

Compensation Culture

Note of meeting and actions agreed:

Attendees:

Aon / NU	APPG	Others
<u>Aon:</u> David Roberts, Managing Director (Risk Management Services) Sebastian St.John-Clarke, Media Relations Manager <u>NU:</u> Dominic Clayden, Director of Technical Claims Services	John Greenway Baroness Turner Lord Davies Lord Brookman	David Worsfold David Morey (PwC)

1. Aon

Aon briefed the Group on the results of a survey it had undertaken in the Summer of 2004 to dispel or prove the existence of a compensation culture in the UK. The survey was carried out by requesting more than 500 public and private sector organisations of varying size and business type to respond to a web-based questionnaire

The results of the survey have been published in a document titled *Blame, Claim and Gain: The Compensation and Blame Culture, Reality or Myth?*

Aon highlighted a number of the key respondent responses:

- 75% believe the growing compensation and retribution culture, if unchecked, will place an unsustainable burden on industry, commerce and public services
- 62% have seen an increase in the cost of claims
- 48% have seen a noticeable increase in the number of claims from employees over the last 5 years
- 60% fear the compensation culture distracts management
- 49% said it diverts financial resources from core activities
- The top three factors identified as driving the growth in claims were:
 - 'no win, no fee' legal services (28%)
 - media advertising for claimants (24%)
 - reluctance of insurers to defend claims (as cheaper to settle)

From the findings, Aon recommends:

- Tighter controls on advertisements, particularly those promoting 'no win, no fee' services and those sited on medical premises
- More rigorous screening of claims by the courts to root out spurious or malicious claims
- More vigorous defence of spurious claims by insurers

Aon also explained a number of other matters which it has noted as a consequence to increasing claim costs:

- Firms are looking for greater certainty over their costs (insurance premiums and claims costs), which is driving the adoption of more rigorous Risk Management standards to prevent and manage costs
- Greater emphasis of pre-screening of prospective employees to avoid employer liability arising from pre-existing long term health issues (which Aon believes had lapsed in the 1980s/90s)
- Greater emphasis of event management such as the use of photos of accident scenes, the collation of witness statements etc
- Greater focus on working with employees to help them return to work after an accident

Aon noted that the cost of responding to claims added to the cost base and may drive the desire for offshoring, although this tended to include the offshoring of the firm's risk management standards at the same time (i.e. not offshoring to an area to avoid the compensation costs).

Aon also referred to the increasing trend towards the use of captive insurance arrangements by firms seeking to control the overall cost of insurance and better manage the claims (e.g. able to decide whether sensible to take spurious claims through the court).

Aon suggested that there may be scope to consider more formal workers' compensation arrangements/scales, as adopted in certain US states.

2. Norwich Union

NU emphasised the point that insurers handle a very large volume of claims and are in no way looking to avoid their responsibilities under insurance policies. However, there are cases where claims are apparently spurious (an example was quoted of a woman stepping into the road and being hit by a car and then seeking compensation on the basis that wording printed on an advertisement on the other side of the road was so small that she had been distracted by the desire to read it!).

NU believes that some claims management companies are certainly responsible for driving some of these more dubious claims. It was also noted that some of these companies even made more money on claims that did not succeed driving the desire to identify all possible (even though doubtful) claims cases.

NU noted that claims volumes don't reflect the full picture as some activities that might previously have given rise to incidents are no longer taking place (e.g. some school trips are no longer provided).

NU noted that 40% of the cost of claims is now paid to claims lawyers and this is increasing over time.

After-the-event insurance seems to be of particular relevance to the increasing number/cost of claims, for which in most cases the customer is not required to pay any premium. Most of this insurance is driven by accident management and specialist after-the-event companies.

Increasingly, personal claimants seem to need to rely on the services of a solicitor, which was not previously the case.

NU agreed that Legal expenses cover sold with primary insurance (such as household/motor) did not tend to be a driver of the increasing trend towards compensation.

3. **Actions agreed**

In summary, the key areas for consideration were identified as:

- Controls over advertisements
- Regulation of claims management companies
- Regulation of the after-the-event market

NU agreed to prepare a brief summary paper for the Group on the After the Event insurance market. This should be available within a couple of weeks and will be circulated to the Group.

DL Morey
13 October 2005