Working Group 130 (23)

Development of a code for claims classification in the engineering insurance industry

The Phase – The Peril – The Cause

Résumé and proposed classification system

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(N.B.: No legal firm/carrier as well as job titles are used so far.)

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Assignment and scope of the working group

Without a common claims classification system for engineering claims, statistical comparisons become problematic. The working group paper will cover [Richard Radevsky, September 2022]:

- Current claims classification systems
- Problems in making comparisons
- Potential benefits in developing a common system
- Implementation issues
- Overcoming difficulties of historical trending and legacy classifications
- Proposals for a code

The points mentioned above were the starting point for the working group's efforts to propose common classification for IMIA, primarily for the project business in construction and engineering all risk business.

Current claims classification systems

To obtain a basic understanding of the different classifications that exist among IMIA affiliated carriers, classifications were obtained by the members of the working group from eleven insurance companies. The claims classifications received represent the current approaches of carriers with original origins on three continents, with a focus on Europe, and depict all lines within the engineering insurance industry.

In addition, classifications from two organisations operating in London (LMA-London Market Association and LPC- London Processing Centre) and three national insurance associations (Italy, Austria, and Turkey) were also included in the review.

The compilation and comparison of the wide classification systems mentioned revealed, at one glance, that the basic idea for this group's task, namely looking at "Potential benefits in developing a common system", is obviously. Why? The manifold number of different classification systems as well as their varying and passed-on approaches, simply do not allow for some comprehensive comparability and statistical evaluations of claims across the engineering insurance industry.

Implementation issues

The very fact that there are manifold approaches to different classification systems almost implies that a common classification system is likely to pose high hurdles for many who would like to implement it. The extent to which different carrier's philosophies need to be overcome for a common claim classification system will highly depend on the practicability of such a system.

A serious question may be whether carriers are more likely to be committed to their own claim classification system than some common approach of a private organisation, admittedly one that they belong to of their own free will.

Overcoming difficulties of historical trending and legacy classifications

So, what might be achieved by using a common classification? To what extent is such a classification useful to provide connected markets with objective information? If so, what benefits could be derived from such an approach for carriers involved?

Scope and course of action of the working group

The intention behind the IMIA code proposal is to offer and recommend a Best Practice classification method for engineering claims. To make such a code more appealing to carriers in the industry, not only technical aspects and experiences of the working group members is substantial, but also user friendliness and the proposition to keep things simple where possible. At the same time, an attempt is made to cover all particularities of extraordinary claims that we have been seen in the past.

Based on that, the different approaches to some classification systems were – during a workshop – examined and compiled into an initial framework concept for a common claims classification resting on three pillars:

The Phase – The Peril – The Cause

This framework was then tested for its applicability using anonymised real claims/losses and further refined.

Potential benefits in developing a common system

The benefits of a common classification system are manifold Besides achieving comparable results, one goal is to improve data quality as many claims are incorrectly coded in existing systems. To make this possible, not only the coding needs to be clear and understandable to the individual handling it, but also the claim needs to be addressed at different stages during its life cycle. This is important insofar as, for example, details of the root cause in complex claims most likely are not known when initially setting up a claims file.

Moreover, the understanding of a claim evolves along its lifecycle. This aspect goes into a different area as it touches the operational process behind the claims handling process within insurance companies and may go beyond the objectives of this working group but is equally as important.

One could say that key milestones in the handling of a claim are:

- Setting up
  claim files in the system, i. e generating a claim number (code needs to be defined).
- Approval of
  first payments of account (assuming that the cause of loss is clear and known).
- Closing of
  claims in the system, here the cause of loss must be clear at the latest (final point in time a claim is actively modified in the system).

Given the above, it it would be purposeful to implement a claims handling process where the correct coding of a claim is revised, e. g. at the above-mentioned points in time.

On the prospects of success of some IMIA common code and its rollout

The practicability of the use of a common claim code by affiliated carriers is likely to be a decisive factor. Moreover, transferring of codes from existing claim classification systems into a new common code ought to be as congruent as possible among carriers. The greater the understanding of a common approach, the greater the success should be – theoretically.

Thinking a bit ahead, one of the aspects discussed within the working group referred to including the claims classification in the loss adjuster report. Should the proposed coding enjoy widespread acceptance in the industry, the claims code could be part of such a report. Hereby, claims handler would be given some support in choosing the right category, and furthermore serving some overall purpose of comparability.

Appendix: Proposed classification system

THE PHASE	THE PERIL	THE CAUSE (predominant)
Works (all kind, both ‘early’ and ‘late’)	Breakdown - electrical	Arson
Commissioning/testing	Breakdown - mechanical	Breakdown - whether electric/mechanical
Maintenance	Collapse/structural damage	Collision/derailment
Initial operations/ 1st year/ramp-up	Communicable disease	Control/management/operating systems failure by human failure
	Contamination	Control/management/operating systems failure by software failure
	Corrosion	Cyber as act
	Cracking/fracture/rupture	Cyber as incident
	DSU/ALOP	Defective design, plan, or specification
	Earthquake/seismic	Defective material/equipment
	Explosion (chemical), e. g. ignition	Defective workmanship
	Explosion (physical), e. g. rupture/over pressurization/overheating	Escape of fluid
	Fire	Fluvial
	Hail	Groundwater ingress
	Impact	Hail
	Landslide, among others mudslide	Handling/lifting
	Lightning	Lightning
	Mailicious act	Never established
	Mysterious disappearance	Other
	Named windstorm	Pluvial
	Seepage and pollution	Preventative measures
	Snow/ice/freezing	Service/power interruption
	Storm/tropical storm/windstorm - hurricane/typhoon/cyclone	Short circuit/electrical failure
	Subsidence, e. g. settlement	Snow/ice/freezing
	Theft/burglary	Storm surge
	Third party: bodily injury	Stress corrosion cracking
	Third party: property damage	Strike riot and civil commotion
	Tsunami	Terror
	Water damage (external), e.g. flood and alike	Thermal runaway
	Water damage (internal), e.g. piping and alike	Third party
	Wildfire	Transit
		Tsunami
		Wildfire
		Wind