooner we can investigate it, the sooner we can make offers if that's the right thing to do. So it's absolutely key getting the claims into us early.

**MARK SEATON:** So Gary, how does Aviva help with all this?

**GARY JACKSON:** So once we've got the claim into us, and again that is the key part, get the claim into us, we can then get it to the right expert. We now have various analytics tools that will make sure that the claim is routed to the right expert, at the right time. Then we can get our investigations completed. And once we've done that, we will have done all our fraud checks. So if there's any potential fraudulent activity that would've been picked up. If it's a claim that is genuine, then we will make a fair offer early to try and get that claim settled. That mitigates all those inflationary impacts that we've been talking about earlier. So it, it really is that key thing, getting the claim into us, getting it investigated, getting an offer out early, getting the claim settled early.

**MARK SEATON:** That's great. Is there anything more we can do?

**GARY JACKSON:** I think we need to challenge in the right places. So Aviva will look at claims. I've talked about fraud, but also in terms of individual heads of loss. So if there are elements which we think need to be investigated, we'll do that and we will challenge on them. We want to get the right outcome for the claim, get it settled quickly at the right price.

**MARK SEATON:** Thanks for that insight Gary. Really, really useful. So clearly early notification is absolutely critical. The quicker you get information into us, the quicker we can handle the claim and the lower the cost will be and we can mitigate the inflationary pressure that we're all seeing.

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