An examination of the procurement of insurance-funded repairs to privately owned dwellings

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An Examination of the Procurement of Insurance-funded Repairs to
Privately Owned Dwellings

Submitted by

Allan D Tew  MSc MBEng MCIOB ACII

A doctoral thesis in partial fulfilment of the requirements for the award of Doctor of
Philosophy of Loughborough University

November 2003

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ABSTRACT

This thesis identifies an area of construction that is under-researched from both the construction and insurance perspectives. This an industry sector that remains unrecognised as a potential source of new business that is capable of producing a continuity of work consistently over time, possibly in perpetuity.

The sector remains unattractive partially through a failure to realise that the work volumes are significant in the terms of both job frequency and total annual spend. An annual spend that is unrecognised as contributing approximately 10% of all Private work undertaken within the Small Works industry.

This research therefore undertakes an investigation to identify and understand the unique and novel characteristics exhibited by this sector that set it apart from other forms of construction activity. The thesis shows the insurance building repair market to be significant, changing yet jargon-ridden and inefficient.

The industry is shown to potentially benefit from the advances made in other industries/sectors of construction in the terms of Procurement Practices, Forms of Contract and Performance Monitoring. The sectors worthy of emulating are identified as Insurance Motor Repairs, Social Housing – Responsive Repairs and Supermarket- Client and Supplier models. However these benchmarking exercises all arise for a variety of distinct and different sets of reasons.

Against this background the sector faces a number of problems including Liabilities (where do contractual responsibilities rest), General control (avoidance of cash payments to policyholders), Management of work volumes and reducing Transaction Costs. This research offers solutions in the form of an example contract, example KPI’s and example Code of Practice and Partnering Charter.

This all within a sector shown to be, in a number of ways, constrained by the limited number of large and dominant organisations available to act as industry clients. An industry therefore shown to be analogous to that of the supermarket sector where the problems of complex and scale monopolies exist barely below the surface of all supply chain activities.
Acknowledgements

I would like to sincerely thank Geoff Hodgson for taking on the supervision of this research, for his encouragement, direction and guidance and for instilling in me the belief that this task was capable of fulfilling.

In addition I would like to express personal respect for Professor Tony Thorpe who, despite the pressures of his role, always made time to see me and recognised the subject area as being one that was worthy of study.

Finally my greatest debt of thanks goes to the greatest loves of my life, my wife Dawn and children Gabriella and William. This for their unwavering support, putting up with the grumpy man working on the laptop and for allowing the enormous disruption of our family life.
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Chapter 1

Introduction to Research

1.1 Background

This research describes an investigation into the procurement of low value, high volume repairs to privately owned dwellings funded through claims made under household insurance policies. The work was prompted by the evidence of changes occurring within both the building and insurance industries.

The annual value of building work undertaken within this market was approximately £1 billion for the financial year of 1997. This figure equates to approximately 10% of the total expenditure recorded under the small works classification of the construction industry but insurance repair work has received little attention from either building or insurance researchers.

Until the 1990s insurance companies had dealt with building claims by directing the private policyholder to obtain three estimates and thereafter a payment was released based upon the cheapest price received. This option presented difficulties for insurers in demonstrating value for money and for policyholders in finding three builders willing to quote for the work. The problems for the policyholder were compounded when attempting to organize the works, which in effect left many preferring to keep the money and carry out a cheap repair themselves.

The 1990s saw the advent of the direct insurance companies whose new information technology systems enabled the capture of significant volumes of data leading to the greater control of expenditure.

The direct writing insurance companies initially focused on the private motor industry. In this area they revolutionised the new business process by eliminating the use of intermediaries (Brokers), and also re-engineered the accident repair industry through developing cost efficient relationships with approved repairers.

The use of partnering techniques with vehicle repairers resulted in both lower claim costs and improved customer satisfaction.
This alternative approach to the procurement of repairs has gradually migrated to the other main areas of personal lines insurance business; household buildings and the dynamics for change have thus been set in place.

At the same time as customer care was evolving in the insurance sector the effects of the Latham and Egan reports were impacting on the construction industry identifying the need to improve overall performance in the servicing of customer needs. Over the same period significant changes arose in the structure of the insurance market as a result of a continuing trend of acquisitions and mergers by and between the UK’s leading insurers.

This research considers the developing trend towards the use of organized networks of building repairers and reviews the industry specific problems challenging those involved in this volume based, customer facing, consumer focused sector of the buildings/insurance industry. It also critically examines some of the beneficial and potentially negative influences that are present within what is essentially a rapidly changing procurement environment, including:

- Benchmarking with motor repair social housing markets
- Establishment of market size
- Contractual relationships
- Procurement practices and options
- Establishment of industry specific value enhancing procedures
- Complex and scale monopoly situations in consumer markets
- The industry specific business efficiencies
- The perspectives of industry participants

1.2 Problem Statement
By the very nature of risk, the catastrophic incidents (floods, fires etc) that give rise to large scale building repairs to private dwellings happen relatively infrequently and are localised in effect. The converse is also true in that the more mundane events of leaking shower trays, dislodged roof coverings and knocked over boundary walls occur with much greater regularity and more widespread impact. The catastrophic incidents are newsworthy and generate at least morbid interest but the mundane is paid very little attention particularly by insurance or construction researchers.
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The greater frequency of the mundane events is measured, by this research at in excess of 1 million incidents per annum across the UK. This predictably gives rise to the problems of effectively managing a high number of small and geographically dispersed repairs. These small jobs are funded through claims made on household insurance policies. The difficulty of managing 1 million repair jobs is compounded by a multitude of interpretations of insurance law, principles and practice.

An insurance policy is a contract where ordinary English words have special meanings leading to the inevitable problems of inter-disciplinary jargon i.e.

"was the flaunching detached from the chimney by storms or bad weather"

This leads to at least two contrasting questions;

a) The insurer and insured ask "what is meant by flaunching"
b) The insured and builder ask "what's the difference between storms and bad weather"

Additionally the policy pays the cost of valid repairs (contract between policyholder and insurer). The repairs are carried out at the policyholders home (contract between house-owner and builder). Historically the policyholder received the money from the insurer and paid the builder. But what if the insurer introduces the builder – who does the builder, now act for when working in a third party property (i.e. the insured’s home)?

The use of insurer's builders has increased over the past decade at a time of similarly increasing activity in the mergers and acquisitions between insurers, which has in effect left a small number of influential, if not dominant, insurer clients in this market. This change in market structure has coincided with a more focused approach to supplier relations and the use of preferred contractors. These preferred contractors may or may not be aware that insurer's ability to provide them with a sustained volume of work over time depends on the insurers relationships with mortgage lenders whose customers hold insurance policies. The true longevity of these contracts would no doubt influence the contractors pricing strategies and willingness to participate.
As a result of current financial services industry changes these relationships have lost much of their traditional long-term stability as insurers themselves must now re-tender for the mortgage lenders business (those that have, unlike the Halifax Bank of Scotland, not yet established their own insurance company). The big volumes of repairs are therefore potentially available for a 1, 2 or 3-year period and may then disappear to a rival insurer or indeed to an in-house insurance company.

In essence the subject area of this research reflects the following attributes;

✓ Significance in the size and financial worth of the industry
✓ Adverse affects of jargon
✓ Absence of formalised contractual routes/relationships
✓ A changing environment

The area of application for this research would potentially benefit from the advances already achieved in other industries/sectors of construction in the terms of;

☐ Procurement practices (particularly partnering)
☐ Contracts (there is currently no standard form of contract)
☐ Performance Monitoring (use of KPI/BVPI's)

The sectors that appear worthy of emulation are;

Motor Insurance Repair
Social Housing Repairs – “Responsive Repairs”
Supermarket – Supplier relationships

Each of the sectors of industry identified above possess a distinct set of analogous traits falling at different points along the continuum from the beneficial to the concerning, as described below
<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Commonalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Insurance Repairs</td>
<td>This sector demonstrates that with appropriate procedures in place insurers are able to capture, manage and deliver a consistent and increasingly predictable flow of work to repair partners. At the same time they are consequently showing significant cost savings and improvements in customer service.</td>
</tr>
<tr>
<td>Social Housing - &quot;Responsive Repairs&quot;</td>
<td>This sector exemplifies the benefits of the development and use of Work Categorisation and Best Value Performance Indicators. Responsive Repairs are also analogous to insurance repairs in the terms of job size and frequency whilst also recognising the difficulties of working within occupied properties. The attendant Cost Reduction vs. Customer Service balance is also showing signs of being successfully achieved.</td>
</tr>
<tr>
<td>Supermarket - Supplier Relationships</td>
<td>This area has been shown through the recent, and ongoing, investigation by the Office of Fair Trading initiated Monopolies and Mergers Commission enquiry to be susceptible to inequitable working practices. The investigation centred upon the exploitation of suppliers and unethical trading demands of clients that may become prevalent in complex and scale monopoly situations in instances where there are a limited number of clients. Hence in this instance cost savings and improved service were being achieved at the expense of the supplier resulting from passing costs down the supply chain rather than eliminating them altogether.</td>
</tr>
</tbody>
</table>

Table 1 Benchmarking Comparative Industries

Arising from the circumstances described above it is argued by this research that it would be sensible for insurers to have framework arrangements in place with contractors (suppliers) and this is developed though the procurement process. This it is suggested would in the pursuit of both transparency and consistency be reflected within an appropriate form of contract. The content of the contract, within bespoke service level agreements, would then provide for open and consistent measurement of both contractor and client performance through the adoption of industry specific Key Performance Indicators.

Thus resulting from a combination of fieldwork and benchmarking exercises this research, has ultimately led to the development of an example contract, example KPI's and example Code of Conduct and/or Charter to underpin the relationships.

This Problem Statement is demonstrated diagrammatically within Figure 1 below.
Figure 1: Problem Statement

Challenges to Suppliers → Partnering

- Lack of competitive edge
- KPIs by Supplier
- Code of Practice

Outputs → Partnering

- Liability
- Contracts

Problems

- Leakage
- Efficiency
- Consolidation

Challenges to Client

- Risk of exploitation by client
- Government intervention

Introduction to Research
This general introduction to the subject area benefits from a review of the industry and it's current procurement practices and problems. Notwithstanding the current phased introduction of the Financial Services and Markets Act 2001 the 1982 Insurance Companies Act divided all insurance business in the United Kingdom into two groups; long term and general, within which the various individual reporting classes, as represented by Lawrence (1982), are detailed as follows:

**LONG TERM:**

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Life and Annuity</td>
</tr>
<tr>
<td>II</td>
<td>Marriage and Birth</td>
</tr>
<tr>
<td>III</td>
<td>Linked Long Term</td>
</tr>
<tr>
<td>IV</td>
<td>Permanent Health</td>
</tr>
<tr>
<td>V</td>
<td>Tontines</td>
</tr>
<tr>
<td>VI</td>
<td>Capital Redemption</td>
</tr>
<tr>
<td>VII</td>
<td>Pension Fund Management</td>
</tr>
</tbody>
</table>

**GENERAL**

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accident</td>
</tr>
<tr>
<td>2</td>
<td>Sickness</td>
</tr>
<tr>
<td>3</td>
<td>Land and Vehicles</td>
</tr>
<tr>
<td>4</td>
<td>Railway Rolling Stock</td>
</tr>
<tr>
<td>5</td>
<td>Aircraft</td>
</tr>
<tr>
<td>6</td>
<td>Ships</td>
</tr>
<tr>
<td>7</td>
<td>Goods in Transit</td>
</tr>
<tr>
<td>8</td>
<td>Fire and Natural Forces</td>
</tr>
<tr>
<td>9</td>
<td>Damage to Property</td>
</tr>
<tr>
<td>10</td>
<td>Motor Vehicle Liability</td>
</tr>
<tr>
<td>11</td>
<td>Aircraft Liability</td>
</tr>
<tr>
<td>12</td>
<td>Liability for Ships</td>
</tr>
<tr>
<td>13</td>
<td>General Liability</td>
</tr>
<tr>
<td>14</td>
<td>Credit</td>
</tr>
<tr>
<td>15</td>
<td>Suretyship</td>
</tr>
<tr>
<td>16</td>
<td>Miscellaneous Financial Loss</td>
</tr>
</tbody>
</table>
This research is concerned with the second grouping of general business, into which fall household policies and more specifically Class 9, Damage to Property, “Property” as will be described later in this research is a prime example of the jargon effects within this industry. Such policies may be issued on contents or buildings only, or alternatively, under a combined policy covering both buildings and contents. Hall (1989) defines ‘buildings’ under a household policy as:

“The private dwelling house which is brick, stone or concrete built, and roofed with slates, stone or concrete, asphalt, metal or sheets, or slabs composed entirely of incombustible minerals ingredients, except as specifically mentioned and all domestic offices, stables, garages and outbuildings ...... walls, gates and fences around pertaining thereto ....”

The cover available is, according to Hall very wide indeed and enables most of the perils to which the private householder or house owner is subject to be insured under a single document. (Typical policy wording is included under appendix A).

The development of the cover offered by insurance policies is considered in greater depth in section 2.9.

Lawrence (1992) broadly suggests that generally a household insurance policy covers the following insured events:

1. Fire, explosion and lightning
2. Riot, civil commotion and malicious damage
3. Impact by aircraft, aerial device, road vehicle, train or animal
4. Storm and flood
5. Falling trees or branches
6. Subsidence and/or heave of the site or landslip
7. Theft or attempt at theft
8. Escape of water from tanks or pipes
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9. Accidental damage to underground services
10. Accidental damage to fixed glass and sanitary fittings
11. Oil leaking from central heating systems

A contract of insurance is a legal agreement between two parties, where one party agrees to indemnify another in return for a premium, Lawrence (1992)

Walmsley 1993 states that the recommended standard policy highlights three methods of providing indemnity as below:

- The company will pay to the insured the value of the property at the time of the happening of its destruction;
  OR
- Pay to the insured the amount of such damage;
  OR
- At insurers option reinstate or replace such property or any part thereof

However, importantly, by electing the option to repair a dwelling that has suffered damage is said by Walmsley to lead the insurers to substitute the contract to pay money with a contract to reinstate the building.

The reinstatement of the building through the carrying out of a repair is argued by Steele (1989) as a decision which is fraught with difficulties for if the property falls short of the original in any material way the insurer will be liable to the policyholder in damages for breach of the building contract, as evidenced by the decision in the case of Althroe –v- Favill (1825).

On this basis coupled with further onerous contractual complications, considered in more detail in section 2.8, Steele confirms, “it is almost certain that an insurer would never contemplate an election to reinstate a building today”.

The passed decade has however seen a paradigm shift in the approach adopted by insurers to their procurement of goods and services within the household claims sector.
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Phillips and Pugh (1996) define a paradigm shift as happening only rarely when the inadequacies of the previous framework have become more and more limiting. The extent to which insurance companies have changed their views is evidenced by contrasting Steele's comments of 1989 that no insurer would contemplate an election to reinstate to those of Fanning in 2001. Fanning (2001) states that over the course of the period 2000 to 2001 in excess of 38,000 individual building repairs were carried out on behalf of insurers within a seventeen-month period by a single contractor.

The number of 38,000 jobs undertaken by one individual service provider appears an impressive figure when considered in isolation. To determine the extent to which this volume of work is indicative of the overall market size requires the interpretation of available published statistics.

In this context Briers (1997) in a Chartered Insurance Institute Research Report comments that one of the major problems faced by insurance researchers is the difficulty in obtaining suitable statistics for analysis. Briers goes on to say that in his experience the specific insurance related statistics that are recorded would not be available to full time students with no insurance connections. However as a consequence of the researchers known participant observer status access to industry has been achieved. As a result through interviews with the claims management staff of eight, of the leading British insurers and the detailed investigation and interpretation of available published statistics (as recorded in subsequent chapters of this thesis), this research has established that the annual number of claims made under household building policies and the average repair value are as represented below for the trading year of 1997.

<table>
<thead>
<tr>
<th>Number of repairs</th>
<th>717,602</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average value per repair</td>
<td>£752.00</td>
</tr>
</tbody>
</table>

The previously stated 38,000 individual jobs are said to have been completed over a period of 17 months, and hence when adjustments are made to reflect an annual figure this would suggest that approximately 27,000 jobs were completed by a single contractor over a 12 month period.
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To extend the analysis further highlights the fact that 27,000 individual jobs would represent only a 3.7% share of the available market. This would however reflect a potential annual financial worth of £20m on the basis of an average job cost of £752.00.

It is however worthy of emphasis that these jobs are passed to contractors continuously over a 12 month period, from a single source, with no individual job based competitive tendering required which renders the work as a potentially attractive source of business to contractors of various sizes.

Southall and Atherton (1994) of Price Waterhouse provide a greater focus to the dynamics of the changes taking place within the household buildings insurance claims market stating the view that the changes are not only symptoms of an evolutionary process, but of something more fundamental that they term a customer revolution, not by the customer (policyholder) themselves, but by those who serve them. Southall and Atherton consider there to have been a revolution of attitude not merely seeking to react to customer needs, but to question pro-actively and to produce a product to suit those needs.

The catalyst for this shift in emphasis for insurers to focus on their customer service standards from the stand point of Southall and Atherton started with the entry into the insurance market of the direct companies. Direct companies are said to have re-engineered the buying and distribution processes for personal lines insurance, primarily through the use of information technology. This has not only afforded an opportunity to function in a cost effective manner, but crucially has also provided an opportunity to capture and manipulate greater volumes of information leading to a greater degree of control over their business than that enjoyed by traditional insurers.

Of even greater importance, from Southall and Atherton’s perspective, are the results of the tangible benefits that accrue to the customer (policyholder) as claims are dealt with equally speedily using recommended repairers, which is said to guarantee high standards of customer service, through closer control over repair costs and “recommended repairers have to turn around repairs speedily.”
This changing dynamic within the insurance repair industry has coincided with the publication of several influential reports during the 1990s, within the construction industry, Latham 1994 ‘Constructing the Team’, Egan 1997 ‘Rethinking Construction.’ Both of these seminal documents identified, in the view of Marsh (1998), the need for the construction industry to set out on the long path of culture change, which centred around the concept of customer care. Marsh argues that from the construction industries perspective customer care was about adding value to service, with the modern principles of total quality management, partnering and supply chain management, being based on ideologies of customer care.

Importantly Egan stresses that the focus is not just about relationships with suppliers, it is about relationships seeking to achieve improvements in quality and productivity. It is about stripping away the inessential, and working on things that will add value to the final customer.

The question of who is the final customer within the insurance building repair arena is one that is developed and defined within this research. This is of particular relevance as any approved/partnering contractor needs not only to keep the insurer happy in the terms of cost, but also the policyholder in whose house the work is completed, and who will often have overly ambitious expectations, in view of the involvement of insurance.

In addition, the question of who is in contract with whom will be studied, as frequently, the insurer will attempt to merely introduce their approved contractor/supplier to the policyholder, leaving the contract between householder and builder, rather than to impose their contractual entitlement to reinstate the building.

In part this reluctance to openly enter into a contract to build by the insurers has been fuelled by the unease and discomfort felt by the insurance companies over their tax status in relation to the recent changes brought about by the imposition of the construction industry scheme (CIS) by the Inland Revenue. Additionally, the implications of the CIS appear inextricably linked to the resolution of the question of who is in contract with whom, as “works of repair to the dwelling of private individuals” are deemed by the wording of the scheme as one of the few cases, which are exempted by the Inland Revenue.
Developing naturally from this dilemma is the seemingly unrelated subject of the Department of Trade and Industry (DTI), [formerly Department of Employment, Trades and Roads (DETR)] determination to deal with the construction industry problem of 'cowboy builders.' As is evidenced through data collection within the body of this research, the insurance building repair industry involves a high volume of relatively low value (£750.00 approximately) repairs carried out on a nationwide basis.

Works of this nature have historically been and indeed currently remain the day-to-day business of small local contractors who either contract directly with the insurer, or indirectly through a network provider. The selection and control of such contractors needs to be vigorously enforced by insurers if they are to maintain high levels of customer retention and significantly to avoid potential legal liabilities arising from the acts or omissions of their nominated contractors who in essence are acting on their behalf in the capacity of agent. The procurement process including contractual relationships and performance measurement and monitoring is therefore pivotal to the successful completion of works within this industry.

Bresnen and Marshall (1999) develop the argument for resolving the problems of adversarial contracting and identify a number of studies throughout the latter half of the 1990s (Bennet and Jayes 1995, 1998; Bennett et al, 1996; Horti and Standing, 1996; Barlow et al, 1997) which have proposed and elaborated on new ways of working that embrace the philosophy of co-operation between clients and contractors which are variously described as partnering and alliancing. The core principle of such approaches hinge upon the encouragement of collaboration in practice.

Bresnen and Marshall emphasise the need to understand not only the formal aspects of collaboration:

- Agreements
- Contractual incentives
- Selection processes
- Team building
- The use of information technology;

but also the informal aspects such as:
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- Management style
- Team dynamics
- Managing interfaces

Fanning (2001) further supports the contention that UK insurance companies are continuing to demonstrate their propensity to work with approved contractor repairers and the consequent inter-relationship with an aim of improved customer service by quoting Jacci Taylor Claims and Customer Service Director of Groupama Insurance Company.

Groupama are described as another insurer to have recently joined the increasing number of companies taking the route of working directly with contractors where building repair and reinstatement are concerned.

In this light, the Director of Groupama states that the use of building repairers is a part of the company’s determination to focus more on reinstatement, coupled with an increasing use of Internet enabled communication. The Internet based communication was sought with a view to facilitating the ease and speed of communications together with the focused capture and analysis of Management Information.

The procurement route is said to be adopted with a hope of achieving efficient costs effective repairs in line with strategy to remove inconvenience of loss from the customer, supporting industry practice on direct repairs.

The positive effects of such collaborative working are emphasized by Bresnen and Marshall particularly where involving contractual incentives which showed to be a useful means of improving accuracy in costing and gaining the contractors commitment to project objective provided there was a ‘give and take attitude.’ More importantly Bresnen and Marshall’s work concluded that it was clear that broader goals, especially the prospect of future work, were a more salient influence on contractors’ behaviour.

Within the insurance building repair environment this research demonstrates that, the ability to not only offer future work, but an increasingly predictable flow of future work, possibly in perpetuity, is now not only ensuring such work is seen as attractive to contractors, but enables the achievement of a win, win, win result for insurer, contractor
and policyholder alike. As developed by Stockdale (2000) this may be attained through a more pragmatic approach to introducing collaboration into the arrangements via contractor supply chain management, which incorporates balanced performance measurements, which provide a framework to translate strategy into operational terms.

1.4 Justification of Research
The need for radical changes to the processes through which the construction industry delivers its products is a widely discussed subject. Of equal importance is a stated need for a focus on the customer, and indeed a development of a more sophisticated and demanding customer base for construction.

In 1997 the construction industry in its widest sense is recorded as having an output of some £58billion Egan (1998). The small works sector is reported by Griffiths (1997) as generating £10billion towards this total output. This research establishes that within the £10billion figure, approximately £1billion is produced through low value high volume repairs funded by insurance claims under domestic insurance policies.

Egan states that the total construction industry output of £58billion is equivalent to roughly 10% of Gross Domestic Product (GDP), and hence too important to be allowed to stagnate. The small works sector’s £10billion output is equal to a 17% proportion of the total construction industry work.

Of the total £58billion spend, the insurance repair market equates to approximately 2% of the overall figure. Whilst this is a relative small proportion it remains significant in overall terms.

The research interest generated by this need for change in the industry has predictably focused on the practices and processes involved in the complex high value single projects. Little previous research has addressed the particular problems of the small works sector and virtually no specific attention has been directed to the insurance repair sector.

The insurance industry in its widest sense has over the past decade, focused on its product delivery processes again with a single aim, of satisfying the final customer. This has been initially witnessed within the motor vehicle repair sector (£3billion
annual output) and the migration of the concepts, techniques and systems employed are now becoming evident in the building repair market.

It is therefore timely for researchers to make detailed study of this specialist area of the construction industry.

1.5 Aims and Objectives

A1 The principle aim of this research is to determine:

- Whether the procurement and management of small building repair work within the insurance repair market represents a novel and unique section of the construction industry.

Thereafter to identify the unique characteristics:

- Exhibited by the sector that serve to set it apart from other types of construction works and develop processes which enable it to be managed more efficiently with techniques that are of benefit to wider industry.

Against this background, the objective of this research is to undertake a general assessment of the insurance building repair industry. This is undertaken within its natural setting and from this standpoint to look in depth into each category of this specialised market sector.

This is carried out with a view of determining the reasons, motives, and causal factors, which influence the methods used by the industry participants in organizing the delivery of their products.

The overriding objective is to determine whether the dynamics within the insurance building repair industry, are compatible with the facilitation and realisation of the Egan (1998) rethinking construction agenda. In essence to provide the delivery of construction products in the same way as the best consumer led manufacturing and service industries. This will involve:

01. Determining the overall size of the insurance building repair market and establishing total job numbers, average job values and importantly the potential for achieving continuity of work over time – Chapter 4
Chapter 1

02. Benchmarking with the insurance motor repair market and social housing repair and maintenance function to identify the current practices and processes, which have led to both cost efficiencies and increased customer satisfaction – Chapter 5

03. Examining the opportunities for adopting work collaboration/partnering arrangements – Chapter 7

04. Examining and clarifying the contractual relationships existing amongst insurance company, policyholder, building contractor and network manager – Chapter 6

05. Reviewing the procurement implications of the scale and complex monopoly situations which arise in consumer industries specifically as a consequence of the large number of mergers and acquisitions which took place within the UK business environment of the late 1990s – Chapter 7

06. Developing recommendations for best practice. – Chapter 5, 6 & 7

1.6 Major Outcomes

The findings and conclusions of this research should assist in the formulation of more effective management strategies for the execution of this volume based consumer facing sector of the construction industry, as stated in the primary aim of this research A1.

Also it is hoped that this research will serve as a stimulus for further work with two primary aims. Firstly to replicate this work and thereby establish it’s transferability and secondly, to provide the impetus for a more wide ranging discussion on the topics raised within both the construction and insurance industry also within their respective research communities. The following detail the main findings to this research:

- The demands of this market sector potentially lend themselves to the Latham partnership/work collaboration approach
- Opportunities arise for exploiting the benefits to be derived from an increasingly predictable continuity of future work flow to further the development of Egan’s Rethinking Construction agenda
- However, within the of the analogous supermarket procurement model working practices have led to government intervention in order to limit/curtail the impact of client demands that ratchet up service demands and at the time seek to reduce costs through the leverage of workload volumes. This negative approach is
contrasted to the beneficial effects of workload continuity that underpins much of the current Rethinking Construction agenda.

- A measure of clarity is provided to the ambiguities and complexities surrounding the multiplicity of contractual obligations/relationships, which are prevalent within the existing frameworks.

- The use and benefits of collaborative working “tools”.

Thus through consideration of the current industry practices it was possible to determine how a win, win, win result could be attained to enable the policyholder, insurer and contractor to all derive benefit.

Alternatively, in the words of Stockdale (1997) through a greater understanding of this little known phenomena “insurance repairs” is it possible to determine how the outcomes of better, faster, cheaper can be replaced with processes that lead to ‘perfect order achievement’ shorter through put times and reduced costs to serve the identified needs.

The total annual output from this market sector has been shown to equate to approximately 10% of the small works category of the construction industry in value terms.

As a result of the effects of mergers and takeovers within the insurance industry, there are a rapidly reducing number of large and sophisticated clients, available to act as construction industry customers/clients.

This is a volume-based business where a continuous supply of work is available to those contractors who recognize the unique demands of the work and are capable of consistently achieving the key deliverables.

At the present, there is no standard industry contractual framework within which this work is undertaken. Whilst cost control and reduction are desired outcomes these are to be balanced with the demands of service agreements that require improvements to customer service levels. In response to which this research has developed a standard form of contract for wider use by the industry sector.
Whilst the volumes of available work are not in question, the frequency, cost and geographical dispersal of the individual work packages are only now becoming a target for data capture and manipulation.

There are concerning trends which suggest the reducing number of larger sophisticated insurance company clients may seek a ‘take and take’ arrangement with contractors, rather than the desired ‘give and take’ relationship and hence this research has developed an insurer-contractor partnering charter and code of practice.

Of particular concern are the potentially negative attributes of volume management that enable dominant clients to increase profits through their procurement practices at the expense of their suppliers. This may ultimately leave contractors working in this market sector with no alternative but to resort to adversarial tactics in order to defend them against their increasingly aggressive client base. A code of practice has been generated by this research in an effort to combat this undesirable eventuality.
Figure 1.2 Thesis Layout
Chapter 1

Introduction to Research

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Chapter 1</th>
<th>Ch 2</th>
<th>Ch 3</th>
<th>Ch 4</th>
<th>Ch 5</th>
<th>Ch 6</th>
<th>Ch 7</th>
<th>Ch 8</th>
</tr>
</thead>
</table>

Atms and Objectives

Literature Review

Use of Internet

Conferences/Seminars

Government reports
- Quality Mark
- Social Housing
- Supermarkets

Data Gathering
- Insurance Companies Act
- DIT Insurance Directorate annual returns

Data Analysis

Procurement Model
- Value Enhancing Practices
- Framework Contract
- C of P / Partnering Charter

Conclusions

Fig 1: Research Phases Flow Diagram
2. **Business Efficacies**

2.1 **Introduction to Business Efficacies**
This chapter observes, examines and records those business rules, exceptional practices and process functions that mould the behaviour of the participants within this discrete sub-culture of the individual building and insurance industries. This with a view to understanding what Silverman (2001) describes as the importance of the mundane and routine actions of those involved in this interlocking series of events.

These events are those that from the insurer’s viewpoint constitute a “claim” as opposed to representing a repair from the perspective of the builder, a need for action on the part of the householder or possibly from the procurement manager’s agenda present an opportunity to show savings by passing costs down the supply chain.

2.2 **Developments within the Insurance Industry**
As stated by Lawrence (1991) the idea of insurance is not new. An early form of Insurance was seen to be in existence in Roman times when citizens gathered together to form burial societies — all contributing to a fund from which the society met individuals burial costs.

From Lawrence’s point of view those who need to know something about insurance should firstly study its origins. Initially he argues that among the good reasons to study insurance development is that early institutions such as Lloyds would be very difficult to understand without knowing something of their history. Additionally, both insurance companies and Lloyds have developed sophisticated methods of practicing insurance over many years, and a large part of present day practice including certain policy wordings would remain a puzzle without any knowledge of their development.

Notwithstanding the interests of the Roman’s Lawrence states that more than 300 years earlier the Bottomry Bond was in existence during even earlier times. This was said to arise from trading between countries, and the transport of goods and people gave rise to the earliest form of marine insurance. Marine insurance is traceable back to twelfth century Italy where the offering of compensation for loss of ships and cargo at sea was well established. By the 14th Century the merchants of Lombardy in Northern Italy were transacting insurance in the city of London.
By the end of the sixteenth century policy wording were standardized and special courts had been set up to hear disputes. This reference to specialized adjudication/arbitration continues today as evidenced by the Insurance Ombudsman’s Bureau in the household insurance market. The Insurance Ombudsman has had an ever-increasing workload following its introduction in the early 1980s. This trend continues today under the Financial Ombudsmen Services (FOS) that now carries the mantel forward.

At the end of the seventeenth century, merchants gathered in a coffee house in Tower Street near the Thames in London, and were prepared to accept part of the risk of loss at sea in return for a share in the premium paid by a ship’s owner. Edward Lloyd owned this coffee shop from where a newsheet was published cataloguing news of interest and value to ship owners and merchants alike. The newsheet was quickly replaced by 'Lloyds List', which remains London’s oldest newspaper.

As developed by Lawrence, in 1720 in return for a substantial sum of money, the King granted a duopsony to two groups of people to transact marine insurance. One was the London Assurance (subsequently known as Sun Alliance Group) and the other Royal Exchange Insurance (later known as Guardian Royal Exchange Assurance Group). The Act forbade other companies to transact insurance but did not prohibit individuals.

Hence Lloyds continued to grow rapidly, until the Alliance Marine Insurance Company succeeded in its application to transact marine insurance, and in 1824 the market was then opened to all-comers.

For the trading year of 1997 the Association of British Insurers (1998) records 664 companies (not including Lloyds) as being authorised to write general insurance business. In practice far fewer companies actually write general business than are authorised to do so. Importantly, the almost full circle development of insurance is demonstrable within the household insurance sector today. As may be seen later in this research, two companies alone currently write between 30 and 40% of all such business. Perhaps not coincidentally one of the two dominant companies is the Royal Sun Alliance (formerly Sun Alliance Group) and within the top ten grouping remains AXA, which very recently acquired the business of the Guardian Royal Exchange.
2.3 Insurance Maxims and Conventions

Dickinson (1989) argues that the primary function of insurance is to provide a risk transfer mechanism by means of a common pool in which each policyholder pays a fair and equitable premium, according to the risk of loss he or she brings to the pool. The media are said by Dickinson to carry daily items describing major fires, earthquakes, robberies, aeroplane crashes and other similar examples of risk.

From the perspective of insurance professionals, but unknown to many people is that a vast, sophisticated mechanism also lies behind such risks, which if used properly, can greatly alleviate the financial hardship, which may have been caused.

That mechanism is said by Dickinson to be insurance and what needs to be appreciated from his viewpoint is the extremely important, challenging, and exciting role insurance plays in modern society.

The excitement of insurance is often very quickly dampened by the effects of what the Insurance Ombudsman terms the tendency of insurance company representatives to use a lot of ordinary words in a special sense and thus turn them into jargon. This is said to lead to communication difficulties, which in many instances results in the various parties getting the wrong message.

As the Ombudsman goes on to say matters can become even worse when the public (and indeed building contractors) pick up phrases and expressions that have a jargon meaning, but which are misunderstood: they use the language in a way that leads the ‘insurance man’ into speaking the same language. It is suggested that this behaviour is adopted to some extent, as no-one likes to admit to being an innocent abroad. The one who does not understand what the other person is so kindly explaining or more importantly a phrase or clause embodied within a contract that may carry onerous and costly financial and indeed service implications.

The Ombudsman suggests however that this small touch of sophistication or indeed professional price can be the enquirers undoing. As it is possible to walk away from an encounter NOT with no understanding at all, but worse still with the wrong idea.
Chapter 2

Business Efficacies

Therefore it is very much from this perspective of jargon in an inter-disciplinary environment that this chapter reviews those concepts and working practices commonly employed within the insurance industry. These are the processes, that from the insurers perspective, serve to ensure that the desired or contractually required results are obtained.

From the standpoint of insurers, contractors seeking work in this environment are deemed to be in possession of a firm understanding of the fundamental principles of insurance. This is well demonstrated by reference to various extracts from “an invitation to tender for a managed buildings repair scheme” (2001) issued to prospective contractors in November 2001 by one of the top ten largest UK general insurers.

The document identifies under various sections of the tender the following seemingly innocuous comments:

“Key Considerations”
Your proposed managed building repair scheme must demonstrate significant contributions to, and a reasonable balance between

- Control of leakage, both in terms of property repair and claims handling costs.

(the use of italics are those of the authors of the document)

Subsequently in an apparently unrelated section of the tender, the following statements are made (the use of italics are those of the authors of the document)

Leakage – the quantifiable difference, reasonably determined by the insurer, between the actual and the appropriate payout on a claim.

It is the insurance companies policy to recover any leakage from suppliers, therefore its measurement and control is of paramount importance to both parties.

Once again, at the end the tender invitation, additional and important references to ‘leakage’ arise, stating:

- The insurer operates a delegated authority of £2,000.00
• If on an individual case basis, leakage is shown to have occurred as a result of the suppliers (contractors) error, then the contractor shall be liable to reimburse the full value of that leakage to the insurance company.

All of these requirements follow on from a very skilfully crafted introductory paragraph, which would lead the contractor to believe that the annual financial worth of the work being tendered for could be as much as £250,000,000 (but in all likelihood would not amount to less than £35,000,000 per annum). In addition to which the contractors are requested to state the contract period that their proposals are based upon, i.e. for how many years do you wish to work with us?

The implications of being attracted to this continuous flow of work without fully understanding the insurance companies stated intention to set off the cost of all ‘suppliers errors’ is therefore potentially disastrous.

Leakage ‘as may be reasonably determined by the insurance company’ relates not only to the contracts ability to correctly interpret such dilemmas as ‘how many wall tiles will I replace in a kitchen that is fully tiled but only a small number are physically damaged – matching sets clause (repair costs); in addition to successfully reasoning, when is a roof damaged through the effects of bad weather as opposed to the result of a storm. However, such dilemmas are of superficial complexity when compared with those that are considered in the case of Glasgow Training Group (Motor Trade) Limited - v Lombard Continental Plc (1988) referring to whether precipitation was of an extreme or unusual intensity (claims handling costs).

From this brief synopsis it can be seen that whilst the attractions of this work are many and varied the burdens also arise with similar frequency. Developing this point further within this chapter benefits from a consideration of the insurance industry in its broadest form supplemented by a recognition of its various classifications and ultimately to a description and contextualization of the conventions, maxims and oddities Marcus (1998), that collectively shape the insurance funded low value high volume household repair market.

In the same manner in which insurance is referred to as an intangible promise to pay, the income generated from insurance transactions is considered under the heading of
invisible goods. From figures quoted as long ago as 1982 (table 2.1) below, insurance can be seen to be the second largest contributor to this sector ranking alongside banking, tourism.
2.4 Government Supervision Of The Insurance Industry

Dickinson, considers the development of insurance from the standpoint of government intervention and traces the involvement to the Chamber of Assurances founded in 1575 requiring the registration of marine policies through to the 1870 Life Assurance Companies Act and the Assurance Companies Act 1909. This latter statute extended the supervision of insurance business beyond life assurance and for the first time included fire (property) business. Subsequently, the 1909 Act was incorporated into the Assurance Companies Act 1946. This statute not only introduced further new classes of
business but required compliance with solvency margin calculations to overcome the then problem that not all companies who offered insurance were in a financially sound position to do so.

The position changed substantially during the 1970s arising from the involvement of the EEC. The EEC brought into effect some twenty-two statutory instruments primarily to comply with EEC Non-Life Establishment Directive 73/239/EEC. Whilst in the main these instruments harmonized European insurance legislation they also dealt with solvency margins and further new classes of business.

In the words of Dickinson, "fortunately the position was greatly clarified by the Insurance Companies Act 1982" – This act in 100 sections consolidated the 1981 Insurance Companies Regulations and all statutory instruments made under preceding legislation continued in being but were interpreted as if made under the 1982 legislation.

Dickinson considers the main provisions of the 1982 Act as falling into 5 categories:

- Restriction of carrying on insurance business – this defines the classes of business and the requirement to be met by those wishing to carry on the business of insurance.
- Regulation of insurance companies – primarily concerned with financial matters such as annual accounts, actuarial investigation, winding up etc.
- Conduct of insurance business – advertisements, intermediaries’ interests etc.
- Special classes of insurers – Lloyds, industrial life assurance etc.
- Supplementary – identifies the criminal proceedings, which would follow any breach of the Act.

In summary, to gain approval any company wishing to transact insurance business must be authorised by the DTI, and show compliance with the 1981 Insurance Companies Regulations. All with an objective that only companies operated by ‘fit and proper’ persons should transact insurance business.

The purpose of describing the development of the legislative framework within which insurance operates has been to add a measure of clarity to the classifications of business
under the two groupings of long term and general insurance. On an annual basis companies transacting business must submit accounts demonstrating solvency margins and different formulas are prescribed for the two different groupings, long term and general business.

In general business the solvency margins are determined by examining premiums and claims. In life assurance the claims are long term and their actuarial value is calculated.

2.5 Property Insurance
Within the general grouping recorded under class 9 is damage to property. The word property in the context of insurance is as the Ombudsman previously stated an ordinary English word that is used in a special sense. The definition put forward by Hall (1989) is as follows:

"The word ‘property’ embraces every material thing or physical object to which fortuitous loss or damage may be occasioned and, in this context the legal distinction between real property (that is immovable property such as land or buildings) and personal property (temporary or movable things as opposed to land) has no relevance."

This “insurance” definition of property is however broken down further when underwriting household policies separately under the headings of buildings (real property) and contents (personal) policies. Regrettably as considered in section 3.2.2.2 in the terms of financial reporting, property business is dealt with in the terms of Hall’s wider explanation. Hence much difficulty inevitably arises when attempting to determine the annual expenditure of any individual insurance company in respect of purely household buildings claims.

This serves to reinforce the possibly unwitting use of jargon by insurers, which arise within the carefully crafted paragraphs of the earlier ‘invitation to tender.’ It will be recalled that there was the earlier reference to 250,000 claims a year (at an industry average cost of £1,000) were described as being to property. A contractor inexperienced in insurance may construe all such incidents as involving real property (land and buildings) where as those understanding the jargon would realise that this figure also represents damage to household contents, i.e. soft furniture, jewellery etc.
In addition, a pre-tender question posed by the author of this research also sought to elicit confirmation of whether the quoted volume of claims (250,000) and amount of annual expenditure included damage to drains or glass or indeed emergency repairs. The insurers reply was to confirm that such work was outside of the scope of the tender. But the insurer did not say whether or not the volume of this work was incorporated in the quoted number of annual claims – nor was the presumably included number or value of such claims confirmed.

2.5.1 **Commercial and Household Insurance**

Whilst a later chapter of this research refers in greater detail to the size of the household insurance market it is useful to establish here the importance of property as an insurance term in the context of both statutory reporting obligations and importantly general insurance parlance. Property not only has the special meaning as put forward by Hall (1989) but also as recognized by an article in personal lines insurance (1999) includes both the commercial and household sections of the insurance industry.

In the context of commercial insurance, the property insured will not only include buildings but in addition substantial premiums will be earned from and claims will be made against such other items recorded under additional reporting headings including, machinery, contents other than stock, manufacturers stock in trade, and wholesalers and retailers stock in trade etc.

Hence, as commented by Hopegood (1999) in the personal lines insurance report, the “unwitting foreigner” abroad may calculate a hopelessly inaccurate insurance market worth by failing to identify that such household names as the former Commercial Union and Eagle Star did not split their UK household and commercial premiums and claims experience from their property insurance results in the H M Treasury returns. Other major insurers do so.

Developing this subject further is assisted by reference to the Association of British Insurers (ABI), publication Insurance Facts, Figures and Trends (1998) which confirms that the grouping of general insurance (OR non-life insurance) covers a wide range of risks which the broadly group together as below:

- Risk of damage, to or loss of property.
- The risk of incurring legal liabilities to third parties
• The risk of needing medical treatment
• Loss of earnings due to accident or illness
• Pecuniary or financial loss e.g. business interruption or a creditor failing to pay

The ABI further produce a table of statistics as reproduced below, which serves to establish the gross premium income.

<table>
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<tr>
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<th>COMPANIES</th>
<th>LLOYDS</th>
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<td></td>
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<tr>
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</tr>
<tr>
<td>Accident/Health</td>
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<td>101</td>
<td>3,344</td>
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<tr>
<td>Pecuniary Loss</td>
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<td>80</td>
<td>2,889</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>£22,789</strong></td>
<td><strong>£1,935</strong></td>
<td><strong>£24,724</strong></td>
</tr>
</tbody>
</table>

Table 2.2 Gross Premium Income of UK General Insurers

Source ABI and Lloyds

2.5.2 Household Insurance: Policy Types

As commented by Hall (1989) a household policy can be issued on contents only or buildings only. The homeowner may however prefer one policy in respect of both buildings and contents, which will provide the same protection as afforded by the two separate policies. Such combined policies are said by Hall to have been introduced in 1915 and were initially known as comprehensive policies – this phrase was quickly abandoned as it was felt to imply that the cover itself was ‘comprehensive’ i.e. covering much or all (Oxford dictionary of current English) eventualities of risk. This was not the intention, as insurers had meant to communicate that the one policy comprehensively covered both buildings and contents together, not separately.

The cover may indeed have been considered a wide ranging but was limited contractually to the perils as specified in the policy document. Hall states that the title “comprehensive” implied cover akin to that provided under an All Risks policy. However, Cutter (1990) argues that whilst policies entitled all risks are becoming more numerous insurers need to describe the risks covered by the policy carefully to ensure
that it can predict statistically the likely frequency and size of future claims. Cutter states that for an insurer to stay in business they cannot provide open-ended policies covering anything that may occur. To this end Cutter confirms that the use of the words all risks denotes a policy which instead of listing the perils against which protection is provided attempts instead to exclude events and contingencies against which protection is not provided. In summary Cutter says that in broad terms all risks truly means:

"If accidental damage occurs from a cause which is not excluded, then the policy operates"

Cutter's final comment is that the simplest form of All Risks insurance cover is to be found as an accidental damage extension to household policies.

The Ombudsman does not share this view of simplicity within household insurance. In Digest (AR (82) para 5 (i) p 7) the Ombudsman identifies the confusion caused to policyholders when 'Accidents' arise and the householder 'points out reasonably that most of the perils of the policy which are covered are themselves accidents.' They do not see the distinction and even for the Ombudsman it is not easy to explain.

Contractors working in this industry as they have the authority delegated to them by insurers to determine 'whether the policy has or has not operated' must gravely consider this sobering point. Should they get it wrong or make an error then in the terms of the earlier mentioned tender documents that particular insurer will deduct the cost of such errors from payments due to them.

Clearly to be a good and competent builder is only one of many talents required for a contractor to be successful in this specialized market sector. As unless full details of policy cover are communicated by the insurer to the contractor and the contractor fully comprehends the special significance of particular and possibly commonly used language much anguish, both emotional and financial, may ensue for all parties concerned.

The following sections of this chapter will consider a number of other frequently used ordinary English words and their special meanings within the household buildings insurance market. This is with a view to achieving what Denscomb (1998) expresses as
a description of the interlinkages between various features of insurance, which avoids isolating facets of the industry from the wider context within which they exist.

2.6 Indemnity
The principle of indemnity as related to material damage insurance policies is one described and analysed in numerous insurance texts and if Walmsley (1995) is to be believed, the subject is worthy of a text book all of its own. The reinforcement of Walmsley's view of the importance of the subject is provided by the often-quoted words of Lord Justice Brett in the seminal insurance case of Castellain -v- Preston (1883) which emphasizes the central position indemnity plays in insurance.

'The very foundation, in my opinion of every rule which has been applied to insurance law is this, namely, that the contract of insurance contained in a marine or fire policy is a contract of indemnity and of indemnity only ..... and if ever a proposition is brought forward which is at variance with it, that is to say, which either will prevent the insured from obtaining a full indemnity or which gives the assured more than a full indemnity, that proposition must be certainly wrong'

Steele (1989) comments that indemnity for the purposes of insurance contracts, could be looked upon as exact financial compensation sufficient to place the insured in the same financial position after the loss as they enjoyed immediately before it occurred.

Walmsley in his quest to provide information about the law relating to the concept of indemnity and the day-to-day work of insurance officials cites some 38 individual legal cases. In the preface of his tome he confirms his general concern that policies, extensions and warranties etc are not well worded and refers to a statement made by Jessel in his judgment in North British and Mercantile Insurance -v- London, Liverpool and Globe Insurance Co (1877).

'This is unfortunate and it seems to me that many problems which arise in claims negotiations do so because the industry at large is reluctant to address various known problems when drafting the policy wording.'
The recurring theme of the problem of jargon words as a lasting (facet, trait, feature) of insurance in general and household building policies in particular are again echoed by the Ombudsman (1984 AR 84 para 4.1 p27). The Ombudsman confirms that the grounds for legitimate complaints fall into three main categories. The greatest of these is poor communication. Often complaints are said to turn out to be disguised objections to the steadfast rejection of an unjustified claim or more often, a breakdown of communication.

Therefore, in the context of this research is the importance of the contractor being able to both understand the insurance jargon and the need to communicate any policy interpretations to the policyholder accurately and timeously to avoid the following adverse consequences:

- Threat of repaying the cost of errors on an individual basis to insurers.
- The cumulative effects of customer complaints over ‘the rejection of unjustified claims’ may lead to loss of long-term business from insurers on the ‘no smoke without fire’ maxim.
- ‘To maintain the sanity of the contactor in the face of the ‘daisy cutter’ effect of calculated complaints from the consumers who believe that he who shouts loudest is ‘paid to go away’ regardless of the policy liability.’ Ombudsman annual report (1984).

2.6.1 Extensions Of Indemnity

Cloughton (1991) confirms that the Association of British Insurer’s recommended fire (material damage) policy wording states the following:

‘.... The insurer will pay to the insured the value of the property at the time of its loss, or destruction or the amount of the damage or at the insurer’s option reinstate or replace such property or any part of it.’

The value is to be calculated after taking into account the effects of wear, tear and depreciation. This from Cloughton’s view can be difficult to assess accurately and as such the negotiation of loss settlements can lead to disagreements between the parties. To a large extent the frequency of such arguments has been reduced by the effects of the
introduction of the reinstatement memorandum often referred to as the ‘new for old’ provisions within household policies.

Walmsley (1995) explains the introduction of such cover as arising after the First World War when industry was said to face severe financial problems in replacing old and worn out machinery damaged by fire when substantial deductions for wear and tear were made from a claims settlement. The extension of the basic indemnity value calculation is framed within commercial insurance policies using words similar to those reproduced below from the ABI recommended wording:

‘... where the property is damaged, the repair of the damage and the restoration of the damaged portion of the property to a condition substantially the same as but no better or more extensive than its condition as new.’

Alternatively, as Steele 1989 succinctly puts it, the loss is calculated without a deduction of wear, tear and depreciation. However, the Ombudsman (AR 19873.3 (b) p18) confirms that there is much misunderstanding over the scope of ‘new for old’ cover. The Ombudsman states that what should be realised by policyholder and building contractor alike is that new for old cover only applies where property is lost (i.e. stolen), totally destroyed or damaged beyond repair. If the property can be repaired, the insurer has the option of repairing it. However, importantly, it should be emphasised:

‘The policyholder is not entitled to demand a new kitchen or bathroom suite, just because the original has been slightly damaged.’

This must be borne in mind by contractors when agreeing and defining the scope of repair with the householder. Alternatively, the cost of such exaggeration of the necessary repairs may fall to the builder’s own account if these examples of leakage are allowed to go unchecked.

Hence this concept of ‘new for old’ may be seen to relate to another insurance oddity which the Ombudsman himself describes as being alien to the indemnity principle on which household insurance was and still is based.
2.6.2 Public Authorities Clause

As developed previously insurance is fundamentally a contract of indemnity. Cutter (1990) puts forward the view that this principle is fully developed within English insurance law and emphasises the importance of the legal cases Castellain v. Preston (1893) and Reynolds & Anderson v. Phoenix Assurance Co. Both cases confirm that the insured should neither be enriched nor impoverished and confirmed the need to take into account "wear and tear" and "betterment".

The concept of indemnity is extended contractually within household insurance policies by the earlier mentioned 'new for old' provision. Additionally, the scope of calculation of the indemnity based settlement may be further increased within the contract through the, now common, inclusion of the 'public authorities' clause – the need to comply with the statutorily enforceable requirements of the building regulations.

This may well be considered as a further area of insurance repairs which evidence the difficulties introduced by the effects of jargon, i.e. the use of the phrase 'the building regulations'. The insurers, insured's, building contractors, intermediaries, and the like often use these words. This appears to be a prime example of the Ombudsman's description of the stranger abroad leaving an encounter not with no understanding at all but with worse still with the wrong idea. Particularly, when dealing with the low value repair of domestic dwellings.

The ever-reliable Walmsley (1995) describes this subject over some nine pages of text. However, he surprisingly comments within this dialogue that 'it is not appropriate here to discuss the application of building or other regulations.' This is a particularly interesting comment when the public authorities clause as contained within the ABI standard fire policy (material damage) recommended policy-wording states:

'... this policy extends to include such additional costs of reinstatement of the destroyed or damaged property thereby insured as may be incurred solely be reason of the necessity to comply with building or other regulations under or framed in pursuance of any Act of Parliament or with Byelaws of any municipal or local authority.'
Hence, without an understanding of in what circumstances the building regulations statutorily apply, difficulties abound throughout the household buildings repair market on a daily basis. In example, it is often argued that a contractor cannot replace a shower tray without the need to comply with current standards and renew the traps and wastes, etc, to ensure that self cleansing gradients are achieved and the required maximum distances from fitting to soil pipes are not exceeded. Here a true dilemma arises when in many improved turn of the century terraced properties have insufficient depth in the floor void for the appropriate traps to be installed and former bedrooms are many meters away from the soil and vent pipe that was installed as part of a grant conversion carried out in the early sixties.

In this regard there is an important limitation that applies to the building regulations as defined by the Local Authority Building Control Act 1984 (LABC). This limitation makes it clear that the purpose of the building regulations is simply to safeguard the health and safety of persons in or about buildings. There are no requirements regarding the quality of finishings, this aspect is confirmed as not being controlled by the building regulations.

Additionally, the LABC (2001) go on to confirm that the building regulations apply to ‘building work’ is defined as:

‘The erection or extensions of a building ..... or a material alteration of a building .... Where an alteration is material if something that did comply with the regulations is modified so that it no longer did.’

Hence as spelt out within the DETR’s “Cowboy Builder” consultation document a lot of repair, maintenance and minor improvement work and some types of small domestic extension work are not covered by the building regulations.

This in essence confirms that the vast majority, if not all, of the works undertaken in the low value insurance repair market does not as a consequence of statutory necessity need to comply with the provision of the ‘building regulations.’

Once again the contractor will need to successfully manage the balance between customer expectations and cost efficient claims settlement to remain effective in this
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market sector. The contractor must demonstrate an ability to understand and enforce the contractual provisions whilst at the same time delicately handling a potentially upset consumer who ultimately must sign a satisfaction note for the contractor to be paid. Additionally, the policyholder is likely to have to contribute the amount of the policy excess to the builder who is often perceived as being responsible for the effects of the contract wording and importantly an easy target for the much feared complaint.

2.6.3 Limitations Of Indemnity

As stated by Steele there is a link between indemnity and insurable interest. It is therefore important to recognize that in relation to household building policies, it is not the bricks and mortar of the dwelling (i.e. the subject matter) that are insured, but it is the insured’s interest in their home that is in fact insured. The insured’s interest (insurable interest) was defined by Lawrence in Lucena –v- Crawford (1806).

‘... a man is interest in a thing to whom advantage may arise or prejudice happen from the circumstances which may attend it. To be interest in the preservation of a thing, is to be so circumstances with respect to it as to have benefit from its existence or prejudice from its destruction.’

As described by Hall (1989) insurable interest in property may arise through:

- Ownership
- Possession
- Contract
- Statute

Hence if a boundary wall is blown over by a storm, the contractor must satisfy himself that the policyholder owns the wall. If the boundary is between two adjacent properties the deeds may state that both properties are jointly responsible for the repair, hence the policyholder’s insurable interest is limited to 50% of the repair cost. These and similar circumstances arise in respect of party walls, drains and other multi occupancy situations and must be borne in mind before pressing forward the repairs.

2.6.4 Policy Excess

An excess is the financial amount of each and every claim, which is not covered by the policy. Excesses are common within the household buildings market, usually in an
agreed amount of the excess the bigger the discount, the policyholder receives on his premium.

In theory, as argued by Steele (1989) the insured are really their own insurer for the £50.00 or whatever values the excess represents.

Of interest here is the policyholders believe that if a fuss is caused over some aspect of the loss, the insurer will make a concession or a payment in order to conclude the matter.

In this context the Ombudsman (1997) reports an instance where there was delay by the repairer. The policyholder argued that the delays gave rise to compensation as a small amount of work needed to be re-done. The Ombudsman agreed and also agreed with policyholders request for compensation by way of repayment of the £50.00 policy excess. No doubt the repairer bore the loss.

Threadgold (2001) consider the problems of excess collection under the subject of exaggerated claims and comments on the problems faced by contractors in that many policyholders are determined to get their excess back and do not consider this to be dishonest.

Whilst £50.00 is a seemingly insignificant amount, when it is considered against the industry average repair cost of approximately £750.00 (see later in the research) it represents 8% of the invoiced amount. Hence, very quickly any available profit can be eaten away, if the contractor allows the less scrupulous policyholder the opportunity to make complaints be they justified or importantly unjustified.

These problems of the collection of the excess from the policyholder are echoed within contractor interviews where it was confirmed that the collection of small mounts of say £50.00 were fraught with difficulties but in a volume market timely recovery of all due revenue was of the utmost importance.

2.6.5 The Sum Insured

Of lesser importance in the area of low value insurance repairs, yet still remaining as an example of the limitations of indemnity is that of the sum insured. The sum insured is
the limit of indemnity and even where the indemnity figure is higher the insured cannot recover more than the sum insured. However, this may be said to be true with this exception of one other instance that is referred to the following section arising from the insurers election to reinstate the damaged property.

2.7 Reinstatement

Jargon as defined by the Collins Definitive English dictionary is said amongst other things to be a specialised language concerned with a particular subject, culture or profession. The word reinstatement within insurance jargon is possibly one of the most confusing as it has itself at least three separately defined meanings. Steele (1989) confirms it as a much overused word in insurance.

The reinstatement memorandum referred to earlier confirms the meaning within the household insurance policy as extending the principle of indemnity to reflect ‘new for old’ cover. A further use of the word arises with regard to the ‘reinstatement of the sum insured after loss.’ This refers to cases of partial loss where payments have been deducted from the sum insured. Often if the losses are small Steele confirms that insurers will be prepared to reinstate the sum insured free of charge but if not a pro-rata premium may be required.

However, perhaps the most important definition of the word arises as a method of providing indemnity. This refers to property insurance where an insurer undertakes to repair, restore or rebuild a damaged building. As mentioned within chapter one of this research, and will be reviewed in greater detail within chapter five. The wording of household buildings insurance policies provides insurers with the option of substituting the contract to pay money with one of a contract to build.

This last interpretation of the word reinstatement is one which gives rise in practice to many potential difficulties. However, it is one, which whether openly or by their actions, the insurers take with increasing regularity. However, when referring to the earlier mentioned invitation to tender the contractor is left in a position, which requires that they will:

‘confirm that your managed contractor network operates in accordance with the construction industry scheme rules, and removes any obligations to the insurer.’
However no such clarity is provided by insurers over whether the builder will ultimately be placed in contract with the insurer or the insurers policyholder – i.e. the householder.

2.8 Insurers Policy Options

When a claim arises Steele (1989) indicates that there are at least four methods which the insurer can employ in providing indemnity.

**Figure 2.2** How Indemnity may be provided.

*Source: Steele (89)*

2.8.1 Cash

An insurance contract is a contract to pay money and historically, in the vast majority of cases, the claim was settled by giving the insured a cheque for the amount payable.

2.8.2 Repair

As stated by Steele insurers make extensive use of repair as a method of providing indemnity in motor insurance when vehicle repair workshops are authorised to carry out work on damaged vehicles. A substantial step on from repair work is where insurers own garages themselves which is a concept widely adopted throughout Europe.

2.8.3 Replacement

The most common example of replacement is found in glass insurance where glazed items, windows, patio doors, etc, are replaced on behalf of insurers by glazing firms. Insurers are said by Steele to enjoy a discount in view of the vast amount of work paid for by them.
2.8.4 Reinstatement

A method of providing indemnity discussed earlier in this chapter and at length later in this research.

2.9 Insured Causes

As indicated by the Ombudsman policyholders (and inexperienced contractors alike) tend to think they are insured against damage to their buildings whatever and whenever the cause. However, from the Ombudsman’s perspective the crucial questions at law are, has an insured peril operated and when did it occur.

An instance adjudicated by the Ombudsman highlights the level of knowledge required of contractors working in this environment if they are correctly to interpret the operations of policy cover. The Ombudsman report is quoted below:

‘Due to a misapprehension on his wife’s part as to her husband whereabouts, the police were called to break into the toilet and in so doing damaged the door, beyond repair. Being hard of hearing and asleep in a spare bedroom, the husband slept through the events. A claim was made for the replacement of the door. The claim was rejected as the policy covered loss or damage to the building caused by the insured events listed in the documents – the nearest being ‘malicious damage’ and as the policy had not acted maliciously and no other peril was suitable the claim was not met.’

As recorded by Lawrence in so far as household buildings policies are concerned the cover offered varies slightly between insurers. However, it is said that in each case there is a standard cover and in each case there are optional extras available.

Insurers started out by offering separate policies for fire insurance and burglary insurance for domestic dwellings and it was possible to add some extra perils to the standard fire policy initially these were specially rated and charged at an additional premium.

The cover generally available is loss or damage to the building caused by:

- Fire explosion, lightning, earthquake
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- Riot, civil commotion, malicious damage or vandalism
- Impact by aerial device, road vehicle train or animal
- Falling aerials
- Storm
- Subsidence
- Theft or attempted theft
- Escape of water
- Escape of oil from fixed domestic heating installations
- Falling trees and branches
- Accidental damage to underground services
- Accidental damage to fixed glass or sanitary ware
- Wider accidental damage is also available usually subject to the payment of an additional premium

To review the meanings and legal definitions of each of the listed perils is beyond the scope of this research. However, each of the events has a strict legal definition and it is usually this narrow specific meaning, which insurers will rely upon.

As a single example, the peril of fire has a specific insurance definition that is borne out of the decision in the case of Harris –v- Poland (1941) that confirmed:

- Actual ignition must take place
- The thing on fire ought not to have been on fire
- The fire must be fortuitous in so far as the insured is concerned

Hence scorching or smoke/smudge damage on their own would not be covered unless specifically insured within the words of the policy. Hence the threat of leakage deductions arises yet again for any unwitting contractor.

2.10 Association Of British Insurers (ABI)
The ABI is a trade association of insurance companies in the UK. All companies authorised to transact insurance business of any class in the UK are eligible to the
members. Brokers and intermediaries are not eligible. The major services provided by the association to its members include the following:

- Statistics
- Circulars
- News letters
- Briefings
- Representations
- Information for consumers (see figure 1)
- Books and publications
- Research papers
- Political bulletins, updates and fact sheets
- Policy wordings

Whilst the main thrust of the ABI’s activities centre around commercial insurance activities, a general consumer information service is provided which upon request in response to the queries of the private individual and one such fact sheet is included in appendix at the end of this thesis.

2.11 Delegated Authority And Delegated Authority Schemes

One final group of ordinary English words, which, are in every day use and describe a process that is a common feature of this market sector is that of delegated authority or delegated authority scheme.

As referred to earlier with reference to leakage within the ‘invitation to tender’ these words were used in the following way:

‘The insurer operates a delegated authority of £2,000.00’

The effect of operating this process puts the contractor in the position of having all claims handling authority delegated to them by the insurer.

Claims’ handling, like most other insurance phrases, has a very special meaning. In the terms of leakage control, the leakage itself is split between property repair costs (i.e. the direct cost of physically repairing the building) and claims handling costs.
Claims handling is defined within the customs and excise's flexible accounting system under section three insurance brokers, agents and other intermediaries in the context of 'insurance related services.' Article 13B(a) of the sixth VAT directive provides an exemption from VAT charges for related services performed by brokers and intermediaries etc. For the purposes of VAT exemption an insurance intermediary provides an insurance related service if they provide one of the services outlined in the intermediaries directive. These services are outlined in the UK law in legal note 1 of group 2 as being:

1. Bringing together insurers and those who want to buy insurance
2. Work preparatory to the conclusion of insurance contracts
3. Assistance in the administration and performance of insurance contracts, including claims handling services
4. The collection of insurance premiums

Sub-section 3 is of particular interest in the context of this research and claims handling is further defined under section four of notice 701/36 in the following terms

a) Checking that documents are correctly completed
b) Ensuring that claims fall within the terms of the policy
c) Processing the claim
d) Ensuring that insurers are advised of their exposure (notification of reserves)
e) Agreeing the validity and or quantum of the claim
f) Arranging for the settlement of the claim

The article goes on to confirm that the services of claims handling may also include a number of elements of any advisory, investigative or administrative nature that are subject to VAT. However where these elements form a minor or ancillary part of a single composite exempt supply of claims handling, the entire supply may be regarded as exempt.

Hence, it can be seen that by operating a delegated authority scheme insurers will be obtaining a tax exemption of 17.5% (2002 levels) on the claims handling element of the
claims process. This is achieved (subject to the specific wordings of individual agreements) by the insurer devolving to the contractor the responsibility for completing those aspects of the claim as contained within section (a) to (f) above.

As the practice of completing claims forms by the insured has all but fallen away the important functions are those between (b) to (f). In practice the responsibility for confirming that the damage is caused by an insured peril, agreeing and ascertaining the value of the loss and the whole claims process passes to the contractor.

This can be both positive and negative in so far as the contractor interests are concerned. In the majority of claims where liability is not in dispute the contractor can see at any early stage that the job is a ‘live one’ and the repairs can be processed quickly. This will enable the contractor to achieve efficient employment of their resources through effective programming without the need to otherwise wait for the insurer to validate the claim and authorise the repairs.

2.12 Summary

It has become clear throughout the course of this research that what is of importance is that the contractor has full understanding of the earlier mentioned conventions, maxims and oddities that collectively shape this specialised sector of industry. As the contractor is not merely entering into an agreement to carry out the physical repairs to the building but must also be capable of managing (and accepting the attendant interpretation risks of) the claims process involving an immeasurable proportion of customer care in an attempt to satisfy the often conflicting interests of the insurer and policyholder.

The vexed question of “with who is the contractor ultimately in contract” is developed at length within chapter five of this research.
3. Methodology

3.1 Introduction to Methodology
This chapter will discuss the philosophical background to the design of the research methodology employed to undertake the production of this thesis. In order to facilitate this outcome the current chapter introduces various methods of data collection and analyses and compares their merits and limitations.

In addition comparisons are drawn between the methods adopted within this research and those that were considered unsuitable for incorporation here. Additionally justification is provided for the methods adopted and explanation is given for the rejection of the remainder.

3.2 Gathering Data
Researchers have long debated the relative value of qualitative and quantitative inquiry. Phenomenological inquiry, or qualitative research, uses a naturalistic approach that seeks to understand phenomena in context specific settings. Logical positivism or quantitative research uses experimental methods and quantitative measures to test hypothetical generalizations. Each represents a fundamentally different inquiry paradigm, and researchers actions are based on the underlying assumptions of each paradigm, Hope (1997).

Paradigms are explained from the perspective of Leicester University graduate school (2001) in the following terms:

'A set of beliefs about what is worth researching, what is researchable, how research should be done, and how its outcomes should be interpreted. The notion of paradigms implies that the researcher makes a deliberate choice between alternatives again with implications for methodology. In research literature, paradigms are often presented as alternative traditions or ways of going about research in general. Positivism and interpretivism are frequently described as opposing paradigms, but may be better conceived as ends of a spectrum.'
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Qualitative research, broadly defined, means ‘any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification’ Hoepfl (1997). Where quantitative researchers seek causal determination, prediction, and generalization of findings, qualitative researchers seek instead illumination, understanding, and extrapolation to similar situations. Qualitative analysis results in a different type of knowledge than does quantitative inquiry.

Westmarland (2001) suggests that research methods are merely techniques for gathering data and are generally dichotomised into being either quantitative or qualitative. It has equally been argued that different research methodologies occupy points along a continuum extending from quantitative to qualitative methods Eisner (1991). Quantitative methods are traditionally said to be associated with words such as positivism, scientific, objectivity and statistics. In contrast, qualitative methods have generally been associated with interpretivism, non-scientific and subjectivity.

This chapter consider the quantitative – qualitative divide and describes the interpretivist approach that ultimately is adopted by this research. In conclusion it is determined that different research issues need different research methods, and that as long as they are applied for a perspective of usefulness, Silverman (2000) there is no need for the dichotomous ‘us against them’, ‘quantitative against qualitative’ debates.

Knowledge has traditionally been measured by how objective it is deemed to be, in the belief that if the reliability, objectivity and validity, ‘rules’ are followed ‘the truth’ will be discovered. If research does not follow the ‘rules’ it is often criticised and dismissed as methodologically flawed and hence ‘untrue’. An example of this can be found in an introductory research methods textbook for psychology in which the author writes; ‘a majority of psychologists would agree that research should be scientific, and at the very least that it should be objective, controlled and checkable’ Coolican (1994). This statement is problematic in that it is not only saying objective research is desirable, but also assumes total objectivity is possible. Westmarland goes on to quote research undertaken by McRobbie in 1982 who argues that:

‘Representations are interpretations .... They employ a whole set of selective devices such as highlighting, editing, cutting, transcribing and inflecting.’
This highlights the idea that quantitative data, like qualitative data, is interpreted and often manipulated by the researcher and therefore incorporates subjective acts within a supposedly pure objective analysis. Additionally, the striving for objectivity may result in the downplaying of validity if participants feel uncomfortable with the researcher.

Even if the research methods employed are ‘hard’ quantitative ones, they can never be purely objective. Researchers are not computers, and are unable to process information without some degree of subjective interpretation. This starts with the first stage of research, identifying the topic to be studied invariably involves subjectivity.

As the process continues this is highlighted further, indeed the introduction, or literature review, at the beginning of a report is said to be a review of the literature that the researcher has deemed to be relevant. This leads Ramazanoglu (1992) to argue that ‘it is more logical to accept our subjectivity, our emotions and our socially grounded positions than to assume some of us can rise above them.’ Qualitative researchers are said to have broadly rejected the idea of methods premised on the idea of ‘objectivity’ being used to measure social knowledge. This rejection of pure objectivity is not limited to qualitative researchers and many sociologists have questioned and rejected the notion, preferring to make knowledge claims based on findings being corroborated by other research.

The problem with rejecting the notion of objectivity is that there remains a need for a measure by which to judge knowledge. Haraway (1991) suggests that the notion of complete objectivity should be redefined and replaced by situated knowledge, in which the researcher recognises that knowledge can never be regarded as universal. Haraway comments:

‘Situated knowledge requires that the object of knowledge be pictured as an actor and agent and many researchers have started to include an intellectual biography.’

Hence acknowledging both the situation the knowledge was produced in, and the located knowledge of the researcher. For these reasons the author of this research attaches an ‘intellectual biography’ within appendix B. The gathering of data throughout the course of this study is underpinned by the activities described within the
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author’s intellectual biography. These activities represent both the Intellectual Framework (F) and the Area of Application (A) described in Figure 3.1, the Organised Use of Rational Thought. Importantly this framework of inter-linked ideas, the theory and philosophy of the framework is the basis for this interpretivist methodology to be applied within the context of the area of application (A), insurance funded repairs.

The methodology here, guided by the intellectual framework and research methods, has enabled the learning about F M and A Travis (2001). The content and context of the author’s intellectual biography is therefore developed further through Table 3.1 to illustrate the interpretivist tools that are employed within each chapter of this thesis.

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Table 3.1 Tools of Methodology

The tools of methodology outlined above are expanded in order to give detail to this descriptive account within Table 3.3 Research Evaluation Criteria. Additionally in support of which summarised accounts of un-structured and semi-structured interviews with insurers and contractors are also included within Appendix I

However as a reflection of the competitive and developing nature of this sector of industry a number of other discussions were subject to either formal or informal
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Methodology

Confidentiality Agreements and hence detailed presentation of the interviews was not permitted by the participants.

3.2.1 Semi-structured and Unstructured Interviews

Semi-structured and un-structured interviews such as those adopted here, are methods that are widely used in the social sciences as they are claimed to convey a more open approach to those being studied. They attempt to actively involve the participants in the research process as much possible and this tends to lead to a more equal relationship between the researcher and participant and this is often cited as increasing the validity of the research Westmarland (2001).

Historically many texts have documented the way an interview should be conducted, for example recommending distance between the interviewer and interviewee, not revealing the standpoint of the researcher and not sharing knowledge. These guidelines are rejected by interactionist sociologists such as Becker (1971) who suggests that interviews should be more conversational in nature.

This research follows the interview techniques adopted by interpretivist sociologists in being more “participant friendly” as suggested by Burgess (1984).

Traditional research methods advise against conducting research in a subject in which the author is actively involved, in the guise that this will somehow minimise the supposed objectivity of the study. In the circumstances of this research, access to the participants is unlikely to have been provided at all had the author not had a known and active interest in the area of application, being in the employment of national insurance repair companies (see Appendix B and Tables 3.1 & 3.3).

Additionally it is felt that research is a two-way interaction as posited by Greed (1990) whose sentiments as repeated below are echoed by the researcher;

“So I am studying a world of which I am part, with all the emotional involvement and accusations of subjectivity that this creates.

I do not attempt to keep my participants at arms length and do research on them whilst maintaining a dominant position as is common in much traditional “objective” research.”
This was the perspective adopted by the author of this research. It is felt that rather than hindering the research process this not only facilitated the opportunity for the interviews to take place but also to downplay the researchers new academic status. This resulted in at least more relaxed environment for both participant and researcher, which is particularly relevant as in some instances the participants were from organisations whose interests were in direct competition to those of the researchers employers or their principals.

In reality it is considered likely that access was only afforded in order to take the opportunity to undertake a two-way conversation to enable both parties to glean information from the other. Interview requests were made from the standpoint of an opportunity to seek the participant’s views on the subject as a whole and on current developments in particular.

3.3 Qualitative Versus Quantitative Research Paradigms

Hoepfl (1997) references work undertaken by Eisner during 1991 to point out that all knowledge, including that gained through quantitative research, is referenced in qualities, and that there are many ways to represent our understanding of the world:

There is a kind of continuum that moves from the fictional that is ‘true’ – the novel for example – to the highly controlled and quantitatively described scientific experiment. Work at either end of the continuum has the capacity to inform significantly. Qualitative research and evaluation are located towards the fictive end of the continuum without being fictional in the narrow sense of the term.

This sentiment echoes that of an earlier writer Cronbach (1975) who states:

‘The special task of the social scientist in each generation is to pin down the contemporary facts. Beyond that, he shares with the humanistic scholar and the artist in the effort to gain insight into contemporary relationships.’

Cronbach claims that statistical research is not able to take full account of the many interaction effects that take place in social settings. He gives examples of several
empirical ‘laws’ that do not hold true in actual settings to illustrate this point. Cronbach states that ‘the time has come to exorcise the null hypothesis.’ because it ignores effects that may be important, but that are not statistically significant qualitative inquiry accepts the complex and dynamic quality of the social world.

However, it is not necessary to pit these two paradigms against one another in a competing stance. Patton (1990) advocates a ‘paradigm of choices’ that seeks ‘methodological appropriateness as the primary criterion for judging methodological quality.’ This will allow for a ‘situational responsiveness’ that strict adherence to one paradigm or another will not. Furthermore, some researchers believe that qualitative and quantitative research can be effectively combined in the same research project Strauss and Corbin (1990); Patton (1990).

Whilst this research predominantly follows a qualitative/interpretivist route quantitative methods have been employed in providing external support to the statistical validity of the ‘market size’ projections contained within chapter four of this thesis. The use of descriptive statistical methods have led to the determination of market size in the terms of Annual financial worth, average job costs, annual job frequency and distribution of workloads across industry clients.

Furthermore through the determination of the scale of the insurance repair industry this has highlighted the opportunity for benchmarking exercises with parallel industries for best practice purposes (chapter five). Additionally the output from quantitative analysis has served to initiate the discovery of possible scale and complex monopoly positions in general insurance and subsequently to the examination of their attendant detrimental supply chain effects, as developed within chapter seven.

3.4 Application of Methodology
The primary aim of this research is stated in A1 as:

to determine whether the procurement and management of small building repair work within the insurance repair market represents a novel and unique sector of the construction industry.

Thereafter to identify the unique characteristics:
Exhibited by the sector that serve to set it apart from other types of construction and develop processes which enable it to be managed more effectively with techniques that are of benefit to wider industry.

The overarching nature of this study has developed throughout the course of the research and has responded to and been guided by the discovery of influencing factors arising from the research itself.

Initially the intended hypothesis was solely to seek to demonstrate quantitatively that this sector was worthy of greater recognition in the terms of its hitherto undetermined annual financial size and job frequency. Hence an initially proposed hypothesis was;

"this sector is correctly considered to be the province of the “odd job man” and as such should continue to be ignored by all serious researchers and the wider construction industry”

However arising from the subsequently adopted interpretivist methodology the scope of the research extended from the quantitative enquiry to incorporate the presentation of system models that seek to provide for the delivery of this hybrid construction/insurance product in the same way as the best consumer led manufacturing and service industries. This has involved, as stated within the Objectives of research as;

01. Determining the overall size of the insurance building repair market and establish total job numbers, average job values, and importantly the potential for achieving continuity of work over time – Chapter 4

02. Benchmarking with the insurance motor repair market and social housing repair and maintenance function to identify the current practices and processes, which have led to both cost efficiencies and increased customer satisfaction – Chapter 5

03. Examining the opportunities for adopting work collaboration/partnering arrangements – Chapter 6

04. Examining and clarifying the contractual relationships existing amongst insurance company, policyholder, building contractor and network manager – Chapter 5 (check this chapter number)
05. Reviewing the procurement implications of the scale and complex monopoly situations which arise in consumer industries specifically as a consequence of the large number of mergers and acquisitions which took place within the UK insurance environment of the late 1990s

06. Developing recommendations for best practice.

In seeking to satisfy these Aims and Objectives data was collected from a variety of sources, which was then collated, analysed and interpreted to facilitate the development of the key outputs of from this thesis. These were the determination of market size/significance together with the production of example KPI’s, Form of Contract and Code of Practice/Partnering Charter. The data used is categorised within the following sub-sections;

**Interview participants**

In total, interviews were completed with the Claims Management Staff of 8 insurance companies. These included 6 general insurers and 2 bancassurers. The latter participants reflected staff from a Banking plc and the other the current largest remaining Building Society. All of the insurers had ongoing relationships with building repair Network Managers executed with varying degrees of success and a range of purposes.

In addition 28 contractors were initially interviewed between June 1999 and December 1999. This was supplemented by additional visits to and discussions with a further 160 contractors within the initial 3 year period of this study. These builders varied in the terms of annual financial turnover from under £500,000 to in excess of £12 million; exhibiting a range of local, regional and national operational capacities.

**Quantitative Analysis — Insurance Company Annual Returns**

Utilising the Synthesys Ltd database tool a sample of 34 insurance companies annual returns were analysed from a total population size numbering 167. Those companies within the chosen sample ranged from insurers handling between 226 and 263,606 building claims on an annual basis. These within a corresponding annual claim spend varying from £143,000 to £180,603,000 across an operating spectrum from Friendly Society to Composite Insurance Company.
Industry Documentation

As detailed within Table 3.3, throughout the course of this study sample documentation currently in use within the industry was received and analysed. This included Schedules of Rates from issued by both insurers and Network Managers; insurers published 2 and Network Managers prepared 4. In addition the published Schedule of the National Federation of Housing Associations (NFHA), NSR, and Ministry of Defence were also reviewed.

In this context the Forms of Contract and Service Level Agreements issued by 4 insurers were received and analysed, as were the similar documents of 5 Network Managers.

When considering the contractual documentation only one organisation (a network manager) had made any overt attempt to formalise the contractual route for the execution of the repair works and none referenced or in anyway reflected the structure or content of the construction industry standard forms of contract as published by the Joint Contracts Tribunal (JCT).

Development of KPI’s

In the course of the development of industry-specific KPI’s, the researcher considered the performance and satisfaction results for in excess of 30,000 individual repair jobs (claims) over a period of 3 years collected from a number of different sources reflecting jobs ranging in value from £125 to £5,000. However between 13% and 26% of cases represented claims where physical repairs had not been undertaken (repudiated claims) thus resulting in a true involvement with approximately 22,000 completed repairs.

This data gathering and interpretation was supported by the information within the participant observation inter-actions and fieldwork as described within the author’s Intellectual Biography (Appendix B) and as detailed in Table 3.3 and described in Table 3.1. Throughout the course of this 5-year study various system models were developed by the researcher for the use of several collaborating organisations including those referenced in the above tables. These included revised workflows, reporting and invoicing procedures together with computer-based management information generation and analysis tools and contractor performance management matrices together with contractor evaluation and induction processes, Construction Industry Scheme (CIS) tax
handling procedures and complaint handling processes (system based and compliant with ABI, GISC, British Standard and Financial Services Authority Codes of Practice). All of which exist within the various contributing organisations.

3.5 Contents of Methodology – What this research covers

There are several considerations when deciding to adopt a qualitative research methodology, as indeed is that which is adopted here. Hoepfl (1997) claims that qualitative methods can be used to better understand any phenomenon about which little is yet known. Alternatively they are appropriately employed to gain more in depth information that may be difficult to convey quantitatively. Thus, qualitative methods are appropriate in situations where firstly there is a need to identify the variables that might later be tested quantitatively, or secondly where the researcher has determined that quantitative measures cannot adequately describe or interpret a situation.

The ability of qualitative data to more fully describe a phenomenon is an important consideration not only from the researchers perspective, but from the reader’s perspective as well. ‘If you want people to understand better than they otherwise might, provide them information in the form in which they usually experience it’ Lincoln and Guba (1985). Qualitative research reports, typically rich with detail and insights into participants’ experiences of the world, ‘may be epistemologically in harmony with the reader’s experience’ Stake (1978) and thus more meaningful. In the position initially encountered here there was a clear need to both gain a greater understanding of the subject area and then to determine the reasons behind the unavailability of data for collection and analysis.

As stated by Headley and Griffiths (1997) little previous research has addressed the problems of the small works sector of the construction industry. Brier (1997) echoes this statement within the context of the insurance building sector. In large part these limitations to the area of application of this research were encountered when starting the examination of the size of the market see chapter 4.

This manifested itself within this study when the secretive and unattractive nature of the subject had resulted in there being no other reliable assessments of the industry upon which to base calculations or indeed to test the generalisability of or even to extrapolate
from. The only other identifiable research within this sector is that undertaken by a west midlands university, investigating flood repair techniques, which made no attempts whatsoever to validate their study in the terms of the significance (cost and frequency) of the problems to hand.

This research was therefore progressed by an examination of other secondary data sources principally published journals, government resources, professional bodies and web. As a consequence the Association of British Insurers (ABI) were shown to publish annual statistics covering the total value and frequency of repairs undertaken to property. Prima facie this is a good and reliable source of data sufficient upon which to base calculations and predictions.

However as may be inferred through the authors' Intellectual Biography (Appendix B) and as demonstrated within Chapter 2 those with a working knowledge of the sector and as a further beneficial aspect of the adopted participant observer approach, knew the term not to be limited to that of Real Property. Be this as it may this had not prevented Clarke (1997) from publishing his paper entitled Household Buildings Insurance -Is it Profitable? Is there Room for another Player? which projected market size assessments that include statistics incorporating the costs of replacement of personal property i.e. household furnishings and general contents. Clark does however importantly emphasise the barriers to research in this area in the following comment;

"Many insurers give some insight into their household account but there is little detail of the split between buildings and contents"

Clarke’s report therefore despite its title does not attempt to address the difficulties of the use of the term property and camouflages this within the term household.

The special use of the term property within this market in effect introduced a new and fundamental barrier to this research that of inter disciplinary jargon. Therefore in order to seek authority for the insurance definition of property and further clarification of statutory reporting demands, within this industry, the source statute was considered. Whist this indeed laid down the requirements and procedures for annual reports to be
submitted this again, as demonstrated within chapter 4, failed to reference Property as a defined term but does require Property to be an annual reporting heading.

The purpose of the interpretivist approach adopted here is to illuminate the specific, to identify phenomena through how they are perceived by the actors in a situation. As such and arising from the dearth of accessible data within this sector changed the focus of this enquiry away from a singular quantitative investigation. In effect this has been to shape the overarching aim of the study to one of gathering ‘deep’ information and perceptions through inductive qualitative methods such as interviews, discussions and participant observation, and representing it from the perspective of the research participants, such activities here are detailed within Tables 3.1 and 3.3. Interpretivism is concerned with the study of experience from the perspective of the individual, ‘bracketing’ taken for granted assumptions and usual ways of perceiving.

Epistemologically, interpretivist approaches are based in a paradigm of personal knowledge and subjectivity, and emphasise the importance of personal perspective and interpretation. As such they are powerful for understanding subjective experience, gaining insights into people’s motivations and actions, and cutting through the clutter of taken for granted assumptions and conventional wisdom Lester (1999).

Therefore in the absence of reliable published information on insurers annual claims expenditure raw data was sought direct from insurers themselves (Appendix I). Through the benefits of interviews carried out with the claims management staff of 8 of the leading UK insurers this confirmed that insurers at that stage had no purpose for separately recording the value of building work that they had funded, other than in the terms of statutory reporting demands.

Whilst insurers were not readily able or in all cases entirely willing to give over information that they held locked within their IT systems the interviews did demonstrate that they were beginning to make internal assessments of their annual spend. Albeit that these estimates were in their own words generalised and of unreliable accuracy, it was clear that work volumes were dependant upon insurers relationships with mortgage lenders. This discovery in turn led the researcher to an analysis of the UK mortgage lender market that ultimately has shown there to be a significant dominance by a small number of bank and building societies as shown in chapter 4 which served to satisfy
Chapter 3

Objective 01.

The content of the interviews together with general industry comments, encountered as a result of the prolonged engagement of the researcher within the industry (see table 3.3) also led other areas of enquiry including that of a perceived need/desire for insurers to reduce costs and control expenditure whilst at the same time to improve customer service levels (see Appendix I). In this context there is a clear distinction within the content of the interviews between the desired outcomes from the perspective of general insurers as opposed to those of the in-house insurance arm of mortgage-lenders (Bancassurers). The Bancassurers clearly states a priority of service ahead of cost (in the interests of customer retention and customer relations’ management) whereas the general insurer sees cost savings as paramount and customer service as desirable or indeed a “nice to have”.

Interpretivist methods are particularly effective at bringing to the fore the experiences and perceptions of individuals from their own perspectives, and therefore at challenging structural or normative assumptions. Adding an interpretivism dimension to phenomenological research, enabling it to be used as the basis for practical theory, allows it to inform, support or challenge policy and action. This has been replicated throughout the course of this research whilst the author has openly worked as an interested and subjective participant within the organisations that have contributed to this research see Appendix B and Table 3.3).

Notwithstanding the benefits of a participant observer approach an additional barrier to the research was encountered resulting from the competitive nature of the industry. This in effect meant that the researchers discussions with Key Informants and other industry participants were in some cases the subject of formal and/or informal confidentiality agreements. This has led to the prevention of the reporting of some of the completed interviews both in relation to insurers and contractors alike.

A further product of the researchers participant observer status and an aspect of the inter-actions with insurers was the discovery of a new involvement on behalf insurers that of procurement managers with a career history not within either construction or insurance but from the supermarket industry. This trend led the researcher to an industry where scale and complex monopolies prevailed due to the limited number of
large and dominant clients. This situation was shown through the ongoing involvement of and reports published by the Office of Fair Trading who had intervened to curtail unethical supply chain practices between the supermarkets and their suppliers. The suppliers had sought protection from their clients via the government.

This discovery then led to the benchmarking exercises that are developed within chapter 5 and in satisfaction of Objective 02.

As stated previously the interviews were initially undertaken in an effort to seek quantitative data (annual expenditure). However the content of the discussions confirmed this information not be available even to insurers themselves as they were only just beginning to focus specifically upon “Buildings” as a separate aspect of property. Significantly, they were doing so with a view to adopting the techniques and contractual relationships that they themselves had introduced within a further analogous sector, that of insurance motor repairs. These techniques included partnership arrangements that centred on Service Level Agreements and the adoption of Key Performance Indicators.

Therefore benchmarking was clearly a beneficial tool of methodology and Supermarket – Supplier and Motor Repairs were important focus areas. When reviewing the Motor repair sector it became apparent that the suppliers (garage workshops) were also concerned for the for their treatment by their insurer clients who, like the supermarkets, were reported as being prone to ratcheting up service demands whilst at the same time depressing labour charges through the negative use of KPI’s, Best Practice demands and the leverage of business volumes.

The initial literature review, undertaken here had shown Best Practice to be a developing concept within construction and particularly where government acted as a client. A review of the published construction industry statistics identified Housing Repair and Maintenance (Public) to be another analogous industry with insurance building repairs, in the terms of size and frequency of jobs and approximate annual spend. However within Best Practice as adopted by this sector the beneficial use of BVPI’s was prominent as was the reported success of new contractual arrangements and innovative procurement techniques. This led to the identification of the third
Benchmarking industry in pursuit of the satisfaction of A1 and A2 together with Objectives 02 and 03.

As echoed by Hoepfl (1997) the use of quantitative and qualitative data, in this study, has given insights that neither type of analysis could provide alone.

On the basis of Lester’s (1999) consideration of qualitative methodology he supports the credibility of the qualitative approach within this research in that he contests that a variety of methods can be used in interpretivist research, including interviews, conversations, participant observation, action research, focus meetings and analysis of personal texts. His view is that if there is a general principle involved it is that of minimum structure and maximum depth, in practice constrained by time and opportunities to strike a balance between keeping a focus on the research issues and avoiding undue influence by the researcher. The establishment of a good level of rapport and empathy is critical to gaining depth of information, particularly where investigating issues where the participant has a strong personal stake.

As indicated throughout this chapter including the content of tables 3.1 and 3.3 together with the author’s ‘intellectual biography’ (Appendix B), the extent of the personal stake exemplified by the researcher has from time to time embodied concurrent roles of both observer and manager/consultant.

3.6 Interpretivism - How this Research was undertaken

As put forward by Basiel (2001) interpretivism is based upon social construction of meanings that are inherently time-and-place dependant. This method relies heavily on qualitative methods. The current research is most closely linked to this approach.

Additionally there is often a need for the participants of the research to learn about themselves and their organisation as a culture and an environment in which business practices may be improved.

As developed within tables 3.1 and 3.3 the data was collected for this research through the following methods:

Reading - Literature Review
Chapter 3

Methodology

Observation – Prolonged Engagement as Participant Observer
Interview – Semi and unstructured meetings with Key Informants
Participation – Purposeful Intervention

The validity of any study, as developed by Travis (1999) may also within the interpretivist paradigm, be considered as the credibility. The credibility of this research was not only provided by the opportunity to conduct interviews within the industry but interviews with leading participants that reflected a cross-section of those involved from both the insurer and contractor sides of the subject area. The adopted approach supports the arguments of Rapport (1970) in recognising that many realities exist not just the one. As from the interpretivists view there are multiple realities framed differently in the minds of individuals and it was considered appropriate to view the research domain as being a social construction relative to the situation.

A contextual analysis of the insurer interviews confirms there to be no perception of problems with the standards of workmanship but concerns were expressed for the “Cost Reductions vs. Customer Service balance”, improving communication and avoidance of customer complaints.

 Whilst from the Contractor’s view the same subject of “complaints” by householders was also raised frequently but from a desire to see equity in handling, as there seemed to be an acceptance that complaint would inevitably arise. Albeit from a repeatedly suggested ulterior motive of putting pressure on the contractor with a purpose of achieving some form of pecuniary advantage – i.e. waiving of the excess or extra work at no charge.

However commonality between the insurer and contractor views was apparent in the perceived need for prompt and regular payments direct from insurers to the builders and an expressed need for the achievement of continuity of work over time if the process was to be successful.

Insofar as the selection of Key Informants (KI) or interview participants is concerned Crabtree and Miller (1999) stress the importance of selecting appropriately knowledgeable candidates. The insurer candidates here represented a cross-section of those from what the Association of British Insurers (1999) identify as being the top ten
general insurers in the terms of financial turnover. They also importantly reflect a sample including both the general insurer and the mortgage lender in-house insurer whilst at the time in the interests of avoiding bias; include also companies who were both the instructing principals of the researcher’s corroborating companies and those that had no such relationship.

With regard to the selection of contractor Key Informants the criteria was to gain access to participants from across England, Scotland and Wales that covered a range of business sizes operating in both city and rural locations. Whilst this was in the main successfully achieved, only one reported interview took place with a contractor based in Wales. All of the contractors were recommended to the researcher by the surveying staff of a UK loss adjusting company (from within their 65 regionally based offices) as reflecting professional building companies with varying degrees of experience working within the subject area.

As a result of the interview approach together with the researchers participant observer status it is considered that the credibility of the study is significantly enhanced and has provided an opportunity to gain access to the area of application in it’s natural setting. This has afforded an opportunity for the demonstration of the benefits of the “natural”, as opposed to the laboratory, setting in which this data has been collected.

Within the context of validity/credibility table 3.3 confirms that data for this research has been collected over a period exceeding 5 years in total during the course of which its reliability has been frequently and repeated tested through the workflow and system models introduced to the various organisations serving in part to satisfy Objectives 04, 05 and 06.

The development of these system models was undertaken with the collaborating contractors identified within Table 3.1. These were two Network Managers who operated exclusively within the area of application for this research. The interest of these two organisations was generated by journalistic accounts of this research reported within prominent insurance journals. Their contributions/involvement has provided and supported the prolonged engagement of the author within the industry as described within Table 3.1. In addition these inter-actions presented the opportunity for the
reported observations and interventions, Table 3.3 whilst also significantly contributing to the stated Aims and Objectives of this research.

These inter-actions and this continuing engagement has ultimately brought about the analysis of workflows, processes and practices that initially identified the need for and finally led to the production of an industry specific form of contract and KPI’s together with the generation of an insurer – contractor Code of Practice and Insurer, policyholder builder Partnering Charter. This again with a purpose of satisfying Research aim A1 and Objectives 04, 05 & 06.

The production of the above system models however also highlighted a further limitation to the effectiveness of this research due to the suspicion and mistrust that was found to be endemic to this community. In particular this was born out in the limited success achieved in the open adoption of the KPI’s. This resulted from a stated mistrust over the honesty and accuracy (integrity) of information that industry participants would record and put forward. Indeed despite the consideration of the use of Loughborough University’s European Construction Institute to act in the capacity of “Honest Broker” the matter could not be progressed for fears of loss of competitive edge or a straightforward unwillingness to become the initial public, albeit anonymous, respondents.

However a greater level of success was achieved with the development of a bespoke form of contract although commercial rights and interests were again to the fore. On a more positive note the iterative process that underpinned the document once again served as an opportunity for the prolonged engagement to act as a source of both observation and participation.

Alternatively a further frustration or limitation to the study was encountered in that no party could be identified who were willing or readily able to provided data (names and addresses) on policyholders that had recent experience of submitting a building claim. This would have enabled the researcher to have also sampled the homeowner’s views and preferences over the handling of their claim. It was initially felt crucial to the exercise to obtain such data in order to verify whether householders had a genuine preference for being paid cash rather than having the work carried out. However this
area of enquiry now provides an opportunity for future researchers to develop with the benefit of utilising the current research as a platform upon which to base their study.

One significant and unexpected benefit of the prolonged exposure technique was that this facilitated the collection of raw data of a type that had not been anticipated. This took the form of the provision of copies of confidential documentation that was currently in use within the industry and included copies of existing Contracts, Service Level Agreements, Bespoke Schedules of Rates (compete with mark-ups) and Forms of Tender.

This information was not solicited and was given freely provided the source was not disclosed. For the sake of clarity this data was not collected during the course of the reported interviews but passed to the researcher at various stages throughout the duration of this study. The documents were often given over with an accompanying comment of what is your view of clauses x, y & z or are the rates in schedules considered to be equitable. Overall this series of events serves to emphasise or possibly give rise to the mood of distrust or suspicion that runs throughout the industry.

In contrast the manner of the receipt of the data reinforces the argument that at such an early stage of formal research within this environment the collection of data including access to Key Informants would not have been possible other than from an interpretivist enquiry focus involving a participant observer capable of providing input as well as feedback by way of compensation for the gifting of the data on offer.

Potentially in such circumstances (an emerging industry) it may be argued that in order to successfully overcome the barriers to data collection requires the researcher to be able to provide the participants with some form of immediate tangible benefit. Even if in some instances that benefit is no better than a chance to vent frustrations or a quasi-independent, no cost, “qualified” opinion. The opinion qualified in the interpretation of the participant’s by virtue of the researchers new academic status and qualified from the researchers perspective in the content and language of any views/opinions that were expressed.
3.7 Criteria for Evaluating this Research

As criteria for evaluating research must be organised from a set of assumptions and from guiding principles, there must be some rational thought that should determine how interpretivist research contains worth and value for interpretivist researchers. Hence there is a need for a framework that considers the expression of a paradigm through method and one, which attempts to bring theory (rational thought) and practice (organised use) into balance.

Checkland (1991) proposed that rational thought is useless organised use and suggested that a model is considered to guide the process of organised use of rational thought.

Considering that interpretivist criteria must be subject to a paradigm of research and must be part of the research purpose and direction, the paradigm must set a framework that would guide the research method, which in turn would be guided by the area of application. This is illustrated through a modified diagram depicting the organised use of rational thought as applied to this research Figure 3.1 below

As indicated earlier in this chapter the area of application here relates to the low value, high volume, insurance funded repair of private dwellings.
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The intellectual framework includes the significance of the study, in this instance the significance of the area of application is that it is both an under-researched subject and exhibits under-developed working practices whilst at the time being significant in the terms of annual financial worth but operating without a specific form of contract. A need for this research was driven by the evident changes occurring within the industry whilst it was clear that the estimates of the size of the market were both incomplete and inaccurate. Further arising from the absence of contractual uniformity there were no reliable KPI’s or BVPI’s upon which to measure and monitor the sectors performance.

As has been developed throughout this chapter research methods sit within a spectrum extending from the positivistic – experimentation and mathematical modelling – to interpretivistic – ethnographic – methods Travis (1999). Travis goes on to quote Guba & Lincoln in demonstrating that assumptions reside in an intellectual framework for research and have taken form based on certain sets of beliefs. These are said to be beliefs about the nature of reality (ontology), beliefs about how knowledge is acquired (epistemology) combined with the nature of how methods are used or studied (methodology). Therefore research methods considered take into account the theory of knowledge, reality and inquiry and all the assumptions associated with each theory. The three types of assumptions may also be viewed as philosophical theories and may be illustrated as a ‘research triangle’ Harvey (1997) see figure 3.1 below:

Figure 3.2 The Research Triangle

Source Travis 2001
By applying the research triangle to a particular paradigm enables a clearer understanding of the kind of criteria that would be the most meaningful and the criteria is then constructed based upon the reality (ontology), the theory of knowledge (epistemology) and the type of inquiry (methodology). As two distinct paradigms exist and are constantly referred to in research methodology literature, the distinction is illustrated and the assumptions are contrasted in the table below.

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Positivism</th>
<th>Interpretivism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>Realist - reality exists 'out there' and is driven by immutable natural laws and mechanisms. Knowledge of these entities, laws, theorems, axioms and mechanisms is conventionally summarised in the form of time and context-free generalisations. Holds up the one logic of science, to which any intellectual activity aspiring to the title of science must conform. Causes and effects are derived through deductive logic.</td>
<td>Relativist - realities exist in the form of multiple mental constructs, socially and experientially based, local and specific, dependent of their form and content on the persons who hold them. Interpretive researchers study meaningful social action and gather large quantities of detailed qualitative data to acquire an in-depth understanding of how meaning is created in every day life in the real-world. Theories are usually formed using inductive logic.</td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td>Dualist/ Objectivist - both possible and essential for the enquirers to adopt a distant, non-interactive posture. Not value-laden nor subjective, nor biased, thereby automatically excluded from influencing any of the outcomes.</td>
<td>Subjectivist - inquirer and inquired are fused into a single entity. Findings are the creation of the process of the interaction between the two. The researcher states subjectivity and works from a realised basis &amp; connected ethical concerns.</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td>Experimental/ manipulative - questions and/or hypotheses are stated in advance in propositional form and subjected to empirical tests (verification/falsification proof/ refutation) under carefully controlled and repeatable conditions.</td>
<td>Hermeneutic, dialectic - individual constructions are elicited and refined hermeneutically; compared and contrasted dialectically, with the aim of generating one or a few social constructions. Shared understanding is generally a result rather than the result of 100% conflict or consensus.</td>
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</table>

Table 3.2 Assumptions of Research Paradigms

The interpretivist paradigm as examined in the above table is that which provides the theoretical foundation that underpins the current research evidenced in Table 3.1 &3.3 and Appendix I. Travis (1999) interprets the above table by arguing Lincoln and Guba's view of 1985 in that the epistemology concerning 'trustworthiness' of research within the positivist paradigm suggests that the research be viewed in a particular way.
this paradigm for research to be trustworthy it must be valid and objective. Internal validity is the degree or correspondence between the research findings and the ‘real world’. The ontology of this paradigm assumes that there is only one reality out there. External validity assumes that there is a degree of generalisability, outcomes of the study may be generalised to similar research groups and for each type of validity and the findings can be measured quantitatively.

Further to interpretivist assumptions, action research in general and then this study into insurance funded repairs provided an opportunity to construct criteria for evaluating this investigation.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Technique Suggested</th>
<th>How this Technique was Employed in this study</th>
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<tbody>
<tr>
<td>Credibility</td>
<td>Prolonged Engagement</td>
<td>An introductory period of 6 months working within the General Insurance Claims environment as Divisional Manager within a national firm of Loss Adjusters. A formal engagement over a 2-year period, in the position of Contractor Network Researcher investigating the industry. Initially developing suggested business models for a Business Plan for the establishment of UK based Contracting company on behalf of and to be funded by a North American parent company. This included the preparation of workflows, development of contractual documentation, Schedule of Rates, contractor selection, recruitment and management processes. Additionally the determination of market size, opportunities and general benchmarking. This included the conduct of informal interviews with both Insurance company representatives and Contractors alike. A further 3-year period developing the study with additional and re-visits resulting in 5 years in total. Data was also collected before this study formally commenced.</td>
</tr>
<tr>
<td>Participant Observation</td>
<td>Modification through the Research Method and the area of application</td>
<td>This was modified from the method and context to mean observation and intervention in this case. The researcher spent all their time building trust, facilitating, and discussing the subject area observing interviewing, reviewing, constructing systems and models and recording and monitoring results. Within any one month contact time within the settings would average out to at minimum 160 hours. Of this collection, compilation, analysis and transcription interactions into diagrammatic and narrative form would account for an average of 90 hours per month. Purposeful intervention brought many workflow and system models into the organisations for review and development.</td>
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<tr>
<td>AND Purposeful Intervention</td>
<td></td>
<td></td>
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<tr>
<td>Peer Debriefing</td>
<td></td>
<td>As a consequence of the Action based nature of this research coupled with the changing nature of the commercial settings several local and nationally operating peers have, sometimes sceptically or often cynically, checked the accuracy of the settings and the statements made by participants. Supervisors have also provided feedback on research findings and progress.</td>
</tr>
<tr>
<td>Methodology</td>
<td>Referential Adequacy</td>
<td></td>
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<td>-------------</td>
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<tr>
<td></td>
<td>Historical data exist within each of the collaborating organisations and the new systems have been incorporated into the organisations within the Insurance Repair companies. All system models constructed – KPI’s, Contracts and Quantitative data exist as “raw data”. Data was also given meaning by participants in different forms (tables – KPI’s, system models – Contractual forms and Service Level Agreements) as “information”. Some interview data is recorded and written in a descriptive style of recounting the story about this unique sub-culture of construction and incorporated as Appendix I.</td>
<td></td>
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<tr>
<td>Member Checks</td>
<td>All recorded information was continuously checked and fed back to all participants in the process of the research often in the form of reconstructing the system and working practices and on learning about the changes and what needed to be acted upon. All participants who were often stakeholders provided feedback on system changes and outputs.</td>
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<tr>
<th>Dependability &amp; Confirmability</th>
<th>Dependability/ Reliability Audits</th>
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<tr>
<td></td>
<td>The Contractual form and the KPI’s and to a degree interpretation of market size assessment represent the iterations of data and are prevalent throughout. System models, perceptions of the researcher in descriptive form, summaries of interviews and model building were all audits.</td>
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<th>Transferability</th>
<th>A thorough description of the context or setting</th>
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<td></td>
<td>The research findings discuss the transferability of knowledge gleaned though the descriptions provided and application of the models put forward for the Charter Form of Contract and KPI's. In the case of the KPI's their adoption have been largely hampered by the inherent mistrust between the parties over the level of honesty that underpins the data put forward by other participants.</td>
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<th>Subjectivity versus excessive Personal intervention</th>
<th>Ethical Awareness</th>
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<tbody>
<tr>
<td></td>
<td>The participants of the research acted as judges about acceptable subjectivity and ethical practice.</td>
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</table>

Table 3.3 Research Evaluation Criteria

Realisability within this paradigm assumes that the degree of stability may also be measured and that the nature of phenomena is relatively fixed. Objectivity or value free enquiry is viewed as a degree of separation between the researcher and the research domain, that or those being studied.

In contrast to the positivist paradigm Travis (1999) demonstrates that there are parallel criteria that are more appropriate for the interpretivist paradigm again following the arguments of Lincoln and Guba (1985). The criteria are defined as credibility rather than internal validity, dependability rather than reliability, transferability rather than generalisability or external validity. Confirmability is stated as being a parallel to objectivity, but subjectivity is inherent in the ontology, so a ‘realised subjectivity’ is put forward as being a more appropriate parallel to objectivity. This is where the method and the area of application start to fine-tune the criteria. Furthermore, both
dependability and confirmability are viewed as being parallels to reliability, particularly within the context of this research.

As from the interpretivists view it is stated that there are multiple realities that are formed differently in the mind of the individual it is considered appropriate to view the research domain as being a social construction relative to the situation. The interpretivist researcher is a relativist where many realities exist, not just the one. The interpretivist acknowledges bias and subjectivity in the collection of data and knowledge and works within a mutually acceptable ethical framework Rapport (1970).

Within this interpretivist paradigm credibility is the degree of correspondence between the realities of the research domain and participants, and how closely the researcher interprets their intentions and realities, and how closely the researcher is representative of those participants Guba and Lincoln (1989). Confirmability according to Guba and Lincoln is the degree to which:

‘... Data, interpretations and outcomes of inquiries are rooted in contexts and persons, apart from the researcher, and are not simply figments of the imagination. data (constructions, assertions, facts and so on) can be tracked to their sources .... The logic used to assemble the interpretations onto structurally coherent and corroborating wholes is both explicit and implicit in the narrative case.’

From the standpoint of Travis and Lincoln and Guba dependability is where the stability of the data (or the data gathering and analysing process) can be tracked and is traceable and is evidenced here through Table 3.1 & 3.3 together with Appendix I.

Importantly transferability is not generalisability. Transferability represents the degree of transfer between sending and receiving contexts, where the sending context is that of the researcher or inquirer. The study must then be defined and described in sufficient rich detail, so that the receivers can make judgments about the transferability. This has been achieved within this study through the adoption of workflows and system models generated by the author and utilised within the collaborating organisations shown in Table 3.1.
3.8 Summary

The purpose of this Chapter has been to define and describe the distinctive form of interpretivism used in this research in that to a degree the researcher has intervened to cause change and to bring clarity to an emergent and unique market sector that itself represents an overlap of the discrete insurance and construction industries. Shown in this instance through the key outputs of this thesis as described within the Problem Statement contained within Chapter 1.

In a review of interpretivist research Travis (1999) relies heavily upon the often quoted/referenced work of Lincoln and Guba (1985, 1989) (Cupchick (2001), Baptiste (2001), Crabtree and Miller (2002), Hodgson (2000)). They support the view that within research methods such as those adopted here it is inherent to the approach that during the process of the study, and through the analysis of the findings, the criteria for trustworthy interpretivist findings are continually being reconstructed. The process described above continued in this instance until a criteria set appropriate to interpretivist action research were created for this research were created for this particular study. See Figure 3.2 below;
Hodgson (2000) refers to interpretivism as being one of two theoretical foundations to ethnographic research. Colorado State University (2002) define ethnography as a long-term investigation of a group (often a culture) that is based on immersion and optimally participation in that group. From this standpoint the author, in order to fund this research project over the past five years held the following positions of operations manager, technical director and business consultant with three organisations transacting business solely in the insurance repair industry. These organisations, in the UK, have turnovers ranging from £10million to £30million derived specifically from the subject area. In addition the researcher has also worked collaboratively with a fourth organisation who again operate exclusively in this industry and claim to be the second largest dominant force in the terms of both financial turnover and work volumes.

In the initial stages of this research the organisation concerned were actively seeking to reinvent their product definition and service delivery process. Crucially this involved the author in examining the emerging market structure and importantly to determining
the overall market size in the terms of job frequency, value and total market value, see Chapter Four. This in the face of market practices which saw no purpose in going beyond the historical practice of recording 'property' claims of all types under the one heading. This examination was achieved through informal interviews with the claims management of eight insurance companies and the proprietors of twenty-eight regionally based building contractors with experience in this market see Appendix I.

From Colorado’s perspective it is confirmed that qualitative researchers provide a detailed exploration of group activity and may include literature about or by the group. It is said to be an approach that employs multiple methodologies to arrive at a theoretically comprehensive understanding of a group or culture. The issue for the observer is argued as being how the particulars in given situation are interrelated. In other words, the researcher here has attempted to explain the web of interdependencies of this particular culture’s behaviours and interactions.

Qualitative research from the standpoint of Silverman (2001) seeks to describe the methods people use in specific cultures in order to achieve their desired outcomes. Garfinkel (1967) explains that qualitative research attempts to understand people and the methods that they use for organising their world; it indicates these methods in the practices through which people develop an understanding of each other and of specific situations. This approach has as been employed here serves to both justify the choice of methodology and in facilitating the satisfaction of the Aims and Objectives of this research. In essence to identify and examine the unique and novel characteristics exhibited by the insurance repair sector, that set it apart form other types of construction, and ultimately in proposing solutions that enable it to be managed more effectively and understood more widely.
Chapter 4  

4. Market Size

4.1 Introduction to Market Size

This chapter determines and describes in both general and specific detail the size of the private household building repair market. This research, for the first time, separately identifies this market in the terms of the frequency and average value of incidents and also confirms the annual financial worth of such activity. In addition the underlying cause of the difficulties that arise in accurately quantifying the sector are examined in depth to ensure an acceptable degree of accuracy is achieved in the market size calculations.

The research makes use of statutorily required and subsequently published information. In order to be satisfied that such data depicts ‘reality’ the reported results have been approached with a view from what Silverman (2001, ch 5 p128) describes in the words of Atkinson & Coffey, as:

‘...... treat them (official statistics/documents) very seriously indeed. Consider them for what they are and what they are used to accomplish.’

This in itself has left this research posing further questions over the accuracy of Government compiled construction statistics, which through failing to recognise the existence of this market may inaccurately reflect the balance between private and commercial repair and maintenance work.

In addition, enabled by the determination of market worth, comparisons are drawn between this sector and those of the private motor insurance repair market together with the ‘small works’ sector of the construction industry.

From an initial consideration of the nature of insurance work a casual observer may simply be satisfied to conclude that the principle activity of small builders is the work done by private householders on their domestic dwellings, as indeed is reported by the National Statistics Office (2001). In the same vein the household buildings insurance repair market has been seen for many years as the province of the so called ‘white van man’ who had optimistically declared on the van and in yellow pages that he was so desperately in need of new work that he would even provide insurance quotations.
The merits of the inclusion of the alternative ‘yellow pages’ contractor list are borne out of the services that are described in the advertisements being a very close representation of the actual experiences of many disillusioned policyholders. As indicated earlier in this research insurers have traditionally responded to claims received by requiring the policyholder to contact three builders and obtain written estimates from them. This led to the general public having such poor experiences with small/rogue contractors that ultimately an ever-increasing number of complaints to both the Trading Standards Institute DTI (2000) and the Insurance Ombudsman’s Bureau were recorded. In turn, this contributed to the recognition of the need for the establishment of the government sponsored cowboy builder enquiry and ultimately the development of the Quality Mark Scheme (2001).

The reluctance of the larger and/or possibly more professional contractors to become involved in lower value private repairs has predominantly resulted from the piecemeal nature of the work and the uncertainties over ever receiving payment once the work was done. These factors were coupled with an absence of any tangible opportunity to secure repeat business and hence the attendant acquisition and administration costs, for each individual project left the work to be an uneconomical proposition.

This generally depressing image of the insurance repair industry is however in stark contrast with the findings of Prior (1999) who confirms the comments of George Morrison a director of Morrison Construction Group Plc. In essence in the summer of 1999 the Morrison Group announced to the construction industry that they had been successful in negotiating the companies largest facilities management project to date. The work in question was said to produce a new revenue steam with an annual turnover of £50million. The contract commenced with Morrisons receiving 200 jobs per week involving domestic repair work following insurance claims. The involvement of Morrisons was said to herald the introduction of new levels of customer service to the insurance repair market.

Morrison Construction Group Plc are quoted as having an annual turnover of £509,825,000 for the financial year ending March 2000 (Hewes, 2001) and were placed 26th in the UK top one hundred contractors and house builders in the terms of both turnover and pre-tax profits for that year. Hence one of the largest construction groups in the country were celebrating their successful entry into a new market yielding a
minimum of 10,500 jobs a year working on the repair of the private homes of the general public. Alternatively viewed, carrying out roof repairs for house owners may possibly suggest that the construction giant had proudly reverted to the status of jobbing builder.

The term jobbing builder does not perhaps hold the same attributes of prestige and recognition as those of what Mr Morrison preferred to describe as a new venture, which positioned the Morrison Group as a construction industry innovator. The subsequent sale of Morrisons to Anglian Water Group (AWG) in August 2000 and the burgeoning losses later reported for the contractor by the new owners, Thompson (2002) gave rise to no specific comment over the contribution or otherwise of this new venture into the low value insurance repair market.

In so far as this research is concerned, the pronouncements of Morrisons, serve to highlight the true potential of the insurance repair industry and provides a catalyst for the examination of the overall size and structure of this market that follows within this chapter. At the same time this chapter highlights the difficulties of confidently understanding the complex and, often-conflicting nature of published information arising from the compliance requirements of statutory reporting demands.

4.2 Statutory Reporting
4.2.1 Construction Industry
The Construction Statistics Annual (2001) brings together the wide range of statistics that are currently available on the construction industry. These include information in the terms of both the output and structure of the industry.

The DTI consider the above under the categories of new work and repair and maintenance. These in turn are further divided in the following manner.

New Work:
- New Housing
- Public
- Private
- Infrastructure
- Non Housing (excluding infrastructure)
- Public
Chapter 4

Private industrial
Private commercial

Repair and Maintenance

Housing
Public
Private
Other Work
Public
Private

The figures are reported on a quarterly basis per annum with an historic spread of ten years currently dating back to 1990. The output is recorded under each of the category sub-sections and again on a quarterly and annual basis the combined category totals are also presented. For the year 1997, which replicates the year of analysis by this research, total housing repair and maintenance is stated in the following terms:

Housing repair and maintenance – public sector £6,628,000,000
Housing repair and maintenance – private sector £9,125,000,000
£15,753,000,000

The DTI through the construction industry directorate is responsible for the collection of construction data and statistics. The practice has been ongoing since 1958. The data for this source is collected under the authority of the statistics of Trade Act 1947 with a purpose of supporting the measurement of Gross Domestic Product (GDP), but its content is both comprehensive and meaningful.

In addition the construction industry directorate provides other industry services including reports on construction statistics and economics together with industry related key performance indicators.

These other industry services incorporate annual statistics and data tables reporting on not only the number and size of firms' involved but also additional analysis as follows:

Private contractors number of firms
Chapter 4

Private contractors number by trade of firm
Private contractors number by region

Private contractors value of work done by size of firm
Private contractors main trade
Private contractors specialist trade
Private contractors by size and trade of firm
Private contractors by size of firm and region

Private contractors value of work done by size and type of work done
Private contractors value of work done by size by trade of firm
Tender price indices
Output price indices per work category

Industry KPIs and benchmarking
KPIs and benchmarking include published statistics covering:

Client satisfaction – produce
Client satisfaction – service
Cost predictability
Cost compared to previous year
Time compared to previous year

4.2.1.1 Construction Industry Transparency
The annex to the National Audit Office report Modernising Construction, NAO (2001) re-affirms that a number of independent reviews have emphasised the considerable potential to improve the performance of building projects and consequently produce cost savings. The annex goes on to set down a number of questions that should be considered before embarking on any construction project, including under the following headings:

1. Assessing the need for construction
2. Assessing the procurement strategy
3. Assessing the contract strategy
4. A baseline is needed against which to measure achieved performance
Chapter 4

5. Base line cost should be validated performance
6. Achievement of improvement should be monitored, measured and publicised.

Within the construction industry the wealth of information as indicated above is both prepared and published to assist these stated aims but within the insurance property sector much less structure of transparency prevails. Within the construction industry Whitehouse (2001) suggests that efficiency savings and quality improvements are being achieved through ‘partnering’. In turn the report goes on to say that partnering involves establishing long-term collaborative relationships with contractors. The National Audit Office is confirmed as supporting this approach, provided that partners are appointed competitively and that both parties commit to continuous improvement and transparency.

The apparent lack of transparency within the insurance industry demonstrated later in this chapter may well be one that is entirely unwitting from an insurers perspective. The difficulties are possibly contributed to by historic practice within the insurance industry and the use of common English words that have different meanings from the standpoint of the insurance and construction worlds.

4.3 Insurance Industry

The Office of National Statistics (ONS) indicate that for the trading year of 1998 the premium income generated by insurance companies in the UK was as below, statbase (2001)

<table>
<thead>
<tr>
<th>Long Term business</th>
<th>£95,404 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>General business</td>
<td>£42,334 billion</td>
</tr>
</tbody>
</table>

These figures are calculated on the basis of the insurance company questionnaire based surveys, which are carried out by the ONS on a quarterly and annual basis with a panel of 167 insurance companies.

There are two versions of these questionnaires, one for companies carrying on life assurance business, and one for general insurance (i.e. motor, household, marine, aviation and transport).
In addition the ONS also undertake the same quarterly and annual surveys in the terms of insurance company income and expenditure. Once again the distinction between long term (life assurance) and general insurance business is maintained and the data captured is said to provide details of the payments made by the income of insurance companies.

The quarterly surveys were introduced in 1992 and collected under the authority of the statistics of Trade Act 1947. They are said to be mainly concerned with providing a breakdown between the interests of insurance companies in the UK and overseas on various financial instruments. Additionally, and importantly the data also reflects the different types of premiums and claims encountered. This information is published within Business Monitor MQ5. However, the use of MQ5 for general insurance business enquiries is at best limited due to the categories of recorded business that are employed, Statbase (2001). However, like the construction industry information the underlying purpose of the data capture is primarily to support UK industry wide GDP information.

4.3.1 Insurance Companies Acts and Regulations

An alternative authoritative source of insurance data is available through the provisions of the Insurance Companies Act 1982. The Act provides that all insurance companies to which Part II of the Act applies must submit annual returns to the DTI, Insurance Directorate (1996). As this requirement includes all insurance companies who are authorised to carry on business in the UK, the source of data is potentially the prima facie authority for deriving the frequency and financial value of claims made under the household buildings policies on an annual basis.

The format for the submission of DTI returns is prescribed in deliberate detail and once again as indicated in the guidance notes the act requires separate identification of information under the defined headings of long term and general business.

The general business portion of the return is to be broke down into accounting classes, business categories and risk groups.
Under sub-section 9.2.1. of the Explanatory Guidance Notes (1996) explanation is provided to confirm that division of general business in the DTI’s returns takes place in two stages. Firstly business is divided into accounting classes and then each accounting class is further sub divided into either risk group (in respect of direct insurance and facultative reinsurance) or business categories (in respect of treaty reinsurance business) as defined under Regulation 3 and paragraph 6 of Schedule 2.

The reporting procedures adopted by the individual insurance companies is dictated by the method of reinsurance chosen which may vary from company to company and indeed possibly year on year. As such researchers seeking to determine market size must clearly consider both of the above risk groupings to ensure that a comprehensive review of the published data is carried out.

In respect of direct insurance and facultative re-insurance there are eight accounting classes as indicated below:

<table>
<thead>
<tr>
<th>Accounting classes for direct insurance and facultative re-insurance</th>
<th>1</th>
<th>Accident &amp; Health</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>Motor</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Aviation</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Marine</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Transport</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Property</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Third Party Liability</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Miscellaneous and Pecuniary Loss</td>
</tr>
</tbody>
</table>

Table 4.1 Facultative Reinsurance Accounting Classes  Source Insurance companies Act 1982

In so far as treaty re-insurance is concerned sub section 9.3 of the Guidance Notes confirms that Regulation 10 requires a company to allocate their business within each treaty accounting classes (i.e. 9, 10 and 11) into the following business categories:
Chapter 4

Market Size

<table>
<thead>
<tr>
<th>Standard Business Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Accident &amp; Health</td>
</tr>
<tr>
<td>(b) Motor</td>
</tr>
<tr>
<td>(c) Aviation</td>
</tr>
<tr>
<td>(d) Marine</td>
</tr>
<tr>
<td>(e) Transport</td>
</tr>
<tr>
<td>(f) Property</td>
</tr>
<tr>
<td>(g) Third Party Liability</td>
</tr>
<tr>
<td>(h) Miscellaneous &amp; Pecuniary Loss</td>
</tr>
</tbody>
</table>

Table 4.2 Treaty Reinsurance Accounting Classes

Source: Insurance Companies Act 1982

For the sake of clarification Smyth (1989) provides brief definitions of the two main forms of re-insurance in the following terms:

4.3.1.1a *Facultative Reinsurance*

The oldest method of re-insurance involving the individual submission of each risk to the re-insurer who may accept, reject or impose terms as they think fit. This is said by Smyth to be clumsy and time consuming whilst awaiting the re-insurers decision on whether or not to provide or not to provide cover for each new policy.

4.3.1.1b *Treaty Reinsurance*

This in Smyth’s view is the most popular and simplest form of reinsurance to operate. In example an insurer will decide the limit of the risk that they decide to retain, i.e. up to an amount of £100,000 for any one claim and hence it is stated as being reasonable to issue a policy with a maximum indemnity limit of £1million. The insurer then arranges ‘excess of loss’ cover under a treaty to a re-insurer for the remaining £900,000. As a result the ordinary ‘run of the mill claims’ will be paid by the insurer (Ceding Company) who is able to retain a large proportion of the premium of the major proportion of the premium is said to be acceptable as there is less likelihood of the higher value claim arising.

‘Excess of loss’ is put forward as being simple to operate, as details of individual risks (or policies) do not have to be given to the re-insurers. The attraction is that operating costs are reduced for both Ceding and re-insurance companies.
In summary notwithstanding re-insurance arrangements, through the analysis of the DTI returns, it is possible to determine the size of an individual insurer's business in respect of property expenditure and claims frequency by reference to the appropriate accounting classes. However, importantly despite being able to calculate market size the information developed fails to provide the clarity and with the same level of easily accessible transparency as the statistics published in reference to the construction industry.

4.3.1.2 Property – In the Context of Insurance Reporting

However, as explained under sub section 9.3.2. of the Guidance Notes, a business may adopt the standard business categories defined by the Act or alternatively adopt its own bespoke categories. In the event of the use of bespoke categories a name must be given which identifies the general nature of the business included. This in practice leaves individual insurers the freedom to record their activities under an endless variety of possible headings. As indeed within the Insurance Companies Act 1982 comment is included which leaves the option open for insurers to record fire damage to property under either property or fire classifications.

As property is the common term employed throughout the Guidance Notes for the submission of annual returns as required by the Insurance Act of 1982, the Act itself has been considered in order to obtain an authoritative definition of the term property. Under Section 95 of Part V of the Act a Glossary of General Interpretation is included. Unfortunately, no definition of the term property is given.

However in Part I of Schedule 2 to the Act, Class 9 ‘Damage to Property’ is defined in the context of the ‘nature of the business’ as follows:

Effecting and carrying out contracts of insurance against loss of or damage to property (other than to property which classes 3 to 7 relate (i.e. land vehicles, railway rolling stock, aircraft, ships, goods in transit), due to hail, frost or any other event (such as theft). Other than those mentioned in class 8.
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For the sake of completeness class 8 has the same definition as class 9 above, but refers to loss of or damage to property due to fire, explosion, storm, natural forces, other than storm, nuclear energy or land subsidence.

Whilst no formal definition of the term property is provided within the Insurance Companies Act from the interpretations that are included, it is clear what property in the context of general insurance is not. Property on this basis and for these purposes is not:

1. Land vehicles
2. Railway rolling stock
3. Aircraft
4. Ships
5. ‘Goods’ in transit

The meaning of property as defined by Gray (1990) follows a similar route as above in explaining what property is not. Gray states that both lawyers and non-lawyers alike often refer to property as the thing (authors own use of italics), which is owned. However, semantically it is explained that property is the condition of being ‘proper’ to (or belonging to) a particular person. Gray goes on to confirm the views of Professor MacPherson in that the distinction between a right to a thing (i.e. the legal relation) and the thing itself has become blurred, the thing itself in common parlance has become the property.

Whilst it is not the purpose of this research to exhaustively seek to define the concept of legal relationships it is of fundamental interest and importance to demonstrate that the subtlety of the use of language across professions and industries can easily lead to erroneous misinterpretations. In particular it would be natural for any building contractor to interpret an insurer’s invitation to tender for building repairs to conclude that the company’s express property claims history relates to the damage sustained to buildings (i.e. real property).

However, in the instance quoted within chapter two, Invitation to Tender for Insurance Building Repairs (2001), the tender document entitled building repairs baldly referred to an annual number of property claims totalling 250,000. In response to a pre-tender
question, from the author of this research, requesting clarification of the breakdown between buildings (real property) and contents (personal property) claims — the insurer responded by confirming that such information was not available.

The reason for this non-availability may now be more clearly understood as it can be seen that hitherto insurers had no purpose in making such distinctions. From an operational view their requirements have been to comply in business terms with the prevailing statutory demands. This position is currently changing but due to the recent spate of mergers and acquisitions, involving the top twenty insurance companies, the capture of such data will only follow the replacement and integration of the plethora of legacy, IT systems which abound in the newly formed larger organizations.

In addition, it would equally be convenient for a construction researcher to consider the statistical bulletin of the Association of British Insurers (1998) and deduce that the weather related property damage claims for the third quarter of 1990 alone resulted in property damage (building repairs) totalling in excess of £2.1 billion. This as the foregoing demonstrates, would be wildly inaccurate as such figures include damage to both commercial and domestic property and in turn the term property has been shown to relate to both real and personal property definitions.

In evidence of this use of language in an inter-disciplinary environment the current research by Nicholas and Proverbs (2002) very ably demonstrates the difficulties that are faced. Dr Nicholas and Dr Proverb of Wolverhampton University in research entitled Assessing Flood Damage to Domestic Dwellings: the Present and Future State of Knowledge, endorsed by the Chartered Institute of Building, Loss Adjuster and the RICS use the words ‘Property’, ‘Dwelling’ and ‘Building’ as being interchangeable. In research funded by the Lloyds TSB General Insurance, the distinction between insurance funded building repairs and insurance funded restoration and replacement of carpets curtains and general household goods would possibly be well drawn.

Whilst there is little doubt that such research has its own merits and purposes the papers published to date make no reference to the nature, size and frequency of the problems that it seeks to address. The flooding of the homes of the general public is widely reported in the media and the most dramatically affected household are normally considered to be the most newsworthy. However, without establishing the true extent of
the problem in terms population size, frequency and distribution any proposed remedies may well prove to be disproportionate and unrepresentative of the problem being addressed and hence less effective in practice and application.

4.4 The Dimensions of the Household Insurance Repair Market

Smyth (1989) states:

‘there is less likelihood of the higher value insurance claim arising and hence the low value ‘run of the mill’ claims occur with much greater frequency within the household building claims market.’

However, one area where high value claims arise to a measurably significant degree is in relation to claims made for damage as a consequence of the operation of the insured peril of subsidence. From information published by the Association of British Insurers (1999) the following data is recorded for domestic subsidence claims for the year of 1997.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>QUARTER</th>
<th>GROSS CLAIMS INCURRED</th>
<th>NUMBER OF CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1</td>
<td>85 million</td>
<td>9,500</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>84 million</td>
<td>11,700</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>97 million</td>
<td>11,900</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>126 million</td>
<td>12,800</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>392 MILLION</td>
<td>45,900</td>
</tr>
</tbody>
</table>

Table 4.3 Cost of Domestic Subsidence Claims 1997

Source ABI

Average claims cost is therefore calculated as follows

Gross claim costs £392,000,000
Number of claims notified 45,000

The Average Claims Cost £8,540.00

(including professional fees and site investigation costs)
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The nature of claims for subsidence has potentially alarming consequences both for the householder (through the blighting effect on their homes) and adverse financial consequence for insurers (as the cause of the damage must be established and removed to enable the house to be stabilised and the claim concluded) Anumba & Scott (2000). Hence as Anumba & Scott go on to state insurers have historically involved third party professional engineers, loss adjusters or surveyors to manage the process — a process that in the past has extended to between twelve and twenty four months on average.

This is not the case for the run of the mill storm or escape of water claim where minor damage from a known cause enabling repairs to be effected almost immediately. Therefore such subsidence losses are excluded from the current research.

However, as these subsidence losses are sustained to property in an insurance sense, the statistics mentioned above are of significance here and will be referred to later in this chapter.

4.4.1 ‘Run Of The Mill’ Work

Whilst the complex nature of the insurance industry statutory returns has been previously considered at length and the dangers concerning their use have been highlighted they remain a primary point of reference in determining the frequency and size/value of the run of the mill claims. ‘Run of the mill’, is defined in the New Edition of the Definitive English Dictionary (1999) as the ordinary, average or happening each day. It is therefore this less glamorous or less attractive but more frequently encountered and financially valuable work area that this research ultimately seek to examine.

In this regard the information provided by Standard & Poor’s Synthesys Non-Life reporting system (2001) is invaluable. Standard & Poor’s is a division of the McGraw Hill Group of companies. The Synthesys Non-Life service is available on a stand alone CD and Section 3 Form View is acknowledged as being a fast index into the DTI (currently FSA) returns for all forms, companies and years held on the database. This in turn has for the sake of ease of access, simplicity and comprehensive coverage been the collective source of authority for access to the annual returns for the majority of insurance researchers and analysis.
The Synthesys Limited data was employed by Lloyds London Press (1999) to substantiate their review of the top one hundred property insurers for the year of 1997. The narrative preceding the performance tables confirms the difficulties encountered in compiling the data arising from the former Commercial Union, Eagle Star and Legal & General Insurance Companies historic practices of not splitting household results within their property insurance classification in the H M Treasury returns.

The results for 1997 Household (UK property business only) are reflected in table 4.4 below:
### Household Property Claims

<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Gross Paid Claims £</th>
<th>Number of Claims</th>
<th>Average Cost per Claim £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal &amp; Sun Alliance</td>
<td>277,852,000</td>
<td>405,548</td>
<td>685</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>122,139,000</td>
<td>56,568</td>
<td>2,159</td>
</tr>
<tr>
<td>Guardian Royal Exchange</td>
<td>97,405,000</td>
<td>76,444</td>
<td>1,274</td>
</tr>
<tr>
<td>Prudential</td>
<td>93,985,000</td>
<td>162,050</td>
<td>580</td>
</tr>
<tr>
<td>GA Fire &amp; Life</td>
<td>80,638,000</td>
<td>99,278</td>
<td>812</td>
</tr>
<tr>
<td>Co-operative Ins</td>
<td>63,985,000</td>
<td>115,411</td>
<td>554</td>
</tr>
<tr>
<td>Direct Line</td>
<td>59,432,000</td>
<td>102,726</td>
<td>579</td>
</tr>
<tr>
<td>ITT L &amp; E</td>
<td>39,925,000</td>
<td>67,935</td>
<td>588</td>
</tr>
<tr>
<td>Zurich Ins</td>
<td>29,551,000</td>
<td>55,743</td>
<td>530</td>
</tr>
<tr>
<td>Gresham Ins</td>
<td>25,169,000</td>
<td>37,314</td>
<td>675</td>
</tr>
<tr>
<td>National Farmers Union</td>
<td>17,627,000</td>
<td>22,650</td>
<td>778</td>
</tr>
<tr>
<td>Pearl</td>
<td>17,212,000</td>
<td>30,768</td>
<td>559</td>
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<td>UTD Friendly Ins</td>
<td>16,630,000</td>
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<td>416</td>
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<tr>
<td>Avon</td>
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<td>8,916</td>
<td>1,746</td>
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<tr>
<td>AXA Provincial</td>
<td>12,295,000</td>
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<td>972</td>
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<td>797</td>
</tr>
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<td>Churchill Ins</td>
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<td>674</td>
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<td>Landmark Ins</td>
<td>11,192,000</td>
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<td>684</td>
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<tr>
<td>Royal London</td>
<td>8,596,000</td>
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<td>CAN Re</td>
<td>6,605,000</td>
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<td>Albion Ins</td>
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<td>UIA Ins Ltd</td>
<td>4,897,000</td>
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<td>2,218</td>
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<td>1,320,000</td>
<td>10,597</td>
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<td>286,000</td>
<td>453</td>
<td>671</td>
</tr>
</tbody>
</table>

| Totals                 | £1,055,144,000      | 1,422,988        |                          |

Table 4.4 Household Property Claims 1997
Chapter 4  

4.5 Market Influencers – Mortgage Lenders

It is important to recognize that the above data represent all household property claims. As such, adjustments need to be made in order to isolate household building claims only. A source for such differentiation and indeed a source of reliable information on the household building results of Commercial Union, Legal & General and others may be interpreted from a publication by SBC Warburg, a division of Swiss Bank Corporation in a paper entitled Special Review: Domestic Property (January 1997). Warburgs are the Stock Broking and Market Analyst Division of the International Banking Group.

Warburg states that the household account represents 66% of the property account, which in turn equates to 23% of all the general insurance business written in the UK in terms of premium income.

Warburg further argues that whilst there can be little doubt that sums insured for buildings are always higher than those for contents, contents insurance generates larger premiums per policy. Additionally, whilst mortgage agreements require compulsory insurance on the building but not for contents, contents policies are historically provided to those in (council owned) rented accommodation. The provision of such contents cover has been predominantly through policies issued by the General Accident and Independent Insurance Companies, collected as an extra amount on weekly rent payments. Warburg go on to comment that the Building Society and Banks exert considerable control in the household building sector restricting house owners choice of insurance provider through the linking of the insurance policy to the mortgage. Indeed despite repeated complaints by Direct Line and other direct writing insurers to the Office of Fair Trading, no trade practice review has been undertaken. Hence bank or building society connection buildings insurance policies remain the most popular arrangement.

As such, bank and building society relationships also remain much sought after from a general insurance view and have become more so over recent years. Historically, the individual lender’s business was underwritten on a panel basis each containing a group of insurers. However, since 1996 the lenders have attempted to gain greater control of
the administration and branding of their household insurance products and have concentrated their business with 'sole providers' either on a joint venture or quasi-reinsurance basis.

The sole provider relationships are explained and rationalized by Warburg in the following manner:

>'In joint venture arrangements the insurer typically owns 85% of the underwriting company, while the lender owns 85% of the administration and service company. In quasi re-insurance arrangements, the insurer provides the lender with capital at net rates, factoring in a profit margin and cost of capital, allowing for pure expenses, expected claims experience and catastrophe risk. In the latter position, the lender effectively controls pricing, adding on a profit margin rather than charging the insurer commission. This with a view of aligning the client (policyholder/mortgagor) closer to the lender and away from the insurer who is also a rival provider for other financial services.'

The magnitude in financial terms of those lender/insurer relationships is identified for 1997 in the following table 4.5
### Table 4.6: Market Size

<table>
<thead>
<tr>
<th>Lender</th>
<th>Mortgage Market Share</th>
<th>Insurance Provider</th>
<th>Terms</th>
<th>Estimated Annual Premium Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax</td>
<td>19.7%</td>
<td>Royal Sun Alliance</td>
<td>Three year deal</td>
<td>£300 million</td>
</tr>
<tr>
<td>Abbey National</td>
<td>12.3%</td>
<td>Commercial Union</td>
<td>80/20 Joint Venture 5 year deal</td>
<td>£200 million</td>
</tr>
<tr>
<td>Lloyds TSB</td>
<td>8.9%</td>
<td>TSB underwrites through TSB Gen Ins</td>
<td>Royal Sun Alliance major panel member</td>
<td>£180 million</td>
</tr>
<tr>
<td>Nationwide</td>
<td>6.7%</td>
<td>ITT L&amp;E</td>
<td>3 year deal</td>
<td>£130 million</td>
</tr>
<tr>
<td>Woolwich</td>
<td>5.4%</td>
<td>Legal and General</td>
<td>85/15 Joint Venture 3 year deal</td>
<td>£160 million</td>
</tr>
<tr>
<td>Alliance &amp; Leicester</td>
<td>3.8%</td>
<td>Eagle Star</td>
<td>Joint Venture 3 year deal no terms revealed</td>
<td>£100 million</td>
</tr>
<tr>
<td>NatWest</td>
<td>3.8%</td>
<td>Guardian Royal Exchange</td>
<td>Non-revealed</td>
<td>£80 million</td>
</tr>
<tr>
<td>Barclays</td>
<td>3.8%</td>
<td>Norwich Union</td>
<td>Non-revealed</td>
<td>£80 million</td>
</tr>
<tr>
<td>Northern Rock</td>
<td>2.3%</td>
<td>Guardian Royal Exchange</td>
<td>Non-revealed</td>
<td>£65 million</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>66.7%</strong></td>
<td></td>
<td></td>
<td><strong>£1,295,000,000</strong></td>
</tr>
</tbody>
</table>

**Insurer - Mortgage Lender Relationships – As at 1997**

### 4.6 The Size Of The Market

In summary, in the terms of differentiating the financial aspects of the household buildings and contents business from within the household property account this is now shown to be determined by the marketing strategies of the individual insurers. In example, those insurers with a heavier proportionate involvement in buildings insurance are those with strong lender connections. Alternatively, those who market their products through field forces who collect premiums at the door from the lower socio-economic groups, home ownership is less and those insurers do not have a large proportion of buildings business.

Ultimately, Warburgs present a table of estimated divisions between the building and contents business for the major UK insurers. These proportions have been applied to the results of table 4.6 (Synthesis/LLP) and to this table the results of the missing larger corporate insurers e.g. GCU, Legal & General, TSB et been added.

In essence the UK household buildings insurance is estimated for the year of 1997 in the following table 4.6
### Table 4.6 Household Building Claims 1997

<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Gross Paid Claims £</th>
<th>Number of Claims</th>
<th>Average Cost per Claim £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal &amp; Sun Alliance</td>
<td>180,603,000</td>
<td>263,606</td>
<td>685</td>
</tr>
<tr>
<td>Commercial Union</td>
<td>93,600,000</td>
<td>140,161</td>
<td>742</td>
</tr>
<tr>
<td>Legal &amp; General</td>
<td>82,000,000</td>
<td>110,510</td>
<td>742</td>
</tr>
<tr>
<td>TSB</td>
<td>72,000,000</td>
<td>97,035</td>
<td>742</td>
</tr>
<tr>
<td>Eagle Star</td>
<td>52,000,000</td>
<td>70,080</td>
<td>742</td>
</tr>
<tr>
<td>Norwex Union</td>
<td>54,962,000</td>
<td>25,456</td>
<td>2,159</td>
</tr>
<tr>
<td>Guardian Royal</td>
<td>63,313,250</td>
<td>49,688</td>
<td>1,274</td>
</tr>
<tr>
<td>Exchange</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prudential</td>
<td>37,594,000</td>
<td>64,820</td>
<td>580</td>
</tr>
<tr>
<td>GAFire &amp; Life</td>
<td>40,319,000</td>
<td>49,639</td>
<td>812</td>
</tr>
<tr>
<td>Co-operative Ins</td>
<td>31,992,500</td>
<td>46,164</td>
<td>554</td>
</tr>
<tr>
<td>Direct Line</td>
<td>29,716,000</td>
<td>52,363</td>
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<tr>
<td>ITT L &amp; E</td>
<td>19,962,500</td>
<td>33,968</td>
<td>588</td>
</tr>
<tr>
<td>Zurich Ins</td>
<td>14,775,500</td>
<td>27,871</td>
<td>530</td>
</tr>
<tr>
<td>Gresham Ins</td>
<td>12,584,500</td>
<td>18,657</td>
<td>675</td>
</tr>
<tr>
<td>National Farmers</td>
<td>8,813,500</td>
<td>11,325</td>
<td>778</td>
</tr>
<tr>
<td>Union</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearl</td>
<td>8,606,000</td>
<td>15,384</td>
<td>559</td>
</tr>
<tr>
<td>UTDFriendly Ins</td>
<td>8,315,000</td>
<td>19,568</td>
<td>416</td>
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<tr>
<td>Avon</td>
<td>7,784,500</td>
<td>4,458</td>
<td>1,746</td>
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<tr>
<td>AXA Provincial</td>
<td>6,147,500</td>
<td>6,326</td>
<td>972</td>
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<td>Cornwall Ins</td>
<td>6,124,500</td>
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<td>797</td>
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<td>Churchill Ins</td>
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<td>674</td>
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<td>Landmark Ins</td>
<td>5,596,000</td>
<td>8,642</td>
<td>684</td>
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<tr>
<td>Royal London</td>
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<tr>
<td>CAN Re</td>
<td>3,302,500</td>
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<td>Albion Ins</td>
<td>3,054,500</td>
<td>914</td>
<td>972</td>
</tr>
<tr>
<td>NIG Skandia</td>
<td>2,753,000</td>
<td>3425</td>
<td>804</td>
</tr>
<tr>
<td>Britannic</td>
<td>2,610,500</td>
<td>4,225</td>
<td>618</td>
</tr>
<tr>
<td>UIA Ins Ltd</td>
<td>2,448,000</td>
<td>4498</td>
<td>544</td>
</tr>
<tr>
<td>Bishopsgate Ins</td>
<td>2,250,000</td>
<td>4,816</td>
<td>467</td>
</tr>
<tr>
<td>Norman Ins</td>
<td>1,847,000</td>
<td>2,824</td>
<td>654</td>
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<tr>
<td>Northern Star</td>
<td>1,215,500</td>
<td>1,880</td>
<td>647</td>
</tr>
<tr>
<td>Iron Trades Inc</td>
<td>963,000</td>
<td>1,109</td>
<td>868</td>
</tr>
<tr>
<td>AGFIns Ltd</td>
<td>660,000</td>
<td>5,298</td>
<td>120</td>
</tr>
<tr>
<td>IC Inc</td>
<td>143,000</td>
<td>226</td>
<td>671</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>£861,811,398</strong></td>
<td><strong>1,171,912</strong></td>
<td></td>
</tr>
</tbody>
</table>

4.7 Statistical Analysis

From the above table mean, standard deviation and inter-quartile ranges were examined using Statistical Package for Social Sciences (SPSS) version 10.0. These techniques indicate the extent to which the sample means are representative of the population (industry) as a whole.
Chapter 4

4.7.1 Results – Descriptive Statistics

The total sample consisted of the largest thirty-two UK insurance companies in terms of household buildings claims frequencies and expenditure. Their individual performances were calculated from each company’s annual returns for the accounting year of 1997, as submitted to the DTI as required by the Insurance Companies Act 1982.

The year 1997 was chosen as it preceded the intense period of mergers and acquisitions of subsequent years. As may be seen from table 4.6 in 1997 Norwich Union had yet to acquire a controlling interest in rival ITT London & Edinburgh (1998) and equally the company remained separate from the shortly to merge composite insurance conglomerates of Commercial Union and General Accident. During 1997 the recorded results of Norwich Union were extreme, recording an average claim value in excess of £2000.00. This represented an outlier, Routree (2000) quite untypical of any other values in the sample and hence due to uncertainties over reporting accuracy and practice the results from this company have been excluded from the analysis.

However, the final simple of thirty-one companies includes composite insurers (writing both general and life business), direct insurers (avoiding the use of intermediaries), Mutual Societies (representing the interests of its members) and Friendly Societies alike. Hence the sample is representative of all of the operating styles that exist in the market.

The detail of the descriptive statistics is as represented within figures 4.1, 4.2, 4.3, and 4.4 below. The following tables and diagrams confirm the variables to be normally distributed, as the skewness and kurtosis are satisfactory.
### Chapter 4

#### Market Size

<table>
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<th>Statistics</th>
<th>Value</th>
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<tr>
<td>Mode</td>
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</tr>
<tr>
<td>Std. Deviation</td>
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<td>Variance</td>
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</tr>
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</tr>
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</tr>
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</tr>
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</tr>
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</tr>
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<td>25</td>
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</tr>
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<td>75</td>
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Table 4.7: SPSS output Statistical Results
### COMPANY \(^\dagger\) Crossstabulation

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<th>COMPANY (^\dagger)</th>
<th>GROUP2</th>
<th>Count</th>
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Table 4.8 SPSS output Insurance Company average claim cost inter-quartile range

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Table 4.9 SPSS output inter-quartile range frequency and distribution
Figure 4.1 SPSS output inter-quartile range Frequency Tabulation
Chapter 4

Market Size

Figure 4.1 SPSS output Average Claim Cost Frequency Distribution Chart

The mean claim value is shown as £722.00 the median value is £674.00 and the standard deviation £269.00. The minimum value is £124.58 and the maximum £1,497.40 with a range of £1,372.82.

From the analysis of the inter quartile range it can be seen that the most companies fall into group two where a range of £657.58 to £810.98 applies. In total 71% or twenty two individual companies shown mean claim values falling within these parameters
Chapter 4

Market Size

including all of the major insurers in the terms of market presence (brand awareness), overall claims frequencies and lender relationships.

4.8 Summary

The total value of the ‘run of the mill’ claims has been calculated from the tables as £861,811,398. In addition claims for subsidence damage in the same year amount to £392,000,000 yielding a total worth of both subsidence and non-subsidence claims for the year of 1997 as below:

£1,253,811,398

On this basis the claims of the Morrison Construction Group of a new a revenue stream generating £50million per annum would represent a market penetration within the low value market of approximately 5.8%. Alternatively, if as has been developed through confidential discussions with the managing director of Morrisons insurance repair division ‘Repairline’ Morrisons sought a combination of both subsidence and non-subsidence work then the market share that they had secured represented only 3.9%. In an industry of this magnitude their forecasts would not seem wholly unrealistic. As such the overall annual financial worth of this market sector, as a whole, confirms the validity of the need to carry out this and possibly further study of this little researched sector of the construction industry.

Additionally, it must be appreciated that within this research the market projections for the CU purely reflect their relationship with Abbey National general insurance. This takes no account of other policies either issued through their direct insurance arm or through broker relationships or indeed other corporate joint ventures eg Age Concern. Further similar comments apply to both Legal & General and Eagle Star. In addition, such lenders as Bradford & Bingley Building Society are not represented here and neither is the contribution from Lloyds Underwriters.

In summary, it is therefore probably that in total the value of the non-subsidence, ‘run of the mill’ repair sector along will exceed £1billion on an annual basis expended in the repair of the private dwellings of the general public with an average job value of £722.00 funded through claims made upon household policies of insurance.
From the above it may be seen that whilst 'insurance work' is potentially not as unattractive a proposition as may appear to a more cursory study of the industry. Additionally, it is arguable that with the benefits of the currently developing data capture techniques and the employment of transparent contractual arrangements coupled with truly partnership agreements efficiencies for the householder, insurer and contractor alike are realisable.

With the newly merged insurers current focus on the retention and/or increase of market share and consequently the control of costs internally coupled with the pace of IT developments better information will doubtless become available on major cost centres in the future Anstee (2001). Ultimately, this will inevitably lead to the more purposeful capture and manipulation of data possibly not within an intention of transparency but more through an unceasing drive to increase the profitability of the insurer.

Whether such commercially sensitive information will be made available publicly would remain in question unless statutory demands are modified to require compliance changes in the terms of 'property' claims definitions. It is however, worthy of note that the more cynical may suggest that it is to the commercial advantage of the insurers, during negotiations, to get a better price from a contractor who submits a cheaper bid believing there to be more work than there actually is. This would again question the level of transparency that insurers will ultimately feel comfortable in providing.

Further questions remain unanswered by this research concerning the allocation of the value of work done by such contractors as Morrison. It is currently unclear whether they see their 'partnership' as being with the individual property owners (i.e. Repair & Maintenance: Housing, Private) or with the commercial insurance organizations (i.e. Repair & Maintenance: Other Work, Private) (Construction Statistics Annual (2001)), as defined by the construction industry directorate earlier in this chapter. This then poses further questions over the validity/accuracy of the published/recorded government statistics with regard to the classification of construction work.

Additionally, it is arguable from the foregoing that the insurance buildings repair industry would benefit greatly from the adoption of annual reporting headings in line with construction industry directorate practices outlined earlier in this research. This with a purpose of identifying productivity trends and volumes, in order to provide a
much greater degree of transparency in an effort to assist all industry participants and users alike. Such other industry information would also incorporate the key performance indicators and industry report headings in line with the construction industry directorate norms possibly reported on the basis of per insurance company 'approved panel' of contractors per postcode rather than per region.

Whether the current potential reporting inaccuracies in construction work output classification is significant is largely dependent upon the interests of those involved. Perhaps it is the overall measurement of economic activity by industry sectors (i.e. type of contractor) that is currently of relevance rather than on whose behalf the work is actually carried out.

Further questions are raised by this research within chapter five over *who is in contract with whom* when insurance funded repairs are carried out to privately owned dwellings. As such this particular subject area alone is worthy of debate both by lawyers and non-lawyers as ultimately it seems to be a matter of subjective preference and commercial influence over where the actual legal obligations, responsibilities and relationships finally rest.
5. Benchmarking

5.1 Introduction to Benchmarking
This chapter summarizes the developments and findings of the "Best Value" activities currently emerging within the Construction, Social Housing Maintenance and Motor Insurance sectors of industry that address problems germane to the objectives of this project.

The summaries are arranged in the following sections:

- Benchmarking Concepts
- Construction Industry KPIs
- Motor Insurance funded repairs
- Social Housing BVPIs

Ultimately the research, with the benefit of the involvement of a collaborating national insurance repair contractor, presents a set of industry specific Value Enhancing Practices for adoption by the broader insurance repair sector.

The high volume low value repair market has been seen to demonstrate similarities with a number of parallel industries however there remain differences in both the nature of the product and the manner in which the service is delivered. The main areas for benchmarking purposes are the private Motor Insurance repair sector and the Social Housing maintenance function. In addition the small works sector of the Building industry will be considered, as will the current developments within the Construction industry as a whole.

5.2 Benchmarking - Definitions
The Department of Trade and Industry defines Benchmark in the following terms:

"A Benchmark is a reference or measurement standard used for comparison"

Whilst the DTI also consider benchmarking as below:
"Benchmarking is the continuous activity of identifying, understanding and adopting best practice and processes that will lead to superior performance”

From the standpoint of the Public sector Benchmarking Committee three increasingly aggressive benchmarking definitions are offered:

“Benchmarking is simply about making comparisons with other organisations and then learning from the lessons these comparisons throw up”

OR “Benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those recognized as industry leaders (Best in class)”

OR “Benchmarking is identifying the toughest competitors and world class performers, and then aspiring to beat them –this is the best way to achieve competitive advantage”

Whilst the European Construction Institute (2001) (ECI) quotes a more pragmatic definition as follows:

Benchmarking is the practice of being humble enough to admit that someone else is better at something and wise enough to try to learn how to match and even surpass them at it.

5.2.1 Insurance a Special Case

The ECI (2002) argues that it has identified the increasing importance of the effective implementation of smaller projects. The relatively poor performance of the smaller works projects is said to be capable of improvements by adopting better working practices, training staff to use those practices, and by employing appropriate measurement and benchmarking processes to drive performance improvement.

It is argued by the ECI that the management of small projects differs considerably from that of larger projects. Hence, a discreet and bespoke set of benchmarking parameters is
desirable. This is particularly relevant to insurance repairs in view of the value and frequency of such projects as demonstrated earlier in this research.

Those parameters appropriate to the low value, (small works) insurance repair industry are developed within the current chapter. The need for the development of industry sector specific indicators is reinforced by Threadgold (2001) who confirms that the sharing of information with other industries is important, as insurance is not transacted in a vacuum. Threadgold explains that the experiences and practices of other disciplines have lead to the development of solutions to other similar, if not identical problems, to those that currently exist within the insurance sector.

Additionally, insurers are confirmed as still being less than perfect in sharing information with each other. The perception remains, that giving details away will mean losing an edge over the competition. Indeed, it is argued that some would prefer to let the weakest fail as in the case of Miller Fisher Loss Adjusters during 2002. In this environment the victims are all too often the insurers own suppliers who are constantly seen as the competition by claims staff whose primary aim is the protection of their own jobs.

Data sharing is crucial and insurers must act in a cohesive fashion argues Jones (2001). Jones highlights the fundamental problems afflicting insurers as being those that stem internally from between the various departments of a single company. When internal empires are fighting each other, knowledge is regarded as power, and those with the most knowledge are the most powerful. It is argued that it is high time these attitudes are discarded.

5.2.2 Types of Benchmarking
Therefore it is from these perspectives that this chapter considers benchmarking across the four basic types of benchmarking which the DTI (2002) categorize as follows:

- INTERNAL - A comparison of internal operations and processes.
- COMPETITIVE - Specific competitor-to-competitor comparisons for a product or function.
FUNCTIONAL - Comparisons of similar functions within the same broad industry or to industry leaders.

GENERIC - Comparisons of business processes or functions that are very similar irrespective of the industry.

Benchmarking is considered to be an essential tool of this research in view of its partial evolution from early value management methodologies in the 1950's where it was used to compare the costs and methods of industrial and consumer products, DTI (2002). The insurance building repair sector is itself a prime example of a crossover of these two often-conflicting processes.

Manufacturers regularly strip down competitor's products to compare the effectiveness of different engineering solutions to meet similar requirements. In services, this is done by identifying functions, and comparing them with best practice, which, may often be outside the industry.

5.2.2.1 Internal

In many respects both the private motor insurance repair and Housing Association repair and maintenance sectors provide well developed examples of bodies who are possibly doing something better than those in the household insurance building repair sector.

From an internal standpoint the insurance repair of private motor vehicles and privately owned dwellings have not only the obvious ownership comparisons but there are further similarities in the extent to which the typical value and frequency of incidents arise on an annual basis. Additionally, the more generalized commonalities, between the buildings and motor industries have been well exemplified within the Latham Report (1996).

5.2.2.2 Functional Benchmarking

Functionally, both the insurance and social housing (Housing Associations and Local Authorities) sectors share in large part, the difficulties of working in and repairing
occupied properties. Further common and seemingly insurmountable problems are faced by both in accurately predicting the nature, location, and type of certain categories of work classifications. However, in the Housing Association and Local Authority sector the measuring, monitoring and analysis of such eventualities appears to be controlled to a much greater degree. These currently involve a more systematic approach to the procurement and implementation of the repairs. However, as effective as the Housing Association repair and maintenance section has become figures are quoted Clyde Housing (2001) to confirm that up to 20% (1/5th) of the maintenance allowance is used for administration, the rest being spent on actual repairs and efficiencies remain achievable.

5.2.2.3 Generic Benchmarking
Whilst from a generic standpoint the very nature and sophistication of current benchmarking techniques and KPIs performance reporting appears to have achieved a much wider degree of adoption, outside of insurance, by both the Public and Private sectors – particularly in the field of Construction. However, further and possibly of greater relevance are the industry structure comparisons and working practice comparisons between the household insurance and supermarket supplier sectors.

5.2.2.4 Competitive Benchmarking
The previous chapter drew attention the shrinking number of increasingly large and dominant household insurance providers available for builders to work with, a problem which is mirrored within the supermarket supplier environment. In the case of supermarkets the Monopolies and Mergers Committee took action against the big 5 retailers over what was perceived to be the prevailing inequities in procurement practices. The existence of such difficulties in household insurance is only just now coming to light.

5.3 The force of Statute
In the context of social housing the Audit Commission promotes the best use of public money and ensures the proper stewardship of public finances which in turn is said to help those responsible for public services to achieve economy, efficiency and effectiveness Audit Commission 2002. The final words of this sentence coincide with the definition of the much-vaunted phrase “value for money”. Hence, when used in the Government report entitled Housing Repair and Maintenance this would suggest that in
the area of small works, Housing Associations and Local Authorities have a much greater depth of structure in place to ensure a focused approach to the subject.

The Audit Commission report confirms that Local Authorities own 3.25 million homes, and planned to spend £4.8 billion on repairs in the financial year 2001/02. This is further broken down to confirm that the expenditure was allocated under the following headings:

- Planned Maintenance £2.4 billion
- Responsive Repairs £2.4 billion

The providers of social housing within the Public Sector, Housing Associations and Local Authorities are both required to be Best Value Authorities under the terms of the 1999 Local Government Act and as such repair and maintenance KPIs are statutorily defined and results are compulsorily submitted and published for comparison purposes.

The current practices of the major insurers (let alone supermarkets) fall some way short of this level of albeit enforced transparency.

5.4 Motor Insurance - General

The size of the overall market is held to be of similar proportions with a similar average value and relative claim frequency to that of domestic building repair work. The size of the motor repair market is demonstrated in the table below.

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Table 5.1 Motor Claims expenditure, Insurance Practice Book 1997
The above figures are reinforced by Market Facts and Business Information (1998) that show the average cost of repairing a car in a body shop rose from £682.00 in 1990 to £872.00 in 1997 with anticipated cost for 2002 projected at £985.00.

Over recent years the motor insurance repair industry has shown an increasing propensity to employ non-traditional procurement methods in the area of volume repairs with some involving intermediaries such as Independent Motor Inspectors and increasingly other working directly with Approved Suppliers.

The developing use of Approved Repairers in the household insurance sector is borne out by the results of the 2002 British Insurance Awards where “Service Provider of the Year” title was presented to Solus Accident Repair Centres (AVIVA) (2002). This is a Company described as the UK’s largest household insurer – Norwich Unions – leading motor repair partner.

This award is said to recognize Solus’ consistent levels of service and customer satisfaction as well as a commitment to the insurance industry by responding innovatively to market demands. No doubt the main driver towards the galvanizing of such qualities was a two-way commitment, which saw Solus sign a 15-year Contract with the insurer.

Additionally, by the standards of the trading year of 2001, Solus completed in excess of 17,000 repairs, for Norwich Union. At an average cost of £1,000.00 per job this equates to £17 million annually in turnover, or £255 million over the full term of the Contract.

In the event of such certainties being available to Building contracts, there would be little doubt that the provision of innovative working practices, and service levels, delivery would equally be beyond question. For the sake of completeness, AVIVA’s (the recently adopted trading name of the newly merged Commercial General Union and Norwich Union) announcement equally contains statistics confirming the all-invasive nature of the insurer in the following terms:

Norwich Union (AVIVA) - Insure one in five households
                             Insure one in five motor vehicles
                             Insure more than 700,000 business

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Norwich Union are equally claimed to be the UK’s largest insurer. In general business it declares itself to be 1.5 times the size of its nearest rival and has a 19% share of the market, which bears out the earlier statistics (demonstrated by this research).

Approved suppliers such as Solus often utilise garage based digitally recorded video surveys of the damaged vehicles which are then transmitted for validation purposes to office based, in house insurance professionals.

Banner (1998) states that in order to facilitate such practices insurers have pressed car repairers to invest in remote camera systems, if work is to be provided to them. The investment in the equipment required is said to start at £18,000.00, and increases rapidly thereafter. However, the repairers have become increasingly wary of such outlays, due to the number of Insurance Company mergers. When insurers merge so do the approved repairer networks, and inevitably some repairers lose their approved status and the supply of work may cease over night.

It is also argued that through the control of work volumes, insurers have been largely successful in holding down labour rates and imposing standard repair times. The labour rates are said to have remained static for approximately 5 years and hence it is uneconomical for repairers to absorb the costs of equipment investment, which have led to a decline in the number of bodyshops in the market. The number of motor vehicle repairers are said to have reduced from 23,000 in 1980 to 5,000 in the year 2000.

5.4.1 Motor Insurance Repairs – Industry Developments

The ultimate benefit that is sought through this research is to determine whether there is an appropriate procurement route, which would provide a more efficient system that would consider the following:

- To add value to the process by reducing claims expenditure, leading to reduced premiums for householders and increased profits for insurers.

- To develop a formalised procedure within a contractual framework, involving a partnership approach between insurers and professional contractors.
These considerations in large part reflect the recent changes that have been implemented across the motor insurance repair market.

The analogy between the private motor insurance market and the household building insurance industry has been evident for many years. Initially, Todd (1967) identified the similarities and further parallels were again drawn by Latham (1994) within the Government sponsored construction industry review.

Todd notes that next to their home, the motor vehicle is the most expensive item that individuals are likely to own and consequently, when an unforeseen event occurs and repairs are needed, they want the work carried out as quickly as possible, with minimal disruption. These sentiments were more recently echoed by Crawford Churchill's Technical Director, who states that "many of their household policyholders are also motor customers, and are used to having everything taken out of their hands when they make a motor claim." He goes on to say that householders find it difficult to look for suitable Building Contractors, get estimates, and organize repairs. Churchill's view is that they want to offer a similar service to that provided to their motor customers, and importantly control the cost of building repairs.

Latham states that customers of the Construction Industry historically have not always got what they asked for, and some are very critical. Within "Constructing the Team", an industry performance comparison between the buildings and motor industries is included, the outcome of which is represented below in table 5.2
Chapter 6

Contractual Relationships

<table>
<thead>
<tr>
<th>Wants</th>
<th>Modern Car</th>
<th>Modern Buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value for Money</td>
<td>****</td>
<td>*****</td>
</tr>
<tr>
<td>Pleasing to look at</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>Free from faults</td>
<td>****</td>
<td>***</td>
</tr>
<tr>
<td>Timely Delivery</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>Fit-for Purpose</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>Guarantee</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>Reasonable running costs</td>
<td>****</td>
<td>****</td>
</tr>
<tr>
<td>Durability</td>
<td>****</td>
<td>***</td>
</tr>
<tr>
<td>Customer Delight</td>
<td>****</td>
<td>***</td>
</tr>
</tbody>
</table>

Table 5.2 Construction and Motor Industry Comparison after Latham (1993)

Latham also states that whilst such criticism may be challenged by the Construction Industry as exaggerated, or unfair, they must not be ignored. In this light the KPI report for the minister of the Construction (2000) confirms that clients of the construction industry want projects to be delivered:

- On time
- On budget
- Free from defects
- Efficiently
- Right first time
- Safety
- By Profitable Companies

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These aims are in large part echoed by insurers Stills (1998) and Crawford (insert date) when seeking to provide the optimum insurance repair service. In addition the KPI Working Group states that regular construction clients expect continuous improvement from their construction partners to achieve year on year.

- Reductions in project costs
- Reductions in project times

However, this is within a framework where the Contractors inability to make a profit has been identified by Latham as the major reason for project cost and time over runs.

Over the latter half of the 1990s, the motor insurance claims market has focused strongly on the efficiency of the United Kingdom motor insurance repair industry. Keane (1997) argues that motor accident repair claims used to be simple, untroublesome affairs. The Customer would report the incident to the Insurer, and be sent away to get three estimates for the repair work, and having posted these would then be instructed where to take the vehicle to be mended. It is said that all the Insurance Company needed to do was to answer the telephone and check off the details.

However, Keane contends that as competition increased within the insurance industry and Direct Writers evolved, the struggle for competitive advantage led to added value packages being introduced for the Customer. Such added value packages are said to also add expenditure to an ever-increasing cost burden, and in a price sensitive market, the only way to recoup such costs in Keane's view is said to be to focus internally. Considerations such as streamlining and out sourcing are believed to have revolutionised the claims management process.

5.4.1.1 Approved Repairs

As indicated earlier a motor industry average repair cost approximates to £1,000, with total annual claims expenditure recorded at £3.3billion (ABI) (1999). Keane however contends that this average repair cost excludes the huge administrative burden, both financially, and professionally, which falls to the insurer, in order to meet the new Customer expectations, and importantly improve Customer retention. A good claims repair experience enhances customer satisfaction, leading to the customer renewing
their policy with the insurer who therefore has the opportunity to recover their claims outlay.

As indicated by Threadgold (1996) insurers are faced with a dilemma in balancing the need to check/agree the scope of repair work and minimise the costs, against the Customer’s desire to see the vehicle repaired quickly. Threadgold goes on to suggest that in answer to this problem, Insurers are steering policyholders towards Approved Repairers who achieve specified standards on cost, quality and time, in return for a given flow of work over an agreed term of years.

Harris (1996) quotes that during 1995 Consulting Actuaries Bacon & Woodrow undertook an analysis of repair network costs and in his view the potential scale of advantage is real and considerable and the results of the analysis are contained in table 5.3 below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Free Choice %</th>
<th>Large Network %</th>
<th>Focused Network%</th>
<th>Insurer Repairer%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of Scale</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Engineer</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>VAT</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Profit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Saving</td>
<td>0</td>
<td>5</td>
<td>13</td>
<td>35</td>
</tr>
</tbody>
</table>

Table 5.3 The Benefits of Approved Repairers after Bacon & Woodrow (1995)

The savings achievable are said by Harris to depend on how insurers leverage volume, on the quality and cost effectiveness of their controls over supplier charges and on the selection of repairers.

The techniques employed by approved repairers include timesavings, where a video camera digitally records the damage, and the information is transmitted via a modem to the insurer, thus avoiding the necessity for an independent insurer appointed Engineer to
visit the repairers premises and physically inspect the vehicle to approve the scope of repairs. Additionally, the Motor Industry Repair Research Centre at Thatcham has developed the computerized Thatcham Time System (TTS) database of standard repair times.

The Thatcham Time System embraces 49 popular cars together with their variants from 13 manufacturers, extending to 1000 models. Thatcham has also formally accredited 9 Electronic Estimating software systems including:

The use of such estimating software systems is said by Threadgold to have reduced repair bills by an average of 10%. Additionally, with the benefits of video imaging, the Insurer is able to inspect the damage, check the vehicle’s identification number and cost the repair from the desk. This avoids an average three-hour travelling time to physically inspect each individual vehicle.

Threadgold goes on to identify the further benefits of improved management information, where the repair costs for specific jobs can now be compared between individual garages and vehicle types. This surprising statement confirms that despite the large number of repairs undertaken annually with an expenditure of £3,300,000,000 per year very little if any objective cost control was in place. This lack of management information has also been seen to be consistent across the household buildings repair market.

Under the Glassmatix system, the garage engineers are provided with collision repair estimating guidebooks, which cover most vehicle types. In essence the engineer walks around the damaged vehicle with a bar code reader or a time wand. The bar code contains part numbers, parts costs and the allowable labour times for completing the tasks. This information is then transmitted electronically to the insurer, where an estimate is produced, which takes into account any overlaps between operations. The software system also considers alternative material sources, and calculates variable material quantities such as paint finishes etc.

Threadgold further identifies the use of proprietary damage estimating systems, against the DTI returns for 1994 identified in table 5.4 below:
Table 5.4 Adoption of Automated Repair Estimate Systems, (After Threadgold 1996)

<table>
<thead>
<tr>
<th>Insurer</th>
<th>System</th>
<th>Share of motor market (%)</th>
<th>Number of Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Line</td>
<td>none</td>
<td>11.2</td>
<td>313,091</td>
</tr>
<tr>
<td>Eagle Star</td>
<td>Audatex</td>
<td>9.3</td>
<td>229,645</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>Audatex</td>
<td>8.1</td>
<td>163,463</td>
</tr>
<tr>
<td>Royal Insurance</td>
<td>Glassmatix</td>
<td>6.1</td>
<td>159,230</td>
</tr>
<tr>
<td>Gen., Accident</td>
<td>ARCS</td>
<td>5.8</td>
<td>153,102</td>
</tr>
<tr>
<td>Sun Alliance</td>
<td>none</td>
<td>5.3</td>
<td>149,132</td>
</tr>
<tr>
<td>Guardian</td>
<td>Glassmatix</td>
<td>4.8</td>
<td>112,989</td>
</tr>
<tr>
<td>Com., Union</td>
<td>Glassmatix</td>
<td>4.7</td>
<td>118,958</td>
</tr>
<tr>
<td>Cornhill</td>
<td>Audatex</td>
<td>3.4</td>
<td>83,210</td>
</tr>
<tr>
<td>Churchill</td>
<td>Audatex</td>
<td>2.7</td>
<td>86,362</td>
</tr>
<tr>
<td>Zurich</td>
<td>Motex</td>
<td>2.6</td>
<td>47,980</td>
</tr>
<tr>
<td>Provident</td>
<td>Glassmatix</td>
<td>1.6</td>
<td>34,834</td>
</tr>
</tbody>
</table>

Harris (1999) defines benchmarking as adopting the standards and migrating to the methods of industry leaders, on a worldwide basis, in key areas, i.e., cost efficiency and delivery of customer service. A concept which underpins the current "Quest" for expansion of business by the cross selling of a whole product range, including household buildings, contents, travel and motor insurances, to existing customers. Which again is reinforced by the creation of new personal lines insurer Blue-sure (2001) formed by a combination of a Re-insurer, Lloyds broker and Lloyds underwriter that seeks to sell a single comprehensive policy covering the following:

Motor
Household contents
Household buildings
Travel
Extended warranty
Accident management
Private health
5.4.1.2 Customer Relationship Management

Under the heading of Customer Relationship Management Gordon (2000) contends that through the benefits of Customer Relations Management Insurers will seek to sell their motor policyholders a buildings policy and vice versa. The intention of the insurer is to provide the same branded seamless service in the event of a claim arising under either type of policy. Increasingly as evidenced by Crawford’s earlier statement insurers will seek to use Approved Suppliers to achieve the desired cost savings and service standards within both the buildings and motor claims process.

Customer Relationship Management is a tool not only employed by insurers but is equally utilised by other financial service providers such as mortgage lenders. Its increasing use has in large part evolved through the integration of customer databases across motor, household, travel, life, medical insurances and pensions customers, whose details had until recently been retained on the same insurers records up to 6 times without cross reference facilities. Recent IT developments have now made this possible and insurers will seek the same level of service from builders as they do motor repairers, legal services, private hospitals in an effort to retain the customer and protect their “Brand” image.

Gordon (1999) reaffirms that the more an insurer pays out in claims, the less it makes in the terms of financial profit. However the more it avoids paying claims the more likely it is to lose business. One of the major factors to improve customer retention has been shown to be the policyholder’s experience/perception of the service received when making a claim. This is evidenced by the comments of Lathorpe (2001) who showed that the balance between buying an insurance policy on the basis of claims service changed significantly once the customer had made a claim.

Before making a claim 47% said price was the important determinant in buying household buildings or motor policies. Only 4% cited “claims Service” as the most important. However, following a claim having been made, 41% put the claims service as being of prime importance and the selection of cheap policy premiums reduced to 22%.

Hence, in the event of a building repair claims the service provider or “Building Contractor” will in effect hold in their hands not only the policyholders decision as to
whether or not to renew their buildings policy with the insurer but also whether or not to deal with that same insurer for services across a potentially wide range of financial services.

In summary as developed throughout this research both the domestic buildings and private motor insurance markets are “volume” based industries, with claims frequency exceeding 1 million incidents per year, with average job costs arising in the range of £700.00 to £1,000.00.

The control of costs and delivery of customer focused repair services in both industries are developing around the area of Approved Suppliers, suppliers that are increasingly held to ransom to relentlessly improve the level of both cost savings and service delivery, or risk being removed from an insurer’s approved panel of repairers.

5.5 Construction Industry KPIs
The KPI working group (2000) in their report to the Minister for construction confirm that their proposal was completed in an effort to answer the challenges set by the Egan Report Rethinking Construction.

The Rethinking Construction Report challenged the Construction Industry to measure its performance over a range of activities and to meet a set of continuous improvement target.

The resultant KPIs are said to be designed for use by organizations, large or small, specialist, or supplier, designer or constructor. McCabe (2001) explains the 10 individual KPIs in the following terms:

**Client Satisfaction – Product.** This measures the satisfaction level of a client with the finished product on a ten-point scale.

**Client Satisfaction – Service.** The level of satisfaction within the service received from contractors and consultants.

**Defects.** This measures the “condition of the facility” at the time of hand over with respect to defects and uses a ten point scale in which:

10 = Defect-free

8 = There are ‘some defects’ but which have no ‘significant impact’ on the client...
5 = There are defects, some of which have 'impact on the client'
3 = There are 'major defects' which have a 'major impact on the client'
1 = The facility is 'totally defective'

4. **Safety.** This measures the reportable accidents per 100,000 employees. An accident is defined as being reportable by the Health and Safety Executive if it results in death, major injury or over three days sickness to employees, those who are self employed or members of the public.

5. **Predictability – cost.** There are two elements to cost:
   Design, which is defined as being ‘actual cost at available for use less the estimated cost at commit to invest, expressed as a percentage of the estimated cost at commit to invest’.
   Construction, which is defined as being ‘actual costs at available for use less the estimated cost at commit to construct, expressed as a percentage of the estimated cost at commit to construct.’

6. **Predictability – Time.** There are two elements to time:
   Design, which is defined as being ‘actual duration at commit to construct less the estimated duration at commit to invest, expressed as a percentage of the estimated duration at commit to invest.’
   Construction, which is defined as being ‘actual duration at available for use less the estimated duration at commit to construct, expressed as a percentage of the estimated duration at commit to construct’

7. **Construction time.** This is the normalised time (a statistical method which takes account of location, function, size and inflation) to construct projects when a comparison is carried out from year to year.

8. **Construction cost.** This is the normalised cost for definition of normalisation of projects when taken in comparison from year to year.

9. **Productivity.** This is the measure of the average value that has been added by each employee (total value is turnover less all costs subcontracted to, or supplied by, other parties.)

10. **Profitability.** This is the amount left prior to tax and interest as a percentage of sales.

Therefore it is suggested that all participants may consider how their organisation compares to the data collected from a large number of organisations from the
Construction Best Practice Programme from the preceding year. The comparison may then be used for the following purposes:

To monitor the progress made in particular areas of the business.
To assess the potential for implementing initiatives for producing improvement.
To emphasise the need to do more than simply measure KPI

5.6 ABI Claims Code

The need to do more than simply measure KPI within the insurance industry in order to achieve continuous improvements is echoed in market comments in response to the Association of British Insurance (ABI) Claims Code introduced on 1st January 2001, Insurance Window (2000). This code sets out the standard of service a private individual making a claim on a general insurance policy can expect from a member of the ABI including Motor and Household. The code is said to include a number of process orientated deadlines;

A policyholder should receive a response within 5 days by telephone or in writing
A reply to written enquiries within 10 days
Pay the policyholder within 10 days of agreement of claim
Acknowledging receipt of written complaints within 5 working Days
Provide a final response to written complaints within 40 working days

These provisions are criticised by Royal Sun Alliance, Wright (2001) as not being particularly challenging and is perhaps more of a reflection of the averaging arrived at in committee than a true trail-blazing standard. These comments are echoed by Worsfold and Swift (2002) who stated that the ABI report confirming 85% of policyholders were either “satisfied” or “very satisfied” was essentially meaningless as 84% could be “satisfied” and only 1% “very satisfied”.

However in further comment by Parker (2002), the pressure on insurance companies to have their performance benchmarked should not be under-estimated. Thus confirming that whilst current models are ineffective there remains a need for the adoption of more meaningful and specific criteria as developed within chapter four of this research.
5.7 Social Housing Maintenance

The focus of this research is the repair of damaged low rise privately owned dwellings, where the work is funded through household insurance policies. In this context the nature of the work and the cause/causes of the defects are outside of the traditional housing maintenance environment as domestic insurance policies specifically excluded repairs that may be considered to be normal "Planned Maintenance" work including annual, cyclical or preventative repairs such as the painting of external joinery.

In particular the costs of repair which fall to be dealt with under the terms of a domestic buildings insurance policy are those which result directly from the effects of the specific events listed in the policy document. These events, or insured perils, are traditionally grouped together under the headings of insured causes, i.e., storm, escape of water, fire etc. These are in essence unforeseen or accidental occurrences and as such the predictability of future workloads or indeed planning of preventative measures is not possible with any degree of reliability. Hence, the approach necessary does not readily sit within the current housing planned/cyclical maintenance procurement options.

However, following the advent of the Audit Commission and subsequently the Housing Inspectorate, social housing repairs have been rationalised to categorize activities as either;

- Planned Maintenance
- or
- Responsive Maintenance

In this light Responsive Maintenance is analogous to insurance funded repairs to a much greater degree than ever before

5.7.1 Social Housing - Recent Statutory Developments

Under sections 44 and 46 of the Audit Commission Act 1998 the Commission Prescribes Audit Commission Performance Indicators (ACPIs). The same sections of the Act impose a duty on the Commission to give such directions as it thinks fit for requiring Local Authorities to publish such information relating to their activities in any financial year.
In the year 2000 the Housing Inspectorate was created by the DTLR and subsequently became incorporated within the Audit Commissions Inspectorate Services. Amongst other responsibilities the Housing Inspectorate has a role to look at how Housing Authorities:

"Enable good quality housing and housing services"

Additionally the Inspectorate will:

"Search for and support excellence while challenging poor performance"
"Focus on Outcomes, NOT just processes"
(outcomes are defined as "how well the service is being operated in order to achieve the strategic objectives)

Under the 1998 Audit Commission Act a further duty attaches to the Commission to specify Performance Indicators to enable a comparison of performance both between different Authorities and within an Authority over time. The Audit Commission Performance indicators compliment the BVPI (Best Value Performance Indicators) given statutory force under the 1999 Local Government Act.

The Local government Act created the concept of Best Value Authorities and from here the statutory framework for performance monitoring, in social housing repairs, has developed.

In specifying performance indicators and standards the Act aims to promote improvements in the way in which the way functions are exercised having regard to a combination of economy, efficiency and effectiveness. The Audit Commission as below defines these terms;

\begin{itemize}
  \item **Economy** Acquiring human & material resources of the appropriate quality & quantity at the lowest cost
  \item **Efficiency** Producing the maximum output for any given set of resource inputs for the required quantity & quality of service provided
  \item **Effectiveness** Having the organisation meet the citizens requirements and having a programme or activity achieve it's established goals or aims
\end{itemize}
Chapter 6

Contractual Relationships

TERMINOLOGY

The 1999 Act refers to best value performance indicators, standards and targets. The following definitions might be helpful:

Performance indicator: means the measure of a best value authority’s performance in exercising a function.

Performance standard: means the minimum acceptable level of service provision which must be met by a best value authority in the exercise of a function and measured by reference to a performance indicator for that function. A failure to meet a performance standard where specified will be judged as failing the test of best value for that service or function.

Performance target: means the level of performance in the exercise of a function that a best value authority is expected to achieve, as measured by reference to the performance indicator in relation to that function.

5.7.2 Social Housing - Responsive Maintenance

As indicated in section 4.7 the providers of social housing in England and Wales planned to spend £4.8 billion repairing, maintaining and improving the housing stock in 2001/02 with a budget allocation of;

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>£2.4 billion</td>
<td>Responsive Repairs</td>
</tr>
<tr>
<td>£2.4 billion</td>
<td>Capital Improvements</td>
</tr>
</tbody>
</table>

Responsive repairs is defined as

"Those repairs reported to the landlord by the tenants"

However, the Audit Commission comment that the quality of services delivered to residents are highly variable, importantly the commission states;

"There is little control of the relatively expensive Responsive Repairs"

Therefore the stated aims of the commission have been determined as

1) Running efficient repair services
2) Improving performance management and moving to new forms of contract
The National Housing Federation and the Housing Corporation (2002) state that the repair and maintenance services are arguably the most important services that a housing authority (or Registered Social Landlord) delivers to residents. They are said to be an important "shop window" and residents are more likely to contact the authority about some aspect of repair and maintenance than any other.

Hence the provision of effective, efficient and high quality repairs is seen as pivotal to the successful delivery of any housing service. Repair and maintenance performance is said to have a significant impact as residents see repair performance as a key indicator of the quality of a landlord's service. Indeed the "claims service" as delivered to policyholders is regarded in the same light, as this is often the first tangible evidence of the insurer's ability to perform the promises made in the policy document.

In common with buildings insurance repairs the responsive repair sector within housing authorities is considered to be one of the most visible services provided as a result of the
physical repair work being undertaken within the householder’s own home Audit Commission (2000). As a result residents are said to want the following:

1. Quality repairs
2. Repairs carried on time
3. Work completed on a tradesman’s first visit
4. The offer of appointment times for the tradesman’s visit

These requirements are acknowledged by the Commission as difficult to deliver.

Staff training, IT and performance management are identified as the areas requiring strengthening by both housing clients and contractors alike. As will be recalled similar recommendations were made by the European Construction Institute in their comments on improving the delivery of small projects.

In 2001 the Audit Commission inspected 34 housing clients (local authorities and housing associations) that highlighted the following information.

Clients spent between 30% and 81% of maintenance budgets on Responsive repair work
66% of all clients exceeded the 40% good practice target for Responsive work
All clients carried out between 12% and 50% of Routine work under Emergency codes
8 out of 10 carried out more than 20% of work on emergency codes

As a result, the Housing Inspectorate determined that many of the above repairs were over-prioritised. Emergency work was confirmed as attracting premium payments and a high level of emergency work is said to be reflected in more expensive contracts and inefficient use of budgets.

By the very nature of buildings insurance repairs the work is responsive in character i.e. reported by the householder, and when a member of the public’s home is damaged emergency responses are often demanded. As the majority of insurers’ staff are primarily insurance or customer service trained the urge to demand immediate responses from contractors is almost irresistible. This tends to suggest that a premium cost is being incurred in order to satisfy the need to be seen to be truly responsive to the
customer's needs. See appendix for typical insurance company service level agreement requiring 95% of work to be completed within 4 days of receiving the claim.

This general sense of the need to provide policyholders with immediate responses is reinforced by Lyons (1998). Lyons argues that the public have driven the changes in the insurance building repair sector. They are said to have the same expectations from the building industry as they do any other i.e.

1. 24 hour Trading
2. Guaranteed work
3. Builders with Hoovers
4. Efficient service
5. Quality repairs

Importantly Lyons states 'that the public require all of the above services to be delivered within a reasonable time scale which usually means instantly.'

In order to reduce the level of overall emergency work undertaken within the responsive repairs budget the Commissions Inspectors (2000) made the following recommendations:

Setting aims and targeting expenditure on the whole service and controlling budgets.
Training staff (including out of hours staff) on repair ordering policy, business concepts & budgets, so that the service became less demand led.
Reducing the level of expensive emergency works, ensuring that repair clerks do not over-prioritise repairs, by setting and monitoring a policy on which repairs qualify.

From 2002, within local government, training courses are now becoming more readily available that are aimed at providing non-technical (order placing) staff with basic maintenance skills which include the following content and have the following aims:

"To enable non-technical staff to handle repair requests from tenants effectively and with confidence"

The subject coverage includes
Legal implications

Asking the right questions about repairs
Assessing the urgency of repairs

In a case study cited by the Housing Inspectorate more effective training of ordering clerks coupled with a system generated diagnostic questioning tool helped Kirklees Council reduce their emergency responses from 18,000 to 5,000 per year and as a result the budget was underspent by £750,000

Further evidence of the benefits of improving the accuracy of diagnosis and taking control of the repair process at the point of notification of the damage is born out of research undertaken by the Housing Inspectorate (2001) who comments as follows;

Between 22% and 99.8% of inspected authorities’ repair orders resulted in variation, nearly three-quarters of Authorities had variation orders for over 50 per cent of their repairs. Inspected and audited authorities were carrying out between 1 per cent and 63 per cent pre-inspections which delay repairs considerably and reduce resources for performance monitoring.

Diagnosing a repair correctly, so that operatives turn up at tenant’s home with the right materials, tools and time to do a job, first time, is a critical success factor for the service and remains a problem for many authorities. Poor diagnosis wastes time and money, whilst at the same time adversely affects client-contractor relations. It diverts resources to processing variations and pre-inspection. To improve diagnosis authorities need to:

- Invest sufficiently in training staff who take repair orders, and consider the balance between specialist and generic working
- Reduce the complexity of repair ordering by simplifying the schedule
- Provide diagnostic handbook or software to staff, and train them in its use
- Consider introducing some degree of flexibility, by leaving some diagnosis to operatives, to cope with some inaccuracies.

Canterbury Council has adopted an approach where the running of the call centre
(repair diagnosis and or ordering), and repair work are both carried out by an external contractor, under a fixed-budget contract. This moves to the contractor the risk of inaccurate diagnosis. Whether the contractor gets the diagnosis right or not still impacts on the tenants, and the council monitors contractors' performance accordingly.

In a more detailed synopsis of the case study published by the Housing Inspectorate in relation to actions taken by Canterbury Council the changes to normal procurement practices were identified which successfully demonstrated a number of dramatic outcomes of even greater significance. A synopsis of the project follows;

5.7.2.1 Case Studies - Canterbury City Council Responsive Repairs

In 1998 Canterbury City Council decided to move to a single Output-based contract, as it's former contractors had performed variably and monitoring was duplicated, *duplication of administrative effort is equally prevalent within insurance*. A 3 (+ 2) year contract was awarded to Serco, covering all voids, responsive repairs and gas servicing for all of its 5,400 homes. The contract is run and monitored centrally, and monitoring information is split by ward, *the insurance industry as a norm monitors by postcode*. Specifications included response times (immediate, 5 and 20 days) and minimum void repair standards. A philosophy of “right first time” was established.

There is no schedule of rates, *a step too far into the trust-abyss for the majority of insurers*. Fixed budgets for repairs (*possibly based on historic price-banded average claims cost*) contractors' overheads and profit were agreed up front as part of the contract. The contract value (*insurers annual claims spend*) averages £2 million: £1.5 million for the repair works (trades-people and materials), £350,000 for contractor administration and £150,000 for contractor profit.

The £1.5 million was calculated based on Canterbury's analysis of expected work levels based on past years' responsive repairs workload, and estimates of how much this would cost. Client Contract Managers and Serco agreed, and refine yearly, how the £1.5 million is split across:

- General Responsive Repairs
- Voids
- Garages (*out-buildings & boundary structures*)
Chapter 6  

Gas Servicing

There is no incentive for Serco to “over-specify” work as, as the contract sum is fixed.

Tenant calls go straight to Serco; most insurance contractor call-centres have this capability and often replicate the insurer in any event. Repair staff order the job on Serco’s internal schedule of rates (risks of misdiagnosis are passed to the contractor this situation currently prevails in insurance – i.e. no job no money – in the event that contractor visit shows no insured peril to have operated). A job ticket, satisfaction form, tenant letter and materials order are generated straight away.

Instead of getting 25,000 invoices a year, the council receives 12 one month for one twelfth of the contract sum, currently insurers are satisfied to issue one cheque per claim despite the attendant administrative burdens. This enables the council to release administrative resources for other work. Budgets are monitored monthly against Serco’s actual spending (after any variation orders). Notional charges are for a job are constant no matter under which priority category they were delivered – out of hours, emergency or normal. (Costs were developed to allow for some emergency work) The council assess Serco’s records, to check spending.

Any increases in demand have, so far been of a low enough level to be met within the contract. During one difficult winter, demand was such that work had to be re-prioritised, and (due to manpower constraints) “normal” category work was extended to 35 days a practice well capable of being adopted by insurers if properly managed and financially beneficial. Work was accommodated later, within budget. Year on Year, Canterbury reports that more and more jobs have been carried out within the £ 1.5 million budget.

Performance indicators for each ward, including tenant satisfaction responses, evening telephone checks, which is a process a practice already in place with insurers contractors, response times and supervisors quality checks are reviewed monthly (at a meeting including tenant representatives): Canterbury are said to be able to audit this information by checking on Serco’s system. Initially, Client post-inspections ran at a rate of between 10 per cent to 15 per cent, but this has been scaled down as people were often not at home, jobs were of low value and performance was good, equally wasted
effort on audits confirming satisfactory/good performance would release resources for other more effective purposes such as training and relationship building exercises. Canterbury now targets post-inspection on all voids, and high value jobs. Serco’s supervisors carry out 10% checking of all jobs; if a trades-person has not completed a job properly they are recalled, but not paid for their work.

Joint initiatives are developed at the Contract Development group, which meets bi-annually and includes tenants. Performance Indicators were used to identify wards which were giving rise to high numbers of calls. Serco then targeted one ward a time: they sent out letters saying that they were in the area and then visited every property to check whether certain repairs were needed, potentially insurers could mail shot policyholders in selected postcodes to offer condition survey style inspections, in return for a premium reduction, which would provide a good source of risk management information and assist householders in avoiding the stress of failing flat roofs, overflowing gullies and defective seals round shower trays etc (all of which are regular causes of damage, but defects which themselves are not remedied at insurers cost).

The Canterbury approach of pre-damage notification inspections were later refined to a list of six items including clearing gutters, re-hanging doors and repairing window fixings etc. The repairs were then called through to the call centre and dealt with as normal responsive repairs.

5.7.3 Social Housing Work Categories

In summary of this examination of the comparative benefits of the social housing responsive repairs strategies, it is clear that the steps achieved towards continuous improvement have much to offer the insurance sector by way of Value Enhancing Practices, European Construction Institute (2002)

There is little doubt that the achievements of the public sector have benefited from a structural framework underpinned by the force of statute. The level of detail provided in supporting these changes and the comparisons that are capable of being drawn with the insurance repair sector provide a stable platform that could lead to significant advances for insurers, policyholders and contractors alike.
One area that has been fundamental to the success achieved to date in the rationalisation of the delivery of services in public sector housing has been the categorisation of repair types and the subsequent publication of performance results against defined repair types. The types of repair are categorised by St Helens Housing Associations as below, Housing Corporation (2002);

**EMERGENCIES** – attended within 24 hrs

Gas leaks
Total electrical failure
Total heating failure during winter months
Burst pipes or tanks causing damage to ceilings and electrics
Blocked WC where only one is available in the property
Removal of offensive or racist graffiti
Severe roof damage where the property is exposed to the elements
Repairs to lighting in communal areas
Anything else that makes the property dangerous or insecure to live in
*(in some emergencies the housing authority may only be able to make a temporary repair. A full permanent repair being done later).*

**URGENT** – completed within 7 days

No hot water
Blocked drains other than where treated as an emergency
Plumbing leaks not easily contained

**ROUTINE**

Small plumbing and heating repairs
Electrical faults to single switches or sockets
Repairs to doors, frames, windows, kitchen units etc
Repairs to chimneys, roofs, gutters and rainwater pipes
Repairs to paths, paving and fences
Insofar as the Audit Commission Performance Indicators (1999), are concerned the following table confirms the content of BVPI72 & BVPI73 in the terms of service delivery outcomes for housing Responsive Repairs.
<table>
<thead>
<tr>
<th>BV code</th>
<th>Indicator</th>
<th>Target</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BVI 72</td>
<td>The percentage of urgent repairs completed within Government time limits</td>
<td>local</td>
<td>The total number of urgent repairs (as defined in the Right to Repair Regulations) completed within the prescribed time limit during 2000/01 expressed as a percentage of all urgent repairs requested during 2000/01 Repairs classed as urgent and their government time limits are set out in the table below taken from the Secure Tenants of Local Housing Authorities (Right to Repair) Regulations 1994.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Defect</th>
<th>Prescribed Period (in working days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total loss of electric power</td>
<td>1</td>
</tr>
<tr>
<td>Partial loss of electric power</td>
<td>3</td>
</tr>
<tr>
<td>Unsafe power or lighting socket (fitting)</td>
<td>1</td>
</tr>
<tr>
<td>Total loss of water supply</td>
<td>1</td>
</tr>
<tr>
<td>Partial loss of water supply</td>
<td>3</td>
</tr>
<tr>
<td>Total or partial loss of gas supply</td>
<td>1</td>
</tr>
<tr>
<td>Blocked flue to open fire or boiler</td>
<td>1</td>
</tr>
<tr>
<td>Total or partial loss of space or water heating between 31st October &amp; 1st May</td>
<td>1</td>
</tr>
<tr>
<td>Total or partial loss of space or water heating between 31st April &amp; 1st November</td>
<td>3</td>
</tr>
<tr>
<td>Blocked or leaking foul drain, soil stack or (where there is no other working toilet in the dwelling) toilet pan</td>
<td>1</td>
</tr>
<tr>
<td>Toilet not flushing (where there is no other working toilet in the dwelling house)</td>
<td>1</td>
</tr>
<tr>
<td>Blocked sink, bath or basin</td>
<td>3</td>
</tr>
<tr>
<td>Tap which cannot be turned</td>
<td>3</td>
</tr>
<tr>
<td>Leaking from water or heating pipe, tank or cistern</td>
<td>1</td>
</tr>
<tr>
<td>Leaking Roof</td>
<td>1</td>
</tr>
<tr>
<td>Insecure external window, door or hand rail</td>
<td>1</td>
</tr>
<tr>
<td>Loose or detached banister or hand rail</td>
<td>3</td>
</tr>
<tr>
<td>Rotted timber flooring or stair tread</td>
<td>3</td>
</tr>
<tr>
<td>Door entryphone not working</td>
<td>7</td>
</tr>
<tr>
<td>Mechanical extractor fan in internal kitchen or bedroom not working</td>
<td>7</td>
</tr>
</tbody>
</table>

| BV173 | The average time taken to complete Non-urgent responsive repairs | local | For non-urgent responsive repairs completed during 2000/01, the average number of (calendar) days between the non-urgent responsive repair being requested and it's satisfactory completion (where non-urgent repairs are those excluded from the Right to Repair Regulations). |

Table 5.5 Best Value Practices in Housing Repairs – Audit Commission (1999)
Chapter 6  Contractual Relationships

For the sake of completeness the government's "Right to Repair" guidelines are reproduced below and the Office of the Deputy Prime Minister's tenants handbook is incorporated under appendix B:

Right to Repair
As a city council tenant you have the right to have repair work carried out under the legal contract between the city council and yourself, as set out in the Conditions of Tenancy. You also have rights under the 1985 Housing Act. According to an amendment to this Act you can, under certain circumstances, receive compensation if certain repairs are not carried out within the prescribed time period.

Details of your rights are given in a leaflet called 'The Right to Repair', produced by the Department of the Environment. Copies are available at any of our housing offices.

The regulations only cover the repairs listed below. There are also some exceptions:
(the use of underlines are those of the authors of the document)

total or partial loss of electric power
unsafe power or lighting socket, or electrical fitting
total or partial loss of water supply
total or partial loss of gas supply
blocked flue to open fire or boiler
total or partial loss of space or water heating
blocked or leaking foul drain, soil stack, or toilet pan (where there is no other working toilet in the dwelling)
toilet not flushing (where there is no other working toilet in the dwelling)
blocked sink, bath or hand basin waste pipes
tap which cannot be turned
leaking from water or heating pipe, tank or cistern
leaking roof
insecure external window, door or lock
loose or detached banister or hand-rail
rotten timber flooring or stair tread
door entry-phone not working
mechanical extractor fan in internal kitchen or bathroom not working.
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Contractual Relationships

Right to repair procedure

The procedure is as follows:

If the city council fails to carry out a repair listed above within the time limit given on the acknowledgement card, you should write to the Director of Housing.

In your letter explain what has happened, giving the details of when the repair was reported and when it was due to be carried out.

The Director of Housing will arrange for another instruction to be given for the work to be carried out. You will be sent a second acknowledgement card with a new time limit.

If the work is still not carried out within the time limit given on the second acknowledgement card you should write to the Director of Housing again. Explain the situation and claim the compensation that is due to you. If a compensation payment is agreed, it will then be credited to your rent account.

Compensation will only be paid if you have allowed access to your home at the appointed times.

The amount of compensation will be £10 plus £2 a day for every day the repairs remains outstanding, up to a maximum of £50.

5.8 Benchmarking - Best Value Benefits

General Insurance industry is currently under increasing pressure both from outwith and within the market sector to benchmark its performance.

The benefits of adopting such Best Value processes would enable those with an interest in insurance building repairs to;

1. Achieve continuous improvement in service delivery
2. Establish Market Sector focused VEPs / KPIs
3. Develop unambiguous VEP / KPI definitions specific to the Sector
4. Monitor performance trends inside and outside individual insurance companies
6. Become more cost effective – observe and remodel the relationship between cost, resources and performance
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7. Save Time – An independent “Benchmarking Facility” would afford ready access to reliable information
8. Provide a year on year framework to enable a comparison with current and previous year performance
9. Ensure consistency of reporting between companies
10. Enable the establishment of insurance specific repair categories coupled with effective, efficient and economic response times
11. Improve the success rate of the diagnosis of the cause of the and the scope of repairs – improving or reducing the level of variations and pre-inspection visits

The benefits of adopting measures of this nature are well demonstrated in the Housing Corporations report of January 2002 entitled “Housing Associations in 2001 – Performance Indicators. This provides clear definition of the nature of the services that can be expected when the need for repair arises and sets out the standard achieved by those involved over the previous twelve-month period. The following sample results are the first to be published but will ultimately also assist in the consistent delivery of known performance levels as year on year comparisons become available.

The Corporation lays down the following process targets;

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency</td>
<td>1 Day</td>
</tr>
<tr>
<td>Urgent</td>
<td>7 Days</td>
</tr>
<tr>
<td>Routine</td>
<td>1 Calendar Month</td>
</tr>
</tbody>
</table>

In addition acceptable minimum levels of service delivery are also provided;

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency</td>
<td>95% minimum completion rate</td>
</tr>
<tr>
<td>Urgent</td>
<td>90%</td>
</tr>
<tr>
<td>Routine</td>
<td>90%</td>
</tr>
</tbody>
</table>

For the year 2001 the following results were recorded and published

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency</td>
<td>91% of Associations met the target</td>
</tr>
<tr>
<td>Urgent</td>
<td>100%</td>
</tr>
<tr>
<td>Routine</td>
<td>93%</td>
</tr>
</tbody>
</table>
However only 36% of Associations operated an appointment system for repair work, but 93% of all appointments made were honoured. Whilst this may be seen as disappointing, the need for appointments is acknowledged and a reference point for improving their availability is now in place for both measurement and improvement.

5.9 SUMMARY

Arising from this research and with the benefit of the contribution of a collaborating national insurance repair contractor. The following Industry specific Value Enhancing Performance practices have been developed and consideration is currently being given to offering this framework to the wider insurance sector.

**Value Enhancing Practices**

Client Satisfaction – Policyholder

Product and Service measured separately. Both utilizing a “Met Expectations” three point scale.

**Product – (Finished Job)**

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Exceeded</th>
<th>Met</th>
<th>Not Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expectations Exceeded</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectations Met</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectations Not Satisfied</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Service**

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Exceeded</th>
<th>Met</th>
<th>Not Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expectations Exceeded</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectations Met</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectations Not Satisfied</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Defects**

Monitored at the date of signing the “Satisfaction Note”. Measured on a “Right First Time” four-point scale.

<table>
<thead>
<tr>
<th>No Evident Defects</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minor Snagging (previously rectified)</td>
<td>(3)</td>
</tr>
<tr>
<td>Multiple attempts to rectify Minor Defects</td>
<td>(2)</td>
</tr>
<tr>
<td>Major Delays through Quality Issues</td>
<td>(1)</td>
</tr>
</tbody>
</table>
Chapter 6

Diagnosis
Causation and Scope of work measured separately.

Causation

<table>
<thead>
<tr>
<th>Insurer (at First Instruction)</th>
<th>Correct</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer (at First Instruction)</td>
<td>Incorrect</td>
<td>(0)</td>
</tr>
<tr>
<td>Contractor (at First Visit)</td>
<td>Correct</td>
<td>(2)</td>
</tr>
<tr>
<td>Contractor (at First Visit)</td>
<td>Incorrect</td>
<td>(0)</td>
</tr>
</tbody>
</table>

Scope of Work
Measured up to the point of work Authorization.

<table>
<thead>
<tr>
<th>Variations to initial cost estimate</th>
<th>Number</th>
<th>()</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variations to initial cost estimate</td>
<td>Average Variance (+/-)</td>
<td>(%)</td>
</tr>
<tr>
<td>Jobs with variations exceeding 10% of initial estimate</td>
<td>Number</td>
<td>()</td>
</tr>
</tbody>
</table>

Construction Cost
Measured from the date of Authorization to the date of Final Invoice

| No variations | () |
| Variations | (%) |
| Average Variance | (+/-) |

Average Job Cost
Average costs to be considered regionally containing agreed postcode groupings, designed to reflect demographic trends. Normalized regional variances calculated to reflect the proportionate population densities affording comparisons of performance between major conurbations i.e.

London
Birmingham
Edinburgh
Manchester/Liverpool
Leeds/Bradford
Newcastle/Sunderland Etc
Whilst the more geographically dispersed areas can be compared reflecting the specific operational difficulties that are faced in more rural areas such as North of Scotland, Cornwall, Lincolnshire, East Anglia etc. Measured over following price bands.

<table>
<thead>
<tr>
<th>Price Band</th>
<th>Average Cost</th>
<th>Proportion of all Jobs</th>
<th>Number of jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0 to £500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£501 to £1,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£1,001 to £1,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£1,501 to £2,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£2,501 to £5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£5,001 to £10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; £10,001</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Repudiations (Estimated Value)

Productivity (Job Duration)
Measured across the following categories reflecting the number of calendar days. Monthly Average results for completed jobs in the same price bands as above

Delegated Authority (DA)  Non-DA
Overall life-cycle New Instructions to Completion “ “ “
Diagnosis life-cycle Instruction to Authorization “ “ “
Production life-cycle Authorization to Completion “ “ “

Productivity General
In addition it is proposed to measure and monitor the distribution and frequency of “Job Priority” levels. Those headings identified earlier under the St Helens Housing Association report remain relevant albeit condensed to Urgent and Routine. More specifically, see BVI 72 and BVI 73 of the Audit Commission Performance Indicators (1999) referred to earlier in this chapter.
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Urgent responses are only to be required in the terms of either the occupants physical safety or the structural integrity / weather resistance of the building. Where Urgent responses are demanded by insurers as a result of administrative delays, policyholder attitude or policyholder vulnerability these should be minimized but where unavoidable, monitored within a separately identifiable category.

Abortive Work
In the interests of efficiency the number, location and frequency of insurers’ requests for “Quote Only” jobs to be monitored on a monthly basis. Together with the proportion (%) of jobs that are ultimately withdrawn from the Contractor as a result of the policyholders insistence over using their own preferred Contractor.

In essence all jobs to be monitored against a standard 28 day completion rate for all jobs reflecting the period from Notification of Claim to Date of Submission of Contractors Invoice (non-bordereau payments).
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6. Contractual Relationships

6.1 Introduction to Contractual Relationships

This chapter culminates in the development of a bespoke Framework Contract specific to the demands of this sector. The research provides a study of the myriad of contractual relations, which arise in this market together with their attendant problems as recorded through the records of the Insurance Ombudsman Bureau.

The developed contract has again benefited from the involvement of a collaborating contractor and ultimately the document has been passed to the Joint Contracts Tribunal (JCT) for consideration, as discussed in chapter three. Outside of this research discussions with the JCT over packaging and copyright issues remain ongoing.

As indicated earlier in this research the 1984 Building Act does not extend to cover repair and maintenance work and hence there is little or no formal legislative control over remedial work to domestic dwellings. The Construction Industry Council (CIC), (1999) argues that there is strong support for extending consumer legislation to require receipts to be issued for all building work costing more than £50. This CIC believes would increase the consumers power when returning to a rogue trader in the event of defects arising.

The CIC also calls for the adjudication provision of the Construction Act to be extended to the domestic sector. The exclusion of domestic work is seen as anomalous for a measure specifically designed to reduce the cost of disputes.

Bingham (1999) contests that the UK building industry is attempting to rid itself of the rogues. Bingham's view is that some rogue traders are said to be the tykes who gallivant around in their battered white vans carrying out shoddy domestic repairs and improvements. If all the television programmes are to be believed, the cowboy is a builder from hell who preys on old ladies and robs them blind Bingham A (1999).

These rogue traders, according to Bingham, are not cheats; they actually believe in themselves. But they are incompetent and their actions will distress both the customer and themselves. By referring to them as 'cowboys' may possibly add to the general misunderstanding that surrounds the concept of rogue traders.

Consumers are said to not ask much of their builders, plumbers, electricians, window installers and roofers. What they want is a reasonable standard of workmanship for a
fair price, together with security in case the work is incomplete, defective or the tradesman goes bust Klein (2001).

The foregoing serves to demonstrate the historic ease of entry to the domestic building repair industry and also the current lack of regulation that prevails which together in large part explains why so many new and often unskilled entrants come and go in such large numbers. This also reinforces the extent of the difficulties that are faced by householders and insurers alike when seeking to arrange for the completion of low value work.

6.1.1 Quality Mark

In the view of Klein the government’s Quality Mark scheme was intended to frustrate the ‘cowboys’ and help reputable small firms. However increased bureaucracy and expense is said to mean that it may end up delivering the opposite. The Government and the construction industry have been united in the quest to stamp out ‘cowboy’ builders. During 2001 the ‘Cowboy Builder Working Group’ produced a detailed proposal for a Quality Mark scheme that would separate the reputable from the disreputable and pilot Quality Mark schemes for the domestic residential sector have been completed. However on the basis of Klein’s analysis the results of these pilots are suggesting that, somewhere along the way, the working party may have lost direction. Far from ridding the industry of ‘cowboys’, the requirements – if the early indications of the Birmingham pilot are shown to be accurate – will become an additional burden on respectable businesses and will be ignored by the ‘cowboy’ element.

A small business looking at the assessment criteria for the Quality Mark must wonder whether it is worthwhile registering for the Quality Mark – or, indeed, carrying on the business at all. In this market, the businesses are said to be small, often comprising only one or two people, and potentially horrendous bureaucracy and cost are involved.

However, it is the burdens that will be heaped on businesses that cause Klein most concern. Contractors are required to put substantial and rigorous procedures in place. Documentation needs to be controlled and six years’ worth of records kept. Standard systems for receiving contracts and identifying the suppliers of products and services will have to be used.
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Contractual Relationships

All work must be monitored. Drawings and specifications will have to be made to identify every piece of material used, along with specified tolerances, fixing methods and required finishes. A system for proper inspection of materials and products on delivery and during work will have to be in place, as well as procedures to deal with non-compliant materials. It must be demonstrated that there is good storage and handling of all materials and components.

Much of this might appear to be sensible, but there is no indication of what is considered "adequate" in all circumstances. Any tradesman running their own business, would in all probability take fright at the imposition of these new burdens and would have to engage some management or systems guru to set up all the procedures in addition to dealing with matters relating to technical capability, customer care and complaints procedures, third-party Association of British Insurers-approved warranty, insurance and health and safety.

The small tradesman would also need to pay a minimum of £500 to join the quality mark scheme and a similar fee for renewal, possibly every year. In all the circumstances the small contractor, in Klein's view will be likely to say

"To hell with all this. I have been doing a decent job for my customers all these years without all this paraphernalia. Going for the quality mark could force me to push up my prices, causing my customers to go to the cowboys"

A result which is clearly quite the reverse of that which the government had originally intended.

Therefore it is from this general standpoint that the current chapter seeks to examine the true nature of the difficulties that abound in the low value insurance repair sector and thereafter to propose a workable contractual solution.

6.2 The Insurance Ombudsman

The ombudsman, within his Annual Report of 1999 confirms the extent of his jurisdiction is to consider any complaint referred to him in connection with or arising out of a policy of insurance but subject to the following conditions, the policy must have been;
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Contractual Relationships

Taken out by or on behalf of or for an individual
Underwritten within the United Kingdom, Isle of Man or Channel Islands
Governed by the law of England and Wales, Scotland, Northern Ireland, the Isle
of Man or any of the Channel Islands

The Ombudsman's functions are confirmed as:

(i) To act as a counsellor or conciliator in order to facilitate the satisfaction,
settlement or withdrawal of any complaint made by a private individual.
(ii) To act as an investigator and adjudicator in order to determine the complaint by
upholding or rejecting it wholly or in part.

Where the complaint is upheld, wholly or partially, to make a monetary award against
the Member binding up to £100,000

The Ombudsman's duties are:

To have regard to and act in conformity with the terms of any contract; any applicable
rule of law, judicial authority or statutory provision; and
The general principles of good insurance, investment or marketing practice, the ABI's
Statement and Codes of Insurance Practice, and the LAUTRO and IMRO rules; but
with (c) prevailing over (b) in favour of the complainant.
(ii) To have regard to (without being bound by) any previous decision of any
Ombudsman.
(iii) To have regard to (without being bound by) any guidance of a general nature
given by Council.
(iv) In the light of (i) (ii) and (iii), to assess what solution would be fair and
reasonable in all the circumstances.
(v) To attend as required any meeting (or part) of Council to provide reports,
information and assistance.
(vi) To provide an Annual Report to Council for publication and for the Members.

Therefore as the ombudsman bureau is the ultimate point of reference for dissatisfied
policyholders (with the exception of the courts) an examination has been made of the
bureau’s case records to determine those matters, which regularly impact on the current
subject area.
The following account was provided by the insurance ombudsman in his annual report for (1994) and serves to demonstrate the seemingly tenuous nature of the relationships that exist between the various parties to a low value insurance funded building repair. It also serves to highlight the general level of misunderstanding that surrounds the whole transaction.

6.2.1 Good Faith over Building Repairs

A claim affecting a roof was paid on the strength of a builder's estimate; the claimant then called in a different builder who botched up a repair for a lesser sum than the policyholder had received. The Ombudsman's Bureau have no doubt that the policyholder would be horrified to learn that such a practice can be properly described as dishonest. It is so on several counts.

First, the time and effort given by the original builder or builders in preparing the estimates have been made use of under false pretences, because there was never any intention to use them for the work in question.

Second, the insurance company pays out on the understanding that the builder whose estimate is chosen will be instructed to do the work.

Finally, the contract is one of indemnity so there is no room for profit by the policyholder. Strictly speaking the money not spent on repairs should be returned to the insurers.

The Ombudsman goes on to say that they have been told that the practice exemplified by the above case is widespread.

The insurance maxim of *uberimma fides* (chapter 2, utmost good faith) demands that if a DIY enthusiast wishes to carry out the repairs themselves they should tell the insurance company. They should then save their materials invoices, for reimbursement by the insurance company and should receive in addition an agreed sum of money in recognition of their time and effort.

The only way the Ombudsman can see to stop the practice of profiting from insurance claims is for insurance companies to stop the practice of paying out on estimates,
regardless of how convenient that may be from an insurers administrative point of view. They should pay only on receipt of bills or else pay the builder direct.

In addition it is argued that it often transpires that cheap repairs are inadequate and offer only short-term solution - sometimes lasting only until the next bout of bad weather. There could be no question of any further claim for rectifying problems with the same area of roof; in the end the policyholder is the real loser.

This is an area of claims handling where from the Ombudsman’s perspective a little more trouble on the part of some insurance companies, even at the expense of seeming harsh, will in the long term benefit policyholders.

Therefore, it can be seen that fundamentally this case lends greater support to the use by insurers of their own Approved Repairers. Firstly the fair price for the work would be agreed in advance. Secondly, the contractor would under his service agreement receive payment direct from the insurance company. Further the work would be the subject of some form of guarantee (defects liability period), which in itself affords a measure of reassurance to the policyholder.

What this example fails to identify is the reluctance of the insurers to become involved in any contractual route that overtly implies any form of liability/responsibility on the insurer for the quality of the repairs.

However a further report from the ombudsman very adequately draws out the responsibilities that unavoidably lay just below the surface of any “style” of insurance repair arrangement

6.2.2 Indemnity - Insurer requiring Cheapest Estimate - Defective Workmanship - Whether Insurer Liable

An example of such circumstances arose in one particular case considered by the ombudsman arose following damage to the policyholders roof; the policyholder submitted three estimates to the insurer. The insurer agreed to meet the claim at the cost of the lowest estimate, which amounted to approximately 50% of the value of either of the other two.
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The work was done and the bill paid. However, due to defective workmanship, further money had to be spent to correct the evident faults. As the roofing company had gone out of business, the policyholder asked the insurer to pay for the additional work. The insurer contended that, having paid the bill for the selected contractor, it had discharged its obligations. The policyholder contended that the choice of contractor was the insurers and hence a dispute arose.

The Ombudsman referred to the fact that the insurer's rejection of the policyholder's claim for the further costs was based on the proposition that "the lowest estimate for the work was the limit of our liability".

The policyholder did not accept that proposition as this was not a stated condition noted in the policy and it was contended that this was not a proposition of general relevance in insurance law.

The Ombudsman stated that the circumstance of this dispute was not a case in which the policyholder had made an unfettered choice of contractor, relying solely on his own judgment. By insisting on the lower estimate, in effect, the insurer was held to have nominated the builder.

In the event the insurer agreed to pay for the 'necessary work', which comprised of both the initial defective work and the later remedial work. This was necessary as the Ombudsman considered that until the remedial work was done the storm damage had not been effectively repaired.

In summary, the insurer had no answer for the shortcomings of the initial contractor, since their selection had been the insurers means of achieving its objective of satisfying policy liabilities.

The Ombudsman in his summing had considered that there was ample legal authority that if an insurer had directly instructed the contractor the new contract to repair supplanted the old contract to insure. What occurred here came close enough to be treated in a similar fashion. Accordingly, the insurer was required to pay the cost of the remedial work, BN (94) 2 p. 4.
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The above, in effect, puts the truth to the lie that the insurers have no liability to the policyholder other than for payment of the estimated cost of repair, when they merely instruct the policyholder to obtain three estimates and subsequently approve the cheapest. Insurers have traditionally maintained this stance in countless earlier cases and remains today as the main reason for insurers to resist the employment of Approved Contractors.

6.2.2.1 Insurer’s Choice of Repairer – A Motor Repair Case

A policyholder submitted a claim in respect of damage to his car. His insurer accepted the claim, but insisted on his using a particular garage to affect the repairs. When a question arose as to whether the repairs were defective, the insurer disclaimed responsibility, on the basis that the contract was between the policyholder and the garage making the repairs.

The Ombudsman was unable to agree. In a case of this nature, where the insurer nominates the repairer, the Ombudsman interprets the legal position as being that the latter becomes the agent of the insurer for the purpose of effecting the repairs. The contract of insurance is superseded by a contract for services to be provided by the insurer, or by the garage on its behalf, the service in question being the repair of the vehicle.

Insurers that were surprised by this reasoning were directed for judicial authority for the decision to the Scottish appellate decision of Davidson v Guardian Royal Exchange Assurance [1979] 1 Lloyd’s Rep. 406. In that case an insurer was held responsible for the unreasonable delay of its nominated repairer in repairing a car. An exclusion in the policy in respect of loss of use was held ineffective by the court, as that related to claims under the policy, and the claim had become one under the insurer’s repair contract with the policyholder.

6.2.2.2 Insurer’s choice of Repairer A Building Repair Case

A similar approach was adopted in the earlier mentioned case, which was considered by the Ombudsman Bureau involving the claim for roof repairs. The buildings insurer accepted the claim, but insisted on acceptance by the policyholder of a very low estimate, only half of other quotations.
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The roof repair proved defective within less than a year, but by that time the contractor was insolvent. The insurer was required to meet the cost of remedial works, which amounted to more than double the first bill.

It is different if the insurer has allowed the policyholder to obtain quotes and choose between those that are relatively competitive. Then it may well be reasonable for the insurer to say that it has not accepted responsibility for the quality of the repairs, it has simply undertaken to the policyholder to pay the bill. In such cases, the contract for repairs will indeed be between the policyholder and the repairer, and it is the policyholder who will have to sort out with the repairer any problems that arise.

That is said not to be a licence for policyholders to hold an insurer to the highest quote, if there is reason to doubt whether it is genuinely competitive. Neither is it a licence for the insurers, however, to walk away when a simple phone call or letter, lending muscle to the policyholder’s argument with the repairer, could make all the difference.

Even where the policyholder’s choice of repairer has been respected, there may be occasions when the way in which the insurer or loss adjuster handles the claim means they have undertaken responsibility for ensuring the repairs are satisfactory.

In one reported case, AR (94) para 2.11 p37, involving reinstatement of a house after fire damage, the estimate from the policyholder’s preferred builder was accepted. The policyholder was asked to sign a mandate for the loss adjuster to facilitate payment, and she moved out while the work was being done. The insurer through the loss adjuster made interim payments, and then a final payment was issued in accordance with the mandate.

However, no inspection was made by the loss adjuster before the final payment, nor was the policyholder asked to check whether the work was satisfactory, which it turned out not to be.

The insurer was required to meet the cost of additional work to put right the defects, and to compensate the policyholder. By taking the mandate, and not asking the policyholder to check the work before final payment was made, the loss adjuster had accepted responsibility for the quality of the work, AR (94) para 2.11 p. 37
6.2.3  Defective Workmanship - Insurer Responsibilities.

In the case recorded under 20.6 98/10094, it was agreed that certain repairs would be carried out to the claimants’ property following their water damage claim. The claimants complained about the quality of re-roofing carried out by the contractors, who refused to accept responsibility for the defects.

The insurer had nominated the contractors, although there was no signed contract of employment. The insurer considered that it had met its responsibilities under the policy and that it had no legal relationship with the contractors who carried out the work.

The claimants sent the insurer a chartered surveyor’s report in support of their position. This outlined considerable remedial work that should be carried out. The insurer offered the claimants a cash payment of £1,000 towards that work. Alternatively, it offered to arrange for the work to be carried out by the original contractors under the supervision of the insurer’s own appointed chartered surveyor.

The claimants considered the cash offer inadequate. They had no confidence in the contractors and they were concerned that the nominated surveyor, who was based many miles away from their home, would not be able to supervise the works properly.

The complaint was upheld. Where the contractors have been genuinely appointed by a policyholder, the insurer’s responsibility, as considered by the Ombudsman, did not extend beyond payment of the contractor’s bill. Any dispute over workmanship had to be resolved between the claimants and the contractors.

However, if an insurer had appointed a contractor, the Ombudsman regarded the insurer as responsible for the work, which had to be completed to a proper standard. Although no one had signed a formal agreement appointing the contractors, and although their account was addressed to the claimants care of the loss adjusters, the insurer recognised that the contractors were its agents. It agreed to meet the cost of rectification work to be carried out by one of two firms chosen by the claimants, under the supervision of their own Chartered Surveyor. It also accepted responsibility for the surveyor’s fees, (20.6 98/10094).
The previous evidence from the Insurance Ombudsman examined practices frequently adopted by the insurers that at first glance set the insurer in the role of villain whilst the policyholder, in the main, has been shown in the light of the innocent abroad. However to accept this proposition without question would be to under-estimate the complexities of the conflicting interests that often arise.

The Federation of Master Builders (FMB) (2001) in an article supporting the use of their Masterbond scheme refer to a recent Department of Trade and Industry survey where nearly half of those questioned (47%) said they would pay cash in hand for building work. These same people are said be the loudest to complain when things go wrong, yet in the FMB's opinion they only have themselves to blame.

However tempting it may be to save money by paying cash in hand to a jobbing tradesmen, the result is often said to be shoddy workmanship which will then have to be made good by a professional so that the work is paid for twice. The FMB further warn householders not to expect to be able to find the cowboy builder who bodged their home, let alone have the faults rectified by him.

When the position is exacerbated by the further temptation to profit from an insurance claim the need for formalised contractual routes and relationships is overwhelming. This is supported in a case reported by Bingham (2002) who suggests that the Sunday newspapers regularly carry accounts about two sets of homeowners: 'Mr & Mrs Grumpy and Mr & Mrs Happy'.

The Happy's employ Bob the Builder, and the Grumpy's employ Beelzebub the Builder. Disputes between the Grumpys and their tradesman are said to be war. The Grumpys are often perplexed, vexed, fed up and want compensation - together with the evil one's head on a spike in their patio.

But on the week in question there was a fight-back. A builder wrote - anonymously - about cowboy clients, those like Mrs Grumpy, who is described in the following terms:
“One who changes her mind umpteen times a day, sacks her architect, rows with her henpecked hubby for siding with the builder and is generally a pain in the bum”. Whilst the comments of Mr Bingham are richly coated in irony they are in line with the personal experiences of this researcher (15 years experience in the household insurance repair industry as loss adjuster and operations director for a large national repairer).

Bingham in his report concludes that nearer to what usually happens in real life is the case of Mr & Mrs Daly and Mr Sheikh. This is described as a nice little story about doing the job for cash. A set of circumstances that the majority of Contractors will have been exposed to at some stage in their careers, described by Bingham as;

“The two sides weigh each other up to see who is going to pop the question … "How much for cash?" or "Do you intend to pay in cash?" The contractor carries out the work for cash-in-hand, the homeowner evades VAT and the contractor evades income tax. It is pure fraud, pure cheating, and pure crime – and deserves pure jail for both parties”.

That is apparently not what happened in this case. But the key argument was who offered cash to whom.

Mr Sheikh is the director of a small outfit called Middlesex Design and Build, or MDB. It agreed a contract with the Dalys for £125,000 to do work on their two-bedroom house in Stanmore, Middlesex. There is no doubt that the contract came into existence. It is what happened shortly after that which is of particular interest.

Mr Daly said in court that Mr Sheikh told him he wanted to be paid personally in cash and did not want to put the job through his company. They shook hands on that.

The Dalys apparently liked the idea of paying cash because they said it went hand in hand with the builder being responsible personally rather than through his limited liability company. And when a whopping great crack tore through the brickwork, Mr Daly reminded the builder that he was personally responsible. The reply of Mr Sheikh is said to be un-reportable.
Mr Sheikh told a different story. Yes, you guessed it – he said paying cash was all Mr Daly's idea. After all, it didn't matter to him how he was paid.

Then, importantly from the perspective of this research, the judicial report confirms that

"there was something to do with an insurance claim and Mr Daly is alleged to have told the builder not to whisper to anyone how much the job was costing".

Mr Sheikh denied asking to be paid in cash and said he didn't do contracts in his own name.

So, how did a judge decide when faced with such a conflict of evidence? He looked at the conduct of builder and client after this so-called agreement. Mr Daly paid £70,000 in cash. On an insurance matter, he referred to the builder as MDB, rather than Mr Sheikh. The Dalys' solicitor also referred to MDB as the builder.

As for Mr Sheikh, he doesn't seem to have rendered any accounts at all. He could show several invoices to MDB for building materials; others had no delivery address. He pointed to cash going into MDB's bank account but it only came to £7,500. When asked where the rest of the cash had gone to, he said it was used to pay labour-only subcontractors. Surplus cash was apparently stuffed into his wallet. His personal bank statements were scrutinised for signs of receipts. Only £1000 could be found.

Oddly, there were a number of substantial payments from his wife's accounts to his.

The judge now had to get to grips with all this. He said it was a lamentable but well-known fact that cash transactions, done to evade tax and VAT, are commonplace, not least in the building trade. Mr Sheikh intended that neither his accountant nor anyone else would find out. The judge could see all the so-called advantages to the builder. But he could not see why Mr Daly should have proposed paying cash. He was satisfied that Mr Sheikh "habitually evades paying corporation tax, VAT and personal income tax", and his evidence was "evasive and untruthful". And yet he won this part of the case. The issue before the court was whether the contract was with Mr Sheikh or MDB. Of the Dalys' side of the story "the lily was gilded", said the judge.
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Of additional interest here was the request by the policyholder for the builder not to let the insurers know how much was being paid for that aspect of the work. There appears to be little doubt that the amount would have been significantly less than the sum being paid by the insurers, which highlights a further aspect of fraud that had occurred here but was not considered by the court and is often considered by the general public as being a victimless crime.

6.4 A Bespoke Form of Contract for Insurance Repairs

The foregoing strives to demonstrate the variables that impact upon the undertaking of a repair in the personal lines insurance buildings industry. These fall into the following major categories:

- Who is in contract with whom?
- What is the nature of the Contract(s)
- Who is liable for what?
- What is considered to be a fair price for the works
- In the event of defects – what remedy is available?
- Who is making payment to whom?

Arising from the rapidly changing procurement practices adopted by many of the major insurers coupled with the effects of mergers and acquisitions and the focus on providing customer-pleasing solutions many repairs are now carried out by Approved Suppliers (contractors).

However there is currently no industry standard form of contract and the norm appears to be reflected within a myriad of Service Level Agreements. As a result this research has, with the benefit of the co-operation of a collaborating nationally based insurance repair contractor, developed a proposed industry standard that is currently under-review for greater exposure to the wider industry.

In large part the contract is the result of an iterative process that has significantly relied upon the assistance of Construction Lawyers Dr R Craig and G.J. Hodgson of Loughborough University’s Civil and Building Engineering Department.

The wording of the document is intentionally aligned to the specific circumstances in hand and affords the insurers the opportunity to make it’s intentions clear ie;
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The Contractor is its agents for the repairs
The policyholder is placed in contract with the repairer

6.4.1 Introduction to the Proposed Contract
From the foregoing it can be seen that there has never been a better time or need to implement a legal framework into insurance procurement for household building repairs. This holds true for the following reasons:

Advent of on-line insurance
Computerised claims handling
Increasing use of out-sourced supplier arrangements
Consumer claims culture e.g. Claims Direct, Watchdog
Customer service focus
Poor consumer confidence in the building industry
Poor contractor confidence in the insurance industry
Construction Industry Scheme tax concerns
Government focus on ‘cowboy’ builder eradication (a need for a better and more specific solution than quality mark?)
A demand for increased confidence for the ‘contractor’
The demand for increased payment certainty for the contractor
A universal demand for transparency of contract documentation for all parties

6.4.2 What this Legal Framework Offers
After a detailed review of the current state of the insurance industry, as demonstrated by the earlier ombudsman case review, it is clear that there is no, or perhaps never has been, an attempt to design a bespoke legal solution for household building repairs. What is prevailing in the industry is a plethora of ad-hoc arrangements that neither satisfy the insured, the insurer or the contractor and do not appear to address the developments of the wider construction industry e.g. Construction Industry Scheme (CIS) Tax requirements, Confederation of Construction Clients nor indeed the Minister for Construction.

6.4.3 What this Legal Framework Provides
✓ Codification of who is in contract with whom, when and for what purpose.
✓ Certainty over Network Management liabilities that pass between insurers, insured, the NM and contractor.
✓ Clarification of Construction Industry Scheme Taxation status
✓ Clarification in the advent of a dispute.
✓ A contract that is drafted in plain English.
✓ Avoidance of jargon.
✓ Simple to use documentation.

The benefits of this Contract may be summarised under the following categories

Potential cost savings:
✓ Allows non-CIS compliant contractors to be works contractors.
✓ Avoids cost of CIS administration.
✓ Web enabled administration
✓ Reduction of time spent on dispute resolution
✓ Potential to be an insurance industry standard.

6.4.3.1 Revenue Stream – Potential

This document is considered to offer the potential to be an industry standard. With correct protocols in place it will be possible for any insurer to undertake their claims adopting this framework. Web based commerce will enable documentation issue on a per claim basis charged per click or per period.

6.5 Proposed Contractual Matrices

This research has identified two possible relationships that are described, in terms of Insurers contractual options, below as:
‘majority of cases’
(a) ‘Majority of cases’

(b) ‘Minority of cases’
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A) "Majority of Cases"

The need for and content of contract B remains an ongoing iterative process. It has been concluded that the NM do not need to impose obligations directly on to the Contractor. See comment below on 'framework agreement'.

(b) 'Minority of cases'

The position of the NM is determined by the wording of its agency agreement with the insurer i.e. when acting in a Claims Handling capacity (Claims Handling is defined within chapter 3 of this research).

In this arrangement the NM takes instructions from Insurer and Insured and acts as agent of Insured when dealing with the Contractor in carrying out reinstatements.
In preparation for both arrangements, the NM have prepared/ will prepare a formal or informal ‘framework agreement’ with its pool of selected building contractors.

The envisaged procurement process is outlined as follows. All potential ‘works contractors’ will have studied the NM’s ‘schedule of rates’ and will have formally provided to the NM an offer (the ‘standing offer’) to carry out reinstatement ‘works’ as instructed by or through the NM from time to time over a fixed period of time (say one year or longer period) so as to create the ‘framework agreement’ (previously “Service Level Agreement”).

The so-called ‘framework agreement’ does NOT create contractual obligations for either party.

The insured makes an insurance claim to the insurer and this claim is passed to the NM as ‘claims handler’. The NM instruct a ‘works contractor’ to visit the insured premises as per the ‘framework agreement’.

The ‘works contractor’ inspects the insured premises in possession of ‘initial instructions and validation form’ and

1. confirms that the work instructed is caused by an insured peril and the scope of the work is accurate and that the work can be done for the price indicated on ‘initial instructions’; or
2. confirms that more/ less/ different work is required to meet the insurer’s obligations; or
3. confirms that in the ‘works contractor’s’ opinion the claim may not fall under the policy and that further investigation by the NM is required.

Option (1)
The NM authorises work to proceed in accordance with the ‘framework agreement’. Only at this stage does a building contract arise (between Insured and Contractor (majority of cases, above) or between Insurer and Contractor (minority of cases, above)). This now creates legal obligations between the insured and the contractor.

Option (2)
A revised ‘initial instructions and validation form’ is produced by the NM in response to contractor’s report, then option (1) applies.
Option (3)
Reinstatement is declined because the claim is invalid, or a revised ‘initial instructions and validation form’ is produced by the NM in response to contractor’s report, then option (1) applies.

Each works order placed then stands as a lump sum contract (the ‘works contract’) in its own right, governed by standard conditions produced here, but incorporating the terms of the JCT Building Contract for a Home Owner or Occupier 1999. This contract is designed for situations where a consumer (the Insured) deals directly with a building contractor for home extensions, alterations and repairs. The contract claims to be drafted in ‘plain English’ and to avoid ‘too much technical or legal jargon’. This contract form is not designed for use in connection with projects where the owner retains an architect/engineer/surveyor to act as agent in the administration of the contract. Payment is made under the terms of the works contract.

The NM remains in a “Claims Handling” (as defined within chapter 2 of this research) role to manage the contractor and monitor customer service levels.

Alternatively, the NM may wish to create a formal agreement out of the ‘framework agreement’, and in this case there would become two contracts to consider: the ‘framework agreement’ and the ‘works contract’.

The JCT standard form of measured term contract 1998 edition (MTC98) could be used as a model for a formal ‘framework agreement’. Under this scheme the NM would be required to define ‘the contract area’ and the types of work for which orders may be issued. The contract period is to be entered (a term of years) together with a commencement date.

The contractor is required to carry out the work ordered in accordance with an identified schedule of rates (the NM normally already has this) or the National Schedule of Rates (general, purchased from NSR Management, 44 Castle Street, Aylesbury, HP20 2RA) to which an agreed percentage is added or deducted.
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This, MTC 98 contract contains a ‘break provision’ that entitles either party to determine the employment of the Contractor after 13 weeks (or lesser period if agreed) and not earlier than 6 months from the date of commencement. Any work in progress must be completed under the terms of the contract but no further Orders can properly be given. The Employer is not bound to the Contractor for any particular volume of work: the Employer may place orders for similar work elsewhere. There is a defects liability period of 6 months of the Order Completion Date: This would need to be extended to 12 months. This proposed contract has given careful consideration to what contractual terms are included in the formal ‘framework agreement’ and how these terms co-exist with the terms in the ‘works contract’.

6.6 The Developed Contract

The new proposed contract is now included below:

The Network Manager Building Contract for Domestic Re-instatement Works 2002

This contract incorporates substantial content from the JCT Building Contract for a Home Owner or Occupier 1999 (JCT1999). The researcher gives grateful acknowledgement to the Joint Contracts Tribunal (JCT) for permission to use and reprint JCT copyright material. No Part of this contract shall be reproduced without the written consent of the copyright owners.

JCT 1999 is designed for situations where the consumer deals directly with a building contractor for home extensions, alterations and repairs. The contract claims to be drafted in ‘plain English’ and to avoid ‘too much technical or legal jargon’. This contract form is not designed for use in connection with projects where the owner retains an architect/ engineer/ surveyor to act as agent in the administration of the contract. The JCT Guidance Notes point out that the customer might be entitled to cancel the contract within 7 days of signing where the signed contract resulted from an uninvited call or visit by the builder to the customer’s home.

The researchers have adapted JCT 1999 for reinstatement work of domestic premises that have suffered damage as the result of an insured risk and where a Network Manager
(NM) has been instructed by the customer's insurer to handle the claim. The NM acts as agent of the insurer and arranges for this contract to be executed by the customer and the contractor in accordance with procurement strategies developed by this research to promote efficiency and effectiveness in dealing with domestic insurance claims.

### Network Manager form of building contract for reinstatement works as a consequence of insured property damage ('majority of cases')

This contract is intended for use in connection with reinstatement work to be executed by a building contractor selected from a panel of suitable contractors by the Network Manager (NM) (acting as agent for the insurer) and the insured home owner/occupier (the 'customer') pursuant to policy number ..................*  

Issued by ..................*  

On ..................*  

Customer's address:  

Phone number:  

Address of insured premises where the work will be done, if different from the above:  

Contractor's name:
This contract is executed between the customer and the contractor.

This contract is in three parts – Part 1 deals with the arrangements for the work and Part 2 gives the conditions. Part 3 provides the supplementary conditions.

Part 1 The arrangements for the work

[A] The work to be done

1. Brief details of the work to be done are set out on the VALIDATION FORM.

2. A full description of the work to be done is given in the documents listed below. These documents have been prepared by The NM as agent for the insurer from information provided by the customer and supplemented by the contractor. They have been agreed between The NM on behalf of the insurer and the contractor as the basis for a contract of reinstatement work that is to be carried out within the scope of the insurance policy identified above and are called the work details.

Contractor’s quotation: The price agreed between the contractor and the NM as appropriate for the required work and set out within the validation form.
Date: as set out on the validation form.

Drawings: none, unless identified on the validation form.

Identifying numbers:

Specification: as set out in preambles to pricing schedule for domestic repairs.

Date of Specification: as set out on the validation form.

Other documents: none, unless identified on the validation form.

[B] Planning permission, building regulations and party walls

1. The contractor will apply for any planning permission, building regulations approval and party wall consents or awards that may be needed.

2. The contractor will not start work at the premises before any planning permission and party wall consents or awards that are needed have been received. However, the contractor can start work before building regulations approval is received but he must let the local authority know at least 48 hours before he starts.

[C] Using facilities on the premises

The customer provides the following facilities where available within the premises and which he allows the contractor to use, free of charge:

(i) 240 volts electricity supply

(ii) mains water supply

(iii) washroom/toilet

[D] Price

1. The price for the work shown in the work details is the amount shown on the validation
form when signed by the consumer and the contractor and includes any VAT properly chargeable by the contractor.

2. The contractor itemises the price and shows the items on which VAT is charged, and at what rate when more than one rate applies.

3. The price includes the contractor’s costs for applying for planning permission, building regulations approval and party wall consents or awards.

4. The price also includes the contractor’s costs of dealing with any unexpected problems that he could have discovered by carrying out a careful inspection before the price was agreed.

5. If the work details change the price increases or reduces depending on the change(s) made. (Condition 4).

6. The price for the work shown in the work details, together with all the increases or decreases made to it, is the total price.

[E] Payment

1. The Customer pays the amount of the policy excess to the contractor within seven days of receiving invoice from contractor in the amount of the policy excess.

2. When all of the work is finished the contractor invoices the customer for the amount due after taking account of any price increase or decrease for changes made to the work details. The invoice is itemised and shows the rate of VAT charged on each item.

3. NM pays the contractor on behalf of the customer. Direct payment to the contractor of 100% of the total price less the amount of the policy excess is made not later than 21 days after receipt by NM of the relevant satisfaction note and VAT invoice.

4. If the amount of the contractor’s invoice is disputed NM reserves the right to pay only the undisputed amount to the contractor and undertakes to advise the contractor of the reason(s) for not paying the full amount invoiced.
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[F] The working period

1. The contractor will start the work not later than and finish it by the dates entered on the validation form. The working period is the agreed length of time for doing the work. Alternatively, the work will be finished within the period of weeks stated on the validation form from a start date to be agreed between the customer and the contractor.

2. Work is completed when the contractor has properly done everything shown in the work details and any changes made to the work details. The customer agrees with the contractor that work is completed, and confirms this agreement by signing the Satisfaction Note presented by the contractor to the customer.

3. The working period is extended in certain circumstances. (Condition 5 (a))

[G] Product Guarantee

The contractor will give the customer any guarantees issued by the manufacturers of products installed in the work.

[H] Insurance

1. The customer’s household insurer is aware that work is about to be done at the insured premises.

2. Before the work starts the contractor takes out and maintains an “all risks” insurance policy to cover himself and the customer for the full costs of damage to the work and to unfixed materials that are on the premises before being used in the work.

3. Before the work starts the contractor takes out and maintains an up-to-date public liability policy for death or injury to people and damage to property. The amount insured for any one claim arising from one event is not less than £2,000,000.
4. Contractor takes out and maintains Employer’s Liability insurance.

5. Contractor causes each subcontractor to take out and maintain insurance cover in the same terms and to the same extent as provided within this contract.

[I] Working Hours

1. The customer allows the contractor to carry out the work between 8 am and 5.30 pm from Monday to Friday, unless agreeing otherwise.

2. The customer informs the contractor whether the premises will be lived in while the work is being done.

3. If the premises are unoccupied at any time while the work is being done the contractor will take practical and common sense precautions to deter intruders entering.

[K] Disputes

1. The customer or the contractor can start court proceedings to settle any disputes.

2. The customer or the contractor can also have disputes decided within 21 days by an adjudicator appointed under an adjudication scheme run by the Royal Institution of Chartered Surveyors (RICS) or the Royal Institute of British Architects (RIBA). This is as well as the right to go to court.

3. If the customer or the contractor chooses adjudication to decide disputes they both accept that the cost, rules and procedures involved will become part of this contract.
Agreement between customer [Insured] and contractor

Schedule of defined parties and terms

The ‘customer’ is ..........................................
........................................................................
........................................................................
being the insured party (or parties) and owner(s) of the ‘premises’ at ..................
........................................................................

where the contract ‘work’ is to be executed by the ‘contractor’ who is
........................................................................
........................................................................
of ..............................................................
........................................................................
Part 2 The conditions

1 Carrying out the work – contractor's responsibilities

The contractor does the following:

(a) Carries out the work carefully, competently and as set out in the work details to the reasonable satisfaction of the customer.

(b) Uses materials that are of satisfactory quality and suitable for their intended purpose. The materials are new and unused unless the customer agrees otherwise in writing.

(c) Starts and finishes the work within the working period or any extension made to it.

(d) Is at the premises regularly to carry out the work during the agreed working hours.

(e) Not used.

(f) Stores away his tools and equipment and ladders at the end of each working day.

(g) Regularly disposes of any rubbish from the work.

(h) Is responsible for any damage to the premises and its contents or to neighbouring properties caused by the contractor or his subcontractors.

(i) Leaves the working areas in a clean and tidy condition after finishing the work.

(j) Keeps to all his legal duties and responsibilities.

(k) The contractor carries out all work on a 'like-for-like' basis so as to ensure that the customer's premises are reinstated at least to the standard prevailing prior to the damage caused by the insured event.

(l) The contractor complies with and gives any notices required by any Act of Parliament, instrument, rule or order made under any Act of Parliament, any regulation or bye law made by any local authority or undertaker.

(m) At all stages during the progress of the works the contractor keeps the customer fully
advised as to programme, actual progress and any possible delays to completion.

(n) Contractor provides mobile telephone number to customer so as to enable direct and immediate contact between customer and contractor during all normal working hours, and by recorded message outside of normal working hours.

(o) Contractor provides if necessary meetings at customer’s premises outside of normal working hours.

(p) Contractor communicates any unavoidable changes in agreed plans, times and dates for meetings and appointments as soon as is reasonably possible to both the customer and The NM.

(q) Contractor indemnifies customer for any losses and expenses caused by contractor’s failure to perform in accordance with this contract and/or because of negligence on the contractor’s part or that of workmen or subcontractors.

(r) Contractor does not assign this contract without written consent of the customer and NM.

(s) Contractor co-operates with NM and any other advice agency or local authority on the customer’s behalf.

2 Carrying out the work – customer’s responsibilities

The customer will do the following

(a) Give the contractor access to the premises during the agreed working hours throughout the working period.

(b) Keep the working areas sufficiently clear of obstructions to allow the contractor to carry out the work.

(c) Allow the contractor to carry out the work in an order that he considers necessary to finish the work on time.
3 Health and safety etc

(a) The contractor takes all practical steps to:

(i) prevent or minimise health and safety risks to the customer and other people living in or visiting the premises;

(ii) minimise environmental disturbance, nuisance or pollution from the work; and

(iii) make sure that any temporary protection for the work is safe and weatherproof.

(iv) prevent smoking on the customer’s premises by any employee or subcontractor;

(v) procure and maintain a policy of polite, courteous and helpful behaviour from all employees and subcontractors;

(vi) ensure that all employees and subcontractors comply with the approved dress code.

(vii) ensure that radio or other similar equipment is used on the customer’s premises only with the customer’s prior consent;

(viii) ensure protection of existing structures which may be outside the immediate scope of the work;

(ix) ensure protection of customer’s furnishings where likely to be affected by the work;

(x) ensure security of both contractor’s and customer’s property.

(b) The customer undertakes to:

(i) take notice of all warnings the contractor gives about any health and safety or environmental risks which he is taking measures to prevent or minimise; and

(ii) not knowingly allow people living in or visiting the premises, particularly children, to be exposed to any dangers from the work.

4 Changing the work details

Changes to work details are dealt with as follows.
The customer cannot change the work details. In no circumstances is a change made to work details without the insurer’s authority communicated by The NM to the contractor and customer.

If in the contractor’s opinion a change is necessary to the work details and the customer agrees that such change should be made one of the following actions is taken:

(a) where the contractor decides that the proposed change has no impact on the contract price and/or contract period the proposed change is communicated by telephone to The NM who will confirm/reject the proposed change by subsequent communication.

(b) where the contractor decides that the proposed change does impact on the contract price and/or contract period the proposed change is communicated to The NM who will confirm/reject the proposed change by subsequent communication.

(c) If the change(s) increase(s) the amount of work shown in the work details the contractor quotes a price in accordance with the Pricing Schedule for the extra work and time involved.

(d) If the change(s) reduce(s) the amount of work shown in the work details the contractor makes an appropriate reduction in the price in accordance with the Pricing Schedule.

(e) If the change(s) alter(s) the cost of any items in the work details without increasing or reducing the amount of work involved, an appropriate adjustment of the price is made to reflect those changes.

5 Extending the working period

(a) The customer agrees with the contractor to extend the working period by a fair and reasonable amount if the contractor:

   (i) has to spend extra time on the work because of changes made to the work details; or
(ii) cannot finish the work on time for reasons beyond his control including any delay caused by the customer.

(b) The contractor claims any reasonable costs arising from the working period being extended caused only by any delay caused by the customer.

(c) The customer claims any reasonable costs arising from the working period being extended caused only by any delay caused by the contractor.

(d) The contractor refers any claims made under clause 5(b) and/or clause 5(c) for final ascertainment by The NM on behalf of the insurer.

6 Payment

See section [E] above.

(a) All goods and materials placed on the customer’s premises for incorporation within the work remain the property and responsibility of the contractor until so incorporated within the work.

7 Contractor’s continuing responsibility for faults in the work

(a) For 6 years after the date of the Satisfaction Note the contractor remains responsible for any faults in the work (other than fair wear and tear) which are caused by him.

(b) The contractor makes good at his own expense any defects, shrinkage or faults due to defective workmanship or materials arising within twelve months of the date of the Satisfaction Note.
8 Bringing the contract to an end

(a) If the contractor:

(i) is not at the premises regularly to carry out the work; or

(ii) is not meeting his health and safety and environmental responsibilities; or

(iii) is so incompetent or careless that the work is of an unacceptable standard; and does not correct the matter within 7 days of receiving a written warning from NM, the customer can end this contract by giving the contractor a written notice (plus copy to NM) to take immediate effect.

(b) If the customer ends this contract he will only have to pay any money due to the contractor when the work has been finished by another contractor who is selected from NM’s panel of suitable contractors.

(c) If the customer prevents or obstructs the contractor from carrying out the work and does not correct the matter within 7 days of receiving a written warning from the contractor, the contractor can end this contract by giving the customer a written notice (plus copy to NM) to take immediate effect.

(d) If the contractor ends this contract NM pays the contractor on behalf of the customer within 21 days of the contract ending, for work properly carried out, for any materials made specially for the work and for any other of the contractor’s materials on the premises which he allows the customer to keep.

9 Insolvency

(a) If the customer or the contractor becomes insolvent this contract will come to an end.

(b) If this contract comes to an end because the contractor becomes insolvent, the customer will not have to pay any amount then due to the contractor until the work has been finished.
by another contractor who is selected from NM’s panel of suitable contractors.

### 10 Other rights and remedies

(a) The customer and the contractor claim from each other the costs and expenses which result from any failure to keep to this contract.

(b) This contract does not rule out or limit any other legal remedies that may be available to the customer or the contractor.

### 11 Law of the contract

The laws of England and Wales apply to this contract.

### 12 Construction Industry Scheme

The customer is not a ‘contractor’ for the purposes of the Income and Corporation Taxes Act 1988, the Income Tax (Sub-Contractors in the Construction Industry) Regulations 1993, the Income Tax (Sub-Contractors in the Construction Industry) (Amendment) Regulations 1998 and any amendment or re-making thereof.

Network Manager’s standard documentation needed to complete this contract and its administrative arrangements:

1. First Notification
2. Validation Form
3. Preliminaries, Preambles and Pricing Schedule for Domestic Repairs
4. Satisfaction Note
6.7 Summary

From the Ombudsman’s view, AR (84) para 4.1 p. 27, on the matter of policyholders’ complaints - genuinely justified criticisms which sometimes come by themselves but more often are thrown in with substantive claims or disputes - little seems to have changed since the Bureau opened in 1981.

The grounds for legitimate complaints still fall into three main areas:
Advertisements;
Lack of concern; and
Poor communication.

The greatest of these is poor communication. Often a complaint of delay frequently turns out to be a disguised objection to the steadfast rejection of an unjustified claim or, more often, a breakdown of communication.

Within the context of insurer, policyholder and supplier relationships the greatest failure appears to revolve around the total lack of communication that surrounds the contractual relationships and responsibilities that exist.

In large part this arises from the insurers historic reluctance to be recognised as having any other duty than to pay the amount of the cheapest estimate. However, as demonstrated throughout this chapter unless the policyholder retains a completely unfettered choice of contractor the insurer is, in reality, changing the contract from one of insurance to one of a contract for services and the contractor becomes the insurers agent.

In this light within this chapter a specific Form of Contract has been developed that provides insurers with an opportunity to determine which route they are adopting and also to clearly communicate their decision to the policyholder. This Contract has been developed with the co-operation of a collaborating contractor and is currently under review for use as an insurance industry standard.
In the interests of completeness and by way of comparison the following Quality Mark final documentation is attached:

Appendix C  
Annex F the Quality Mark Contract

Appendix D  
Annex D the Quality Mark Code of Practice

Appendix E  
Annex C the Quality Mark Complaint Procedure

Appendix F  
Annex C the Quality Mark Financial Warranty

Whilst the appendices are without doubt thorough in content equally their complexity casts doubt over their ease of use. As indicated by Klein the attraction of their adoption by small family run businesses must remain questionable particularly as the financial implications must render any registered contractor as uncompetitive against non-registered traders.

It is therefore considered that the proposal as put forward by this research offers a more appropriate solution within the domestic insurance repair market.

Additionally whilst the associated Quality Mark developed Constructionline Work Categories, http://www.dti.gov.uk/constructionline, specifically include “Fire and Flood Restoration” a review of the registered contractors fails to identify any individual company as having come forward at this stage. This may serve to bear out both Klein’s fears and the comments on suitability for insurance work
Chapter 7

7. Procurement

7.1 Introduction to Procurement

This chapter develops the insurance procurement model within the context of what are predominantly consumer industry demands. The work draws heavily from the current "ongoing" problems being experienced in the analogous Supermarket Client – Supplier relationship.

With the benefits of the earlier work undertaken within this research into both the size and structure of the insurance building repair market it has become clear that the sector is dominated by a shrinking number of large clients. Prima facie, this presents an opportunity to effectively provide for work continuity and the delivery of economy of scale benefits to all participants.

However, the effects of the supermarket procurement model has led to government intervention in order to limit / curtail the impact of practices requiring the ratchetting up of service demands and the reduction of costs through the leverage of workload volumes. This negative approach is contrasted to the beneficial effects of workload continuity that underpins much of the current Rethinking Construction Agenda.

By way of remedy this chapter culminates with the development of an industry specific Client – Supplier Code of Practice. However without the weight of Government intervention this seems unlikely to be palatable to the insurers and hence a Partnering Charter is also developed.

As indicated within the earlier chapters of this research the instructing clients in the domestic building insurance repair market exhibit the following characteristics

- 8 Insurers control over 75% of the Market.
- The major determinant of volume is Insurer – Mortgage Lender relationships
- 9 Lenders control 67% of the mortgage market
- Direct Line operate against these trends – by insuring the householder direct
Chapter 7

Procurement

The major difference made by Direct Line is that they are purely price driven and hence compete with the "bancassurers" (mortgage lender/insurer style relationships – see chapter 3) on price. In addition Direct Line are recognised as having revolutionised the claims process by removing intermediaries i.e. brokers and loss adjusters, and working directly with approved suppliers.

By way of analogy the retail supermarket industry has 5 major brands that dominate the sector controlling in excess of 80% of the industry. This level of client market dominance has led to the supermarket suppliers needing to refer to the government for protection from their clients' aggressive procurement practices.

The Competitions Committee of the Department of Trade and Industry responded to the supplier complaints by acknowledging that the big 5 supermarkets were treating suppliers inequitably. A complex monopoly was found to exist that resulted in practices that were determined as adversely affecting suppliers. The larger supermarkets were identified as possessing sufficient buyer power to negatively impact upon the competitiveness of some of their suppliers, 30 of such practices were equally shown to have distorted competition in the supply market.

In all 27 of these practices were felt to be against the public interest because they gave the five major buying supermarkets (Asda, Safeway, Sainsbury, Somerfield and Tesco) substantial advantages over other smaller retailers, as well as those over suppliers, both of whose competitiveness was likely to suffer as a result.

In order to avoid legislative action by the government a Code of Practice was introduced, arising from the Monopolies and Mergers Commission’s enquiry, which amongst other things included the following.

- Retailers should compensate suppliers for costs caused through the retailers ‘forecasting errors’.

- Retailers should not charge suppliers in respect of consumer complaints unless the complaint has been verified as being justified, and as being caused by the supplier, and the supplier has been notified of the outcome. Charges should not exceed the purchase cost of the goods to the retailer.
In contrast to the Supermarket and possibly Insurance Industries, the effects of the Latham and Egan reports have together led to significant improvements in Contractor – Client relationships and in the terms of reduced costs and improved service levels.

7.2 Construction Clients
This progress is typified by the formation of the Confederation of Construction Clients. There are currently in excess of 200 Charter Clients. Regrettably none are insurance companies although some are supermarkets.

The Background to the Charter is:

"In July 2000 the Deputy Prime Minister challenged the client community to draw up a charter that would set out the minimum standards they expected in construction procurement today, their aspirations for the future and a programme of steadily more demanding targets to drive up standards. The Clients’ Charter has been designed to meet this challenge. By signing up to the Charter, construction industry clients will be making a clear statement of their commitment to improve their own performance. Charter Clients do not just pay lip service to culture change but are prepared to measure their progress against an agreed programme with increasingly demanding targets”.

A sample of the charter members is included below;
BAA plc
Buckinghamshire County Council
Defence estates
Highways agency
London Borough of Tower Hamlets
McDonald’s restaurants
NHS estates
Office of Government Commerce
Railtrack plc
St Helens Metropolitan Borough Council
University of Surrey
Charter benefits for clients

- Driving a continuous improvement culture
- Jointly identifying strategic objectives for value, business and personal aspirations
- Better long-term relationships with suppliers for increased reliability, improved security of supply and continuous performance improvement
- Setting high standards for health, safety and respect for people
- Jointly identifying risk and how to handle it
- Giving suppliers confidence in client receptiveness to change
- Improved client performance through data sharing and networking
- Credibility through annual reporting of performance and demonstration of continuous improvement
- Acceptance of need for measurement, team-building and training
- Recognition of charter clients and their suppliers as flagship practitioners
- Raising industry’s performance to improve national and international competitiveness
- A high quality product for the client and wider society

The benefits from progress and cultural improvement are acknowledged as needed to be measured by clients in relation to the following KPIs.

- Client satisfaction with product and service.
- Time absolute and time predictability.
- Cost absolute and cost predictability.
- Safety.
- Profitability of the supply chain
- Productivity.

In setting KPI targets, clients accept the need to meet or better those set in 'rethinking construction' over the period of their programme of continuous improvement, The Clients Construction Forum (2001).

7.3 Leakage and Insurance Claims Auditors

In contrast to the stated aims of Construction Clients but exhibiting not dissimilar characteristics to the supermarket sector, the Retail Motor Industry Federation (RMI)
has criticised those insurers who use leakage to control body-shop remuneration as "unscientific" and "crude" (Hood) (1999)

Leakage control is said to involve a visit by an insurer's auditor to match the body-shop estimate against the one made by the insurance engineer, often long after the repair has been completed.

RMI senior manager Bob Hood believes that these visits demoralise both the insurance engineers - whose performance is measured by how much leakage he is perceived to have allowed - and the repairer, whose professional judgment and integrity are bought into question.

Hood argues that leakage is the method by which some insurers choose to exert unwarranted pressure on body repairers and their own engineers. These practices are also reflected in the tender documents appended to Chapter 3 of this research where similar audit /leakage tactics are incorporated within the contractual arrangements for the building repairs described therein.

Hood's advice is for repairers to adopt a robust approach and for body-shops to stand their ground when faced with an insurance auditor. Repairers are confirmed as having already agreed the estimate with the insurance engineer - and hence there appears to be no logical reason why a supplier should have to justify their estimate a second time.

The RMI is confirmed as being keen for insurers to adopt a policy of transparency in their relationship with repairers and for them to develop best practice methods to help contain costs together. This would seem to be more in line with the successful procurement approach described within the Social Housing model described in chapter four of this research.

The position, as described for the motor repair sector, is seen to be no different in the insurance building repair industry where Insurers constantly fear that they are paying for betterment. They perceive that even their own Approved builder does not differentiate between storm damage and damage caused by wear and tear. Hence from an insurer's point of view there is a potential that they will end up paying for the renewal of roofs
and guttering etc that were on their last legs before the storm. Although Proximate Cause issues remain to be resolved as indicated within chapter 2 of this research.

This basic lack of trust has therefore in extreme cases led to the emergence of specialist building claim validation companies. Threadgold (2001) confirms that some major composite insurers are using the services of firms such as Kent-based CPI Countrywide to validate buildings claims.

In CPI Countrywide’s case, Threadgold confirms that the claims that are the subject of third party validation have an average value of only £500. The firm is said to have a network of surveyors, mainly with MCIOB (Member of the Chartered Institute of Building) or MSST (Member of the Society of Surveying Technicians) qualifications that deal only with the circumstances of the claim. They do not report on things like adequacy of sum insured or security. However by inference they must consider proximate cause issues albeit that they have no insurance background or qualifications. The reference to “network” in this context begs the question of whether such surveyors are directly employed by CPI or represent a group of retained consultants/suppliers who work on a targeted savings based incentivised remuneration package.

Additionally, no doubt such companies charge a fee for their visits, inspections and reports. They equally, no doubt, feel the pressure to justify their involvement and hence the need to challenge specifications and indeed show savings must be difficult to resist.

In a market sector with an average cost of £500 there would appear to be grounds to support the Canterbury Council initiative (see last chapter) and divert the amount of such fee expenditure to training the approved contractor’s and insurers own staff to improve diagnostic capability and generate long term savings through their own efforts. Efforts that themselves would evidence successful continuous improvements demonstrated through KPIs that would chart both increased accuracy of diagnosis and a reduction in variations / the number of pre-inspection visits as put forward by chapter 4 of this research.
7.4 Insurance Industry Clients

Demands on suppliers from insurers are also said to be increasing from both insurer and supplier sides (insurers own and those of their policyholders) of their operation, Larson (2001). Larson is the director of client relationships at loss adjuster Cunningham Lindsey whose view is that insurers are looking for extended services at reduced cost, while claimants are anxious for improved accessibility and quicker settlements.

As a result of the recent consolidation within the insurance industry Larson adds that in addition to the pressure to perform to adequate levels there are currently significantly fewer potential clients in the industry for suppliers to work with. This in turn results in fewer but larger blocks of business held by the reducing number of clients.

As a corollary of this there is now increasing pressure on suppliers/contractors to retain existing business and avoid being dropped from an insurers panel. In the event that an existing client is lost the financial implications for suppliers of all types, within the household insurance market, are currently grave indeed.

The question arising from the developments outlined above is whether insurers will ultimately follow the supermarket, construction industry or Social Housing procurement lead.

7.5 Supply Chain Issues

In the past a grasp of total costs, revenues and profits at a high level within a discrete business was adequate information for it to run well Oros (2001). Currently, as a result of the supply and value chains becoming so closely integrated one business's cost reduction is often another business partner's cost increase. The key to sustained profits is argued as being not to shift the costs, but to find collaborative ways to eliminate them entirely. However, due to historical roadblocks the path to developing a close working relationship with trading partners to achieve this change has been difficult, at best. Some of these stumbling blocks are said by Oros to include:

How can a client accurately measure costs by channel, process, product & customer in order to identify savings?
How do clients effectively work with their trading partners without revealing sensitive, proprietary information?
Can clients' model changes to see the monetary effect before they talk to their trading partners then use it to affect change?
Can clients trust the numbers that their trading partner is showing to them?
Do the suppliers/trading partners trust the client's information?

The rewards of overcoming these obstacles and working with trading partners to develop an efficient Value Chain are said to be enormous. Leveraging the Value Chain is said by Oros to enable efficient management of value chain issues that are capable of resulting in cost savings of 5-10% of sales and provide profit increases of 60% or more.

7.5.1 Virtual Supply Chain

One possible solution to the insurers current dilemma may well be provided through the consideration of a concept put forward by Sviokla (2001)

The virtual value chain, developed by John Sviokla of the Harvard Business School, is said to be a simple but remarkably useful model for better understanding information-based industries. Industries involving physical goods operate through the familiar physical value chain (raw materials, production, distribution, marketing and sales) in a physical market place.

Information-based industries – and financial services/insurance industry are said to be almost entirely information based – operate in a market space, through a virtual value chain comprising Content (what is offered?), Context (how is it offered?), and Infrastructure (what enables the transaction to occur?), illustrated thus:

![Virtual Value Chain Diagram](image)

Figure 7.1 Virtual Value Chain, After Sviokla (2001)

- For a financial services operation, Content is the bread and butter of the business. It includes: services or advice and significantly, customer information. Successfully managing Content calls for qualities such as creativity, speed of development and, perhaps most importantly trust. Most customers trust their
financial institutions to act with probity, fairness and integrity and to maintain the security and privacy of their financial data. As demonstrated below this reputation for trust is a tremendously valuable asset, which can be leveraged to address other shortcomings.

- Infrastructure corresponds to the institution's computers and networks, its back office operations, and the bricks and mortar of headquarters buildings and branches. Managing infrastructure is all about maximising reliability and minimising cost. Once again, financial institutions are said to be traditionally good at this aspect of the business.

- Context is a less familiar concept. Defined as the overall customer experience in any particular situation, Context combines elements of both Content and Infrastructure, embracing qualities such as levels of service and support, the look and feel of a particular interface, pricing, branding, and a host of other largely subjective qualities as experienced by a particular customer in a particular environment. Managing Context calls for obsessive attention to changing customer needs and behaviours, differentiation from competitors, and often working with partners to create a compelling packaged service offering. Any contractor working in the low value domestic repair market must therefore be not only capable of delivering such services but importantly insurers, to be successful, must also communicate their philosophies to the contractor in the first instance.

Content, Infrastructure and Context are superficially similar to Product, Delivery and Market respectively, but the concepts are broader and richer. Content includes not just the products themselves but also the information associated with these products and the customers who use them. Infrastructure includes not just delivery channels but the whole complex of information systems and processes which enable a transaction to be processed reliably and efficiently. By default, Context should equate to market, but clearly the concept is much richer than that, embracing not just a particular segment of consumers, but how individual consumers feel and behave in a variety of different circumstances.
By analysing a retail financial operation in terms of the virtual value chain, we may generate useful insights, which are not otherwise immediately obvious.

- The first point is that financial institutions, to be successful, must manage all three components of the value chain, and that this calls for three quite distinct sets of skills. We have seen that whereas financial institutions are usually good at managing Content and Infrastructure, they are often poor at managing Context.

- But Context is arguably the most important part of the value chain since whoever controls the Context controls the relationship with the customer and this is the key to most retail businesses. Historically financial institutions were considered to be very good at customer relationships, but for a variety of reasons - lack of attention to changing customer needs; overemphasis on cost cutting, economies of scale, and shareholder value; and insufficient attention to the core asset of trust - the relationship has been severely eroded.

- Three types of non-financial companies are very good at managing Context - supermarkets such as Tesco, technology companies such as Microsoft, and strongly branded consumer companies such as Virgin (the financial industry as a whole is remarkably weakly branded). Not surprisingly, all these types of company are successfully challenging the franchise of the traditional retail financial industry.

- This raises the familiar spectre of disintermediation – if customer loyalty migrates to skilful Context players, then financial institutions could be cut off from their customer base and reduced to the status of providers of commodity products, competing mainly on price.

- The power of the virtual value chain becomes especially apparent in the world of the Internet and electronic commerce. Significantly, the companies currently making money out of e-commerce are mainly Context specialists. Companies such as AOL, Amazon, CD-Now, Yahoo, and Cendant (market capitalisation $35 billion) own no Content and no Infrastructure but through a combination of ingenious technology and attention to their customers (or "members") have managed to create unique and strongly branded Contexts in a remarkably short time. A new term – "Portals" – has been coined to describe these Contexts.
specialists and they are currently the darlings of the US stock market. Such companies are increasingly turning their attention to financial services.

- A feature of the virtual value chain is that it can be relatively easily disaggregated into its component parts. Thus one strategy for financial institutions may be to specialise on one component. Many insurance companies are effectively Product specialists, relying on a network of brokers and agents to distribute their product. Companies like Visa and MasterCard are good examples of Infrastructure specialists. There are few examples of Context specialists – American Express is a possible example – but with a little imagination this is by no means an unworkable option.

- Another strategy may be to attempt to manage the whole of the value chain but to do so through strategic alliances. For example in the UK the Scottish banks have successfully partnered with supermarkets to address Context and an increasing number of institutions are outsourcing their IT and other Infrastructure components to specialist processing companies.

The various value chain strategies open to retail financial institutions are illustrated below:

- **Become a content “factory”.**
- **Specialise in distribution or processing.**
- **Control the customer relationship.**
- **Control the whole value chain through alliances.**

Table 7.2 Value Chain Strategies – Sviolka (2001)

### 7.5.2 Disintermediation and the Insurance Supply Chain

A very recent and significant, to the household buildings insurance repair market, example of “disintermediation” is evidenced by the actions of Halifax plc who in the
summer of 2002 announced their disentanglement from long term insurance partner Royal Sun Alliance (RSA). Murray (2001) confirms that the Halifax intends to bring its household insurance book in-house from 2005 when its current contract with RSA runs out.

The gross written premium generated by this account is said to be valued at £350 million annually. As such this agreement has traditionally represented 40 % of the insurer RSA’s household account – a relationship that had placed them as the second largest company in the list of household insurers (as demonstrated within chapter 3 of this research).

The reasons quoted by the Halifax for this recent change in approach are said to be as a result of “an appetite to protect its profits from the insurance cycle and a realisation that over the years it has been merely renting its capital to the insurers and had been bearing the costs of RSA’s profit margins and overheads”.

The RSA will be losing not only the business generated by the Halifax’s 2 million policyholders but will also lose the servicing from a further 130,000 policyholders from the Bank of Scotland. The recently created Halifax Bank has since its emergence from Building Society status merged with the Bank of Scotland to form the newly created HBOS Group (Halifax Bank of Scotland).

Possibly the unsaid reasons for this unprecedented move by the bank, to take insurance in-house, was equally as a result of the Bank’s perceived need to cut costs and increase shareholder values. Additionally, perhaps the size of the newly merged insurance provider had also introduced a threat to the newly formed/merged banks own customer base.

With the currently emerging shape of the Financial Services Agency now having responsibility for both Insurance and Banking potentially the insurer may have been seen as approaching a sufficiently strong financial profile to offer mortgage facilities to it’s partner’s, the bank, own or possibly mutual customers. As indeed the relatively new, yet innovative insurer Direct Line are currently entering the mortgage market.
Whilst such internal turmoil may initially be perceived to have little impact on the contractors repairing domestic dwellings the implications are potentially wide ranging. This in turn may leave any future supply partner of the Halifax General Insurance Company to weigh very carefully the benefits of volume business as opposed to obtaining a fair price for their services.

Equally any Contractor with a significant interest in this market must be ever watchful of it's trading partners business trends if it is to protect it's investment and remain an added value element of the supply/value chain and not left out in the cold in the event of further disintermediation mergers and acquisitions within the insurance sector.

### 7.6 Collaborative Working Practices

Throughout the 1990s, there has been a growing interest in the use of partnering/alliancing and collaborative ways of working in the construction industry. This has been seen as a method of dealing with the fragmentation and lack of integration that has frustrated attempts to improve performance within construction over many decades, Marshall & Bresnen (1999).

Watson and Schofield (2000) cite an early successful use of such techniques as that of Marks & Spencer and Bovis, who in 1927 developed a non-adversarial culture, working together in the planning management and co-ordination of construction projects. Although Watson and Schofield consider this relationship not to be strictly “partnering” in the modern sense, regrettably they do not state why they hold this view, nonetheless they believe that it showed that it was possible to build a mutually beneficial alliance between contractor and client.

The reasons for the more recent and wider use of collaborative arrangements has arisen as a consequence of the recession of the early 1990s when major clients realised that the existing adversarial culture, within construction, was not meeting their needs. This prompted a Minister in the department of the Environment (HC 1993) to provide a brief to Sir Michael Latham to consider current procurement and contractual arrangements and the roles, responsibilities and the performance of participants. The intention was to reduce conflict and litigation.
The major theme of Sir Michael Latham’s report Constructing the Team was the relationship between the client and contractor on construction projects having become increasingly adversarial, European Construction Institute (1997).

The direct outcome of this disharmony was shown to be an increasing number of disputes, which with goodwill, might have been avoided. The further consequence was shown to be an atmosphere of mistrust that permeates projects and denigrates relationships leading to a breakdown of the teamwork and mutual respect that are necessary for successful completion.

Instead of having common goals each party has it’s own goals. The adversarialism was shown to affect construction work for both the private and public sectors and operate against the primary objective of delivering a quality product, safely and on time, within budget and with a satisfactory outcome for all concerned.

However the ECI argue that adversarialism has not always been the norm. What is said to be needed is a means of re-establishing the goodwill, the trust and the wish for each party to be successful. In short there is said to be a need to put the handshake back into construction. That is claimed to be the purpose of partnering.

In response to the Latham report the Reading Construction Forum Bennett & Jayes (1995), amongst many other such bodies, drew the following conclusions

- Partnering involves two or more organisations working together to improve performance.
- To make partnering work those involved need to agree a set of mutual objectives, devise a way of resolving any disputes and be committed to continuous improvement.
- Partnering can be applied to one-off (project partnering), or can be on-going over a series of projects (strategic partnering).
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- Typically, with project partnering, cost savings of 2-10% are achieved; with strategic partnering savings of 30% are realistic, over time. The cost of undertaking partnerships is very small adding less than 1%

- In addition to reducing costs partnering can also improve service quality, deliver better designs, make construction safer, meet earlier completion dates and provide everyone with bigger profits

- There are three stages involved when undertaking partnering – Firstly, mutually agreeing to use partnering; secondly, setting up an initial partnering workshop to agree objectives and the dispute resolution process; thirdly using partnering workshops to ensure the team gets better and better

However, prior to the advent of Latham, in order to ensure the successful outcomes as indicated above the NEDC (1991) had earlier confirmed that “Partnering without Conflict” was achievable through the following processes;

- All parties seek a win-win solution
- Careful selection of the right partners
- The ability of the client to offer a continuous programme of work
- Commitment on all sides
- Mutual trust and openness
- Appreciation of the long-term benefits of the relationship

The subsequent successful employment of partnering techniques, which in the main follow the above parameters, is widely recorded and typified by the conclusions of Watson and Schofield (2000) who confirm that on the basis of their own case studies
together with a wide body of research there is now an overwhelming range of improved performance indicators.

However the need to sustain the momentum to continue to achieve the improvements in working relationships is reinforced by Nick Raynsford the former Minister for Construction who is reported by Clark (2001) to have said that there needed to be another push on the Rethinking Construction report, written by Sir John Egan for the government in 1998. Raynsford is further reported as having stated

"We want to see further progress on this agenda. There is still a long way to go. Partnering has to be accepted widely rather than seen as a new way to work. It needs to become the norm. Although I have been incredibly heartened by the way the construction industry has responded to the Latham and Egan recommendations. There has been real support, enthusiasm and commitment to improve the performance and profitability of the sector."

A major catalyst for the industry’s uptake of the recommendations from Latham was the subsequent influence of the client’s response that was reflected in the Egan report “Rethinking Construction” (1998). Egan reinforced the Latham philosophies and amongst other things recommended an end to competitive tendering to be replaced by partnering and long-term alliances.

“Clients should use performance measurement and open book accounting to show that value for money can be adequately demonstrated.... Too many clients are undiscriminating and still equate price with cost. Selecting contractors almost exclusively on price.”

7.7 Reinforcing Trust - Developing Motivation and Commitment.
A common thread through all of the preceding chapters reports, case studies, value chain analyses, competition committee reports etc is the concept of trust. Indeed this is a major theme of the Reading Construction Forum and is no doubt part of the reason for their choosing the title “Trusting the Team” for their often referenced report.
Bresnen and Marshall argue that the use of incentives in partnering and alliancing has been seen as an important way of reinforcing collaboration in the short term and helping to build the trust between clients and contractors in the long term.

They approach the subject from a combination of cognitive and social science perspectives and challenge the more generalised propositions that exist within the body of research that supports the use of partnering techniques. It is argued that the majority of partnering research dictates the use of prescriptive tools to achieve the desired trust-based relationship which themselves are underpinned by incentive systems often referred to as “gainshare-painshare or risk–reward”.

In the conclusion of Bresnen and Marshall’s paper they state that the long term reinforcing power of incentive schemes depend crucially upon context. However if there remain any underlying or residual suspicions about the intentions of the contractual partner then incentive systems are unlikely to offset and promote any deeper commitment and trust.

Importantly from an insurance repair industry perspective Bresnen and Marshall confirm that their research has shown the motivation and commitment to the drive to reduce costs and increase value for money was clearly found to be reflected in the prospect of future work. This single factor was seen to be of the utmost importance to both companies and individuals concerned. This is said to be was typified by a case study where Liquidated Damages were set at a symbolic £1 per day, yet intensive efforts were made by the contractor to meet the target completion date including absorbing the extra costs associated with re-scheduling the programme.

Such efforts were no doubt routed in the trust-based belief that future work would flow to the contractor in the event that the current project goals were achieved.

Hence, as demonstrated earlier in this research the core, if not the only, attraction for contractors to the insurance repair market is the availability, perhaps in perpetuity, of a supply of albeit low value high volume projects. This therefore suggests that the features are present to enable the full benefits of a partnering arrangement to be realised by all collaborating parties within the insurance sector.
However Bresnen and Marshall caution any potential partnering evangelists with reference to a set of limitations that concern any emphasis on behaviour modelling upon financial (extrinsic) rewards. It is argued that a reliance solely or mainly upon financial rewards tends to emphasize the calculative nature of involvement in collaborative ventures. In essence the parties are motivated essentially by economic short-term self-interest. Their emotional commitment to the relationship is seen as dependent upon the receipt of financial rewards commensurate with their efforts.

Bresnen and Marshall (1998) argue that underpinning the case for partnering is the presumption that the key to effective change within the construction industry is developing an appropriate culture of relations to support the contracting mechanisms needed for a partnering approach to work. Therefore essentially partnering is seen as about changing behaviour and / or attitudes - encouraging clients and contractors to transgress the conflicting interests that lie at the heart of their exchange relationship by appealing to common interests centred on specific goals and or more strategic long term relationships.

However the problem with this conceptualisation of the relationship between partnering and culture is that it can easily be forgotten that there is a real tension between clients and contractors and, on the other hand, surrounding economic conditions that predispose contractual partners to act (for very rational economic reasons) in more ‘traditional’, adversarial and even exploitative ways (Bresnen, 1996, pp. 123-7). This is not meant to suggest that collaboration is made impossible or unlikely. Rather, that it is collaboration (rather than conflict) which is the aberration to the norm: as over 30 years of government and industry reports have shown, lack of cooperation based upon fundamental differences in interests between clients, contractors and others is endemic and almost a defining characteristic of the industry (Higgin and Jessop, 1965; Latham 1994)

Put another way, economic conditions that encourage clients and contractors to work together towards a common purpose may be essential and much will thus depend upon prevailing market conditions. For example, a ‘buyer’s market’ may enable powerful clients to shift risks onto contractors and press more effectively for changes to their methods of operation. There is some evidence from the oil and gas sector, for instance, that economic conditions have made contractors accede more readily to client pressure
to develop alliances (Green, 1994, 1995, p.202). The downside to this, of course, is that economic conditions also may encourage a more negative orientation towards partnering.

Evidence from other sectors, for example, shows how collaborative forms of contracting can depart from the ideal, through being driven by the narrower concern simply to reduce costs or to pass costs and risks on to those further down the supply chain (Imrie and Morris, 1992; Bresnen, 1996). In the short term suppliers or contractors may be willing to absorb any extra costs in order to develop or maintain unsustainable relationship if compensating gains are not forthcoming. Indeed, where clients use collaboration as a means of ‘ratcheting up’ performance targets (e.g. via continuous improvement programmes), margins may be achievable only by contractors reverting to adversarialism. In these circumstances, there is the paradoxical danger that partnering could become a victim of its own success.

In the course Marshall and Bresnen’s paper, a number of general themes have been developed which critically confront some of the assumptions that underpin more prescriptive accounts of partnering. First is the emphasis placed upon contingency and context and the difficulty in presuming that partnering does, can or should cohere as a strategy. Not only is ‘partnering’ a rather loose term to describe what is in reality a multi-faceted practice, but clearly also it is not always seen as necessary or desirable. One implication of this is that more attention needs to be paid to identifying the conditions (economic, institutional, technical and organizational) that encourage or inhibit partnering in practice. Another implication is that hopes of ultimately being able to standardize models of partnering ‘best practice’ may be somewhat misplaced and the real benefits may be achieved through customizing partnering, based upon a sensitivity to salient local conditions.

The importance of pluralism is evident also in the discussion concerning the relationship between partnering and organizational cultural change. Here, a number of points were raised about the nature of organizational culture and the ease or difficulty with which it can be changed (particularly due to complications caused by internal structural differentiation). The major implication of this discussion is that calls to adopt ‘new ways of working’ are somewhat naïve and simplistic if they fail to recognize and
allow for what is a highly complex construct that works in subtle and intricate ways (martin, 1985). Implementing partnering effectively may require rather more than project team building, a set of appropriate tools and techniques and a strong commitment from top management. It may require also a sensitivity to factors that subtly reinforce particular ways of working, an understanding of the likely impact on individuals’ and groups’ motivations and interests, and a full appreciation of the complex (long term) dynamics of implementation processes (Lewin, 1951; Kotter and Schlesinger, 1979). To recommend that cultural change is needed serves merely to flag up what is in fact a wide range of very difficult issues, problems and dilemmas.

Additionally and importantly an emphasis on financial (extrinsic) rewards is also said to potentially ignore or downplay the significance of intrinsic rewards such as a sense of achievement or interest in the work itself. It is however accepted that there is a need to make money. But intrinsic rewards are nonetheless vital in encouraging deeper levels of commitment from the companies and individuals and are therefore of great importance to the success of partnering in the long term and the establishment of lasting trust between the collaborating parties.

From the use of leakage control techniques to the ratcheting of supplier performance through the extension of service demands and simultaneous requirement for reduced costs to the turmoil and evident distrust between insurers and their traditional mortgage lender partners the unease that surrounds relationships with insurers is almost tangible. In a sector where the suspicion over each partner’s motives exists barely below the surface there are grounds to suggest that any successful relationship must necessarily require a pluralistic approach with the arrangements designed specifically to reflect the fluidity and salient demands of this discreet industry.

7.8 Supermarket Client – Supplier Relations
Within the supermarket sector where similar market conditions prevail to those in the insurance repair industry, a solution has been developed through the use of a Code of Practice. This approach however did not develop as a natural course of business relationships but following a series of disputes between the dominant client group and their aggrieved suppliers. In this particular instance the suppliers, whilst reflecting a large number of relatively small concerns, were less fragmented than in the low value insurance building repair industry through their representation from the trade
association, the National Farmers Union (NFU). As a result the NFU took up the suppliers’ case direct with central government.

As analysis of the structure of the grocery market shows, a group of large and dominant clients had emerged who developed quasi partnering techniques through which they leveraged their volume buying power to the detriment of their suppliers. The suppliers recognised that the supermarkets were their biggest customers, but argued that they needed a fair return for their products if they were to survive and invest in their industry. At the time of their approach to the government they argued that they were receiving less for their products than the cost of production, NFU (2000).

The Competition Commission Ultimately issued a report that followed a reference by the DGFT under sections 10(3) and (4), 47(1), 49(1) and 50(1) of the Fair Trading Act 1973 on 8 April 1999. The Commission was asked to consider whether any monopoly situations existed and whether any practices operated against or were expected to operate against the public interest. The original length of the reference was one year, but the Commission asked for an extension to complete the report. The report was delivered to the Secretary of State on 31 July 2000.

A "scale" monopoly situation in relation to the supply of goods of any description in the UK is said to exist under Section 6(1) of the Fair Trading Act when at least one-quarter of the goods supplied are supplied by or to one and the same person or by or to a group of interconnected bodies corporate. A "complex" monopoly is said to exist under Section 6(2) when at least one-quarter of the goods supplied are supplied by or to members of the same group (not being interconnected bodies corporate) who, whether voluntarily or not, and whether by agreement or not, so conduct their respective affairs as in any way to prevent, restrict or distort competition, whether or not they themselves are affected by the competition and whether the competition is between persons interested as producers or suppliers or between persons interested as customers of producers and suppliers.

Hence the supermarket suppliers were initially heartened by the government having confirmed that the treatment of suppliers by supermarkets would be one of the issues to be examined further during its inquiry into the supermarkets procurement practices.
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In particular the Commission confirmed that they were to investigate whether supermarkets had excessive buying power or not, and if so, if this prevented suppliers from earning a reasonable return. The inquiry was also to focus specifically on whether supermarkets unfairly discriminated between different suppliers, NFU (2000).

The NFU confirmed that they would welcome the Code of Practice that was initially suggested by the Competition Commission as a possible remedy, in the event that the outcome of the inquiry confirmed that supermarkets were abusing their relationship with Suppliers.

The proposal was contained in a letter sent to five supermarkets seeking their views on a code of practice that could prohibit supermarkets, for example, from demanding discounts or discriminating against suppliers. The then NFU President Ben Gill stated that it was vital that supermarkets, suppliers and consumers benefited from a competitive market, but not at the expense of each other.

A code of practice was also considered as being able offer further protection to the suppliers against any excessive or unreasonable demands of supermarket contracts.

Ultimately the Trade and Industry Secretary published the Competition Commission report on the supply of groceries from multiple stores. The report followed the decision by the Director General of Fair Trading (DGFT) in April 1999 to refer the industry. This followed the DGFT's own preliminary enquiry which began in June 1998. The Secretary of State accepted the Commission's recommendations. The Competition Commission concluded that taking all matters into consideration, they were satisfied that the industry was currently broadly competitive and that overall excessive prices are not being charged or excessive profits earned. Whilst profitability among the main parties was not excessive from 1996 to 1999 it had been higher in previous years.

Commenting on the overall report, the Secretary of State said:

"Since the reference by the DGFT to the Competition Commission in April 1999, we have seen significant changes in the industry, the entry of Wal-Mart being a notable example, and a number of price cuts which it is estimated have been worth over £1 billion to the consumer. A competitive market is the best way of securing the good deal
for the customer. The enquiry has found that the industry is currently broadly competitive and as a result I have accepted the Competition Commission's recommendations."

However, the Commission has identified three situations where competition is distorted and operated against the public interest. The first concerns the relationship between supermarket chains and their suppliers including farmers. The Commission recommends that a Code of Practice should be established which would put relations between supermarkets and their suppliers on a clearer and more predictable basis.

Announcing his response to this finding Stephen Byers said,

"I agree that a Code of Practice should be introduced. Like the Commission I do not believe that a voluntary code would be adequate. The relevant supermarkets will have to give legally binding undertakings to comply with the remedies".

The secretary of State confirmed that he was asking the DGFT to approach those supermarket chains with 8% or more of the market (currently ASDA, Safeway, Sainsbury, Somerfield and Tesco) to agree a Code of Practice, which would meet the concerns identified by the Competition Commission. This would include provisions for independent dispute resolution. The representatives of suppliers will have an opportunity to comment on the draft. The Competition Commission also found two other situations where competition is distorted and certain practices operate against the public interest. These are persistent selling below cost and so-called "price flexing". In each case, however, the Commission considered a number of remedies but in the end recommended that no action be taken because the options available would themselves have adverse effects and would be disproportionate to the problems themselves.

Finally, the Competition Commission, although not making an adverse finding, expressed concern about the limited choice of supermarkets in certain areas and considered that the situation should not be allowed to deteriorate.

In law, the Secretary of State can only use the powers available to him under the Fair Trading Act if there is an adverse finding. As a result the Secretary of State has asked the DGFT to monitor the situation. Should there be signs of the situation deteriorating
appropriate legislation would be considered, DTI (P/2000/674 10 October 2000).

7.8.1 The Competition Commission's Findings
The following is an outline of the Competition Committees findings. The Competition Commission identified 24 supermarkets that fell within its terms of reference. It looked at a number of key aspects of supermarkets' sales and supply, including price trends in the industry, profitability, grocery prices in the UK compared with abroad, and whether recent falls in wholesale prices, especially in the livestock sector, were being fully reflected in prices charged to consumers. The inquiry also conducted its own consumer survey and considered the impact of supermarkets on inner-city and rural areas, as well as the environment. Overall, the inquiry concluded that the multiple grocery industry was broadly competitive.

The inquiry identified a complex monopoly situation for the purposes of the Fair Trading Act 1973 on two matters - the pricing practices of the supermarkets and their relations with suppliers. On pricing, it concluded that there were two practices which were operating against the public interest when carried out by the largest multiples - selling some frequently purchased products below cost which contributed to a situation where the majority of products were not fully exposed to competitive pressure (Asda, Morrisons, Safeway, Sainsbury and Tesco); and varying prices in different geographical areas in the light of local competition so that again the majority of products were not fully exposed to competitive pressure and competition in the supply of groceries was distorted (Safeway, Sainsbury and Tesco). Not all the supermarkets within the scope of the inquiry conducted these practices.

A number of possible remedies to these pricing practices were considered, including a ban on below cost selling and requiring the supermarkets to put their prices on the Internet. However, both these remedies presented problems that would have outweighed their potential benefits. The Commission therefore concluded that any such remedies would be disproportionate to the adverse effects found and so made no recommendations.

The second complex monopoly related to practices affecting suppliers. The Commission conducted a very thorough inquiry, and found that some of the larger supermarkets had
sufficient buyer power that 30 of their practices adversely affected the competitiveness of some of their suppliers and distorted competition in the supply market. In particular, 27 of these practices were felt to be against the public interest because they gave the five major buying supermarkets (Asda, Safeway, Sainsbury, Somerfield and Tesco) substantial advantages over other, smaller, retailers whose competitiveness was likely to suffer as a result.

The Commission felt that the most effective way of addressing these adverse effects in relation to suppliers would be a Code of Practice, which it recommended. The Code should address the concerns the inquiry had identified, and should be binding on the larger buying supermarkets and should be approved by the DGFT. In accord with the advice from the DGFT, the Code of Practice should cover the following:

1. Retailers should ensure that the standard terms on which they do business are in writing, and are made available to suppliers.

2. If retailers wish to vary those terms reasonable notice should be given to the supplier.

3. Retailers should pay suppliers within the time specified in the agreement, and in any event within a reasonable time after the date of the invoice.

4. Retailers should give suppliers reasonable notice (i.e. with regard to individual contractual arrangements, written or oral) of any intention to change a price previously agreed; and should not request retrospectively any form of discount or overrider.

5. Retailers should not request suppliers to contribute to retailers' costs of buyer visits, or any supplier to contribution to the retailer's costs of artwork and packaging design, consumer or market research, or to the costs of store refurbishment or opening; or to provide hospitality.

6. Retailers should not seek any form of compensation for profits being less than expected, whether on a promotion or otherwise, or for product wastage.
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7. Where retailers change any volume ordered, or the specification of any goods, or introduce changes to any supply chain procedures they should give reasonable notice, (sufficient for the supplier to make arrangements for changes to production schedules), and should compensate suppliers for any costs or losses to them where reasonable notice is not given.

8. Retailers should compensate suppliers for costs caused through the retailers’ forecasting errors.

9. Retailers should give suppliers reasonable notice of any intention to hold a promotion in relation to the supplier's products where there is likely to be a significant impact on suppliers' costs; they should not over-order goods at a promotional price; and they should not require suppliers predominantly to fund promotions.

10. Retailers should not seek lump sum payments or better terms as a condition of stocking or listing existing products, or for better positioning of any products within a store, or for increasing shelf space.

11. Retailers should not charge suppliers in respect of consumer complaints unless the complaint has been verified as being justified, and as being caused by the supplier, and the supplier has been notified of the outcome; charges should not exceed the purchase cost of the goods to the retailer.

12. Retailers should not require suppliers to use particular third party suppliers of goods or services where the retailer receives a payment from that third party supplier in respect of that requirement.

Importantly The Commission also suggest that the Code cover the following, although they did not make related adverse findings, such comments and recommendations are particularly relevant to insurance suppliers:

☐ Retailers should not discriminate between suppliers in terms of access to information.
Any penalties imposed on suppliers for alleged discrepancies or other failure to meet contractual obligations should be cost related.

Retailers should have written procedures covering the imposition of penalties.

The Code should contain provision for dispute resolution.

In response the National Farmers Union (NFU), on behalf the aggrieved suppliers, made the following comments:

- The NFU warmly received the Competition Commission report published by the Government in which they saw the recommendation for the legally binding Code of Practice to govern relationships between retailers and suppliers.
- The NFU particularly welcomed the report finding that relations between supermarkets and their suppliers, including farmers, should be put on a "clearer and more predictable basis".

NFU President Ben Gill said the NFU had been working towards a code for the last two years after complaints from many suppliers that they had felt under threat from the excessive or unreasonable demands of supermarket contracts. He also appreciated that the Competition Commission had highlighted the problems caused by persistent selling below cost, which had hit suppliers during the agricultural depression. Gill stated,

"We have been fighting for a code of practice to be put in place. We put this forward in our evidence to the Competition Commission and we are delighted they have accepted the case for it. An enforceable and robust code which sets in stone what supermarkets can and can't demand of their suppliers is excellent news."

The NFU had earlier worked with the major retailers and the Institute of Grocery Distribution to develop a voluntary Code of Best Practice but they hoped that the new code would go further than this and would be legally enforceable. Key areas proposed for the code, which had been welcomed by the NFU, include the recommendation that
there should be independent dispute resolution and written contracts with reasonable notice for changes. The recommendation that retailers should not require suppliers to use third party suppliers, for instance on packaging, and demand a payment from that third party supplier in return was also good news. This practice of enforced use of third parties is often mirrored within the insurance repair sector where contractors are instructed to work with other alleged experts for the repair of drainage or replacement of glazing – often with no obvious benefit to any party.

Hence the prospect of a mandatory Code of Practice prompted the supplier’s representative to state;

"I believe the proposed code of practice will clear the air. It is now time for the food industry to work together. Supermarkets and farmers need each other. We must both benefit from a competitive marketplace but not at each other's expense. Farmers need a fair return for their produce and supermarkets need to realise that they need a viable British farming industry to supply them".

However, regrettably the supplier’s initial optimism was not realised and the publishing of the recommended Code of Practice was delayed and the ultimate content was suggested to be the subject of watering down which prompted a response confirming that the NFU had initiated the need for a Code of Practice more than two ago.

A legally binding code was one of the "remedies" suggested by the Competition Commission when it published its initial report on supermarkets' relationships with their suppliers. The NFU President was also concerned that history showed that communication between suppliers and retailers has been inconsistent and some trading relationships were described as being at best tense. As a result of this the NFU had originally called for a Code of Practice to be drawn up. However the release of the commission’s final response was a significant disappointment prompting their press release stating;

"It would now appear that after various consultations with retailers and a single consultation with supplier representatives, progress on the Code of Practice has come to a halt. Our producers, meanwhile, continue to complain against unethical practices committed by some retailers. But many producers can only
succeed in this if trading relationships are open and fair and conducted in a climate without fear or threat of commercial reprisal."

The NFU also wrote to the Secretary of State for Trade and Industry about the fact that the industry was kept in the dark about the issuing of the Code of Practice on relationships with their suppliers. The NFU President (2001) was reportedly angered at the DTIs decision to publish the Code without any prior dialogue with the NFU and other organisations representing suppliers to supermarkets. He went on to say in his letter of response to the DTI.

"The handling of the Code's publication could not have been worse. During the seven months in which your department had the Code you consulted with the major supermarkets but virtually excluded other suppliers' organisations and ourselves. Despite this delay, we had hoped in vain that you would prescribe a code that would protect supplier's trading relationships with the supermarkets. To then also publish it without any prior notification has added insult to injury".

The public debate continued by a subsequent press release from Patricia Hewitt, Secretary of State for Trade and Industry announced that she had accepted undertakings from the UK's major supermarkets to abide by the Code of Practice governing relations with their suppliers. Tesco, Asda, Sainsbury and Safeway all agreed to comply with the code, drawn up by the Director General of Fair Trading in response to problems identified by the Competition Commission in its monopoly report on supermarkets.

The Code of Practice is in effect from 17 March 2002.

The Code is said by government to be designed to be flexible enough to allow mutually beneficial agreements to be entered into freely by supermarkets and suppliers. It seeks to ensure that their terms are available in writing and transparent, and that the supermarkets will have to give advance notice of changes or compensate their suppliers. The dispute resolution procedures in the Code are an essential element in making sure this flexibility works as intended.

In this context Complaints about possible breaches of the Code will first be considered
by the parties to the agreement. If that fails to resolve the problem then the supplier can take the case to an independent mediator. They will be able to determine what is fair and reasonable in the individual case. The cost of mediation in each case will be borne by the supermarket concerned. The Director General will monitor the operation of the Code. If mediation fails to resolve a complaint, or the issue falls outside the mediation procedure, he will investigate. Cases may be forwarded to the Director General by individual suppliers, or by their trade body if suppliers feel uncomfortable about approaching the Office of Fair Trading directly.

The Competition Commission's findings and recommendations relate to those supermarkets with buyer power, which they defined as 8% or more. At the time of the report, these were Asda, Safeway, Sainsbury, Somerfield and Tesco. Since then, and as a result of the disposal of some of its stores, Summerfield's sales have fallen and its market share is now below 8%.

Therefore, only Asda, Safeway, Sainsbury and Tesco have been asked to give undertakings at the time of publishing this research. Somerfield has indicated that it would be prepared to sign undertakings if and when its market share rises to 8% or more, Hewitt P (2001).

7.8.1 An Overview of the Supermarket Outcome
In summary the resultant Code of Practice appears from the suppliers perspective to represent a compromise to which they had little input, whilst the supermarkets chose to remain silent throughout the process. However the ultimate content of the Code appears objectively to have addressed many of the original concerns without perhaps providing the prescriptive and specific remedy that the suppliers had originally sought.

7.9 An Insurance Repair Solution
Insofar as this research is concerned the Code does indeed address a number of issues that currently face insurance suppliers on a daily basis namely that of ratcheting up services demand whilst at the time depressing charges. It would however appear that any approach to the Competitions Committee, by insurance suppliers, would at first glance merit hearing particularly on the grounds of the apparent market concentrations. Chapter 3 of this research confirms that comparable conditions apply between the two industries (Supermarket and Insurance) specifically in this regard. Here there are
possibly 5 individual insurance companies each of which has a market penetration of over 8% as required by the DFGT within their report.

Equally following the continuing trend of mergers and acquisitions between insurers both Scale and Monopoly positions are in all probability evident in the household insurance sector. This further reinforced by Churchill’s acquisition of Pearl Assurance and their subsequent absorption of the Household book of business from the Prudential, with this itself ultimately overtaken by the merger of Churchill with Direct Line during the spring of 2003. The position is in all probability clouded by the Insurance Companies Act requirements (see Chapter three) for annual results to be reported in the categories of Property which neither split Commercial from Personal insurance nor is the Property definition of sufficient detail for repairs to Buildings (Real Property) to be identified separately from General Contents (Personal Property).

On the basis of the examination of the household buildings insurance repairs market, by this research, both Scale and Complex monopoly positions appear to exist. The Norwich Union by their own announcements, together with the tables included earlier (chapters 4 and 3) hold 22% of the market is at best marginally below the Scale Monopoly levels – Section 6(1) of the Fair Trading Act. Whilst the Complex Monopoly requirements of 6(2) of the Fair Trading Act are doubtless present within the group of dominant insurers identified within Chapter 3 of this research. However currently due to the fragmented nature of suppliers that are present in the industry there is no collective voice with which to challenge insurers. This as a result of the competing suppliers continuing scrabble to stay on panels and fear underlying fear of antagonising their reducing number of paymasters.

However the NFU’s concerns over the watering down of the Code echo those of Wright J (2001) in respect of the ABI Claims Code as detailed within Chapter 4 of this research – who stated his view of insurers attempts “as not being particularly challenging and perhaps more of a reflection of the averaging arrived at in committee than a true trail blazing standard”. In essence such compromises may well be considered to be inevitable in these circumstances but ultimately the published recommendations are at least capable of being employed as a foundation stone upon which long-term solutions can be constructed.
7.10 **Insurance Repairers Code of Practice**

The use of Codes may also be considered to be synonymous with the employment of Charters. Charters have clearly been employed to beneficial effect in the case of the Federation of Construction Clients and many other individual construction clients have also successfully adopted this approach, see appendices and as evidenced in the work of the European Construction Institute (1997), Reading Construction Forum (1997).

The conventional building procurement route of competitive tendering and contract awards based upon the lowest price has been the source of discontent over many decades Barnwell (1964) Latham (1994) et al. However in a situation of rapid change it has become recognised that this approach is not always sufficiently flexible to deal with the diverse needs of both Client and Contractor Perry and Thompson (1975).

In addition Perry and Thompson argue that it is increasingly questioned whether for either party, the use of competitive tendering, is the best solution. They go on to reiterate that the problems generated by such procurement systems are by no means new and provide the following quotation from a letter of 1683 from Vauban, Head of the French Department of Fortifications to his minister.

"In recent years a considerable number of projects have not been finished, nor will they ever be finished. This discord Monsieur is caused by the depressed prices frequently obtained for your works...these aimed cut prices are illusionary, especially as a contractor who is working with a loss is like a drowning man who clutches at straws. In the case of the contractor this means that he does not pay his suppliers, cheats everyone he can, underpays his men, getting the worst, not only using the most inferior materials, but quibbling over everything and always begging forgiveness over this or that. Abandon it (competitive tendering as then practised). Re-establish good faith, give up the estimation of the work and do not refuse a reasonable payment to a contractor who will fulfil his obligations. That will always be a transaction you will always be able to find".

The comments are concerning indeed in that they are, almost verbatim, repeated some 300 years later in the ECI conclusions referenced earlier in this chapter which call for the re-establishment of good faith and the reintroduction of the handshake into
Chapter 7

Procurement

construction both of which are said to be the purpose of partnering as a procurement solution.

As demonstrated in the recent supermarket enquiry, in complex monopoly situations the potential exists for the exploitation by clients of what is often referred to as “leveraging volume” in essence utilising buying muscle to obtain reduced prices. Whilst this is no doubt a tactic open to insurers (and currently employed if Larman is to be believed) to do so within their dealings with an industry such as construction - with an undoubted pedigree for conflict, may well lead to a rapid return to the adversarialism that has been so rigorously avoided over the past decade.

The scale of the possible conflict, within an insurance/building environment, and potential for casualties has all the attributes of a Holyfield vs. Tyson World Championship Heavy Weight Boxing title fight, where the main sufferers are likely to be the un-witting audience who on this occasion would be the customers (householders).

In the view of Bresnen and Marshall the resort to contractual claims by the contactor may be the only option open to them if prices are continually being driven down. An alternative would be transparency and collaboration to eliminate costs (rather than to pass them down the supply chain) and the establishment of contextual Best Practice.

It is therefore argued that a pluralist approach to the partnering option is clearly the most appropriate available solution to the challenges of the insurance building repair procurement environment together with the establishment of Best Value specific to the industry, demonstrated within the following tools:

Industry Specific Contract Form including;

Plain English Format
Attainable and Relevant Service Levels
Framework Agreement Format (see Reading Forum)
Clearly defined Contractual Routes
Agreement of Prompt Payment Terms
Agreed Industry KPIs
Client-Supplier Code of Practice, OR
This research has already put forward suitable KPIs and Contract Form (in line with Reading Construction Forum's desired Framework Contract) thus there only remains the proposal of a suitably worded Code of Practice. The following Code is adapted from that prepared by the Competition Committee for use in the analogous supermarket-supplier relationship.

However without the force of government it seems unlikely that the insurers would voluntarily adopt such practices. Although government intervention may be considered as a resource open to the insurance repair contractors if they were ultimately to collaborate and unite in the event that they experienced the need for protection from the insurers contractual demands.

From an insurers perspective, the Operations Strategic Manager of the second largest household insurer confirms that the benefits of working with Approved Suppliers are threefold, Smith H (1999);

- The insurer saves money through bulk purchasing
- The scope for exaggerated claims is drastically reduce (Contractors must confirm the cause and Extent of damage)
- The householder has neither the wherewithal nor the time to find and appoint his or her own contractor

Tellingly the first two reasons relate to cost savings that directly benefit the profitability of the insurer and the third may be considered as a token reference to improved customer service values.

Importantly none of the attributes referred to above, in any true sense, reflect the benefits of collaborative working and best value practices as sponsored by various construction-client supporting bodies (Confederation of Construction Clients, European Construction Institute, Audit Commission etc) nor those propounded within the Construction Best Practice Programme.
Chapter 7

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Such received wisdom from the Construction Sector appears to be paid scant regard by insurers. The validity of this observation is evidenced by the outrage expressed by another group of insurance company suppliers, insurance brokers. The brokers' comments were recorded in response to revised Terms of Appointment issued to them by the largest insurer in the household market, Dancer H (2002). The contractual provisions in question confirmed insurers continuing use of the supermarket-style procurement tactics of "stick but no carrot" even within their relationship with suppliers who have historically provided a large proportion of new business for their "clients".

However, unlike the Contractor suppliers to the insurance industry the brokers have a collective voice through their trade association the British Insurance Brokers Association (BIBA). BIBA intervened and having confirmed that the terms tended to be one-sided, took up the matter with the insurer concerned and subsequently confirmed that (their members) could receive an alternatively worded agreement if requested. From this it is assumed that non-member suppliers were left with the Terms in their original form as a fait accompli.

Hence any unilateral, client driven procurement model in the insurance building repair market appears firmly routed in the consumer based Supermarket – Supplier model. Regrettably this approach represents the antithesis to the philosophy that underpins the progress achieved through Rethinking Construction and more latterly the intended continuous improvement endeavours as developed within the recent Accelerating Change report from the Construction Best Practice Programme (2002).

7.11 Summary

As indicated earlier, from an insurer’s perspective, the Operations Strategic Manager of the second largest client within this market cites the benefits of working with Approved Supplier as being threefold, Smith H (1999);

✓ The insurer saves money through bulk purchasing
✓ The scope for exaggerated claims is drastically reduced, as the Contractor must identify both the cause and scope of the damage
✓ The householder has neither the wherewithal nor the time to appoint his or her own contractor
Tellingly, the first two of these reasons relate exclusively to cost savings achieved by insurers and the third is an almost token reference to increased customer service. Importantly, none relate to the benefits of collaborative working and Best Value practices as sponsored by the Government Construction Monitor (2001), nor those recommended through the Construction Best Practice Programme depicted below:

The above process is stated as being that through which a cultural change is being achieved. This is seen as a framework to encourage the construction industry and its clients to adopt the principles of Rethinking Construction to their mutual benefits.

In contrast the largest insurer recently issued revised contracts to its broker partners which incorporated “Stick but no Carrot” tactics. This demonstrates an underlying philosophy even to those supply partners that traditionally have provided the insurance company with a significant proportion of their New Business – truly a case of “feeding the hand that bites”.

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8. **Conclusion**

8.1 **Objectives of Conclusions**

This chapter concludes the thesis. It reviews the objectives of the thesis and summarises from the review and each of the examinations contained in the thesis. From this the main conclusions and contributions of the thesis are set out. This chapter also considers the limitations of this work and suggests ways in which this research can be extended and built upon.

8.2 **Performance Against Aim and Objectives**

8.2.1 *Aim A1*

The principle aim of this research is to determine whether the procurement and management of small building work within the insurance repair market represent a novel and unique section of the construction industry. Thereafter to identify those unique characteristics that serve to set it apart from other types of construction works and develop processes, which enable it to be managed more efficiently with techniques, that are of benefit the wider industry.

Against this background this research has sought to undertake a general assessment of the insurance building repair industry. This was undertaken within its natural setting and from this standpoint the industry has sought to determine reasons and causal factors that influence the methods used by the industry participants in organizing the delivery of their product.

The attainment of the principle objectives discussed below was critical to satisfying the principle aim of this research; consequently the relationship between the aim and objectives is a reciprocal one. The following discussion in this section briefly outlines the manner in which the objectives were satisfied and the results of those enquiries. The conclusions and recommendations included in this chapter combine to satisfy that aim.

The over arching objective has been to identify the dynamics within the insurance building repair industry, which are compatible with the facilitation of the facilitation and realisation of the Egan (1998) Rethinking Construction Agenda. In essence to provide the delivery of construction products in the way as the best consumer led manufacturing and services industries. This has involved the following objectives:
8.2.2 Objective 01

The research objective 01 was in:

Determining the overall size of the insurance building repair market on an annual basis together with the establishment of the total annual number of jobs, average job values, and importantly the potential for achieving continuity of work over time.

Objective 01 has been achieved in three parts. Firstly, table 4.4 confirms total value of small works executed on an annual basis to be at least £862,000,000. In addition, the value of the (larger average value) work undertaken in respect of subsidence repairs has been identified in the sum of £392,000,000. Thus for the year under investigation the value of work undertaken in this market approximated to £1.25billion.

Secondly, the average value of small works in this market, excluding subsidence, was established as £722.00 (see table in chapter four). For subsidence repairs the average claims cost was established at £8,540.00 – although this figure does include the amounts of professional fees and site investigations, and hence net the cost of building repairs was likely to be some 15 to 20% below the total figure, i.e. £6,800.00 approximately.

Thirdly, this research through table 4.5, section 4.4 confirms that insurer – mortgage lender relationships are the major determinants of any individual insurers available work capacities. Additionally, within chapter 7 this research confirms the current trend for mortgage lenders to take their insurance portfolio in house, which significantly impacts upon the insurers ability to consistently deliver work volumes year on year.

8.2.3 Objective 02

The research objective 02 was to undertake:

‘Benchmarking with the insurance motor repair industry and the social housing repair and maintenance function to identify the current practices and process, which have led to both cost efficiencies and increased customer satisfaction.’
Section 5.9 details the proposed industry specific value enhancing practices that have been developed through the course of this research. The benefits of adopting such best practice tools are identified within section 5.8 of this research.

The outcomes put forward are situation specific and would represent a considerable step forward from the recommendations of Association of British Insurers claims code. The ABI adopt a broad-brush approach making no distinction between the vastly different characteristics of the range of claims currently considered under the category of General Insurance.

8.2.4 Objective 03
Research objective 03 was to:

Examine the opportunities for adopting work collaboration/partnering arrangements.

Chapter 7.9 considers the current structure of the industry client base and identifies and contrasts the approaches adopted by the Construction Best Practice Programme (CBPP) and the insurer clients. At this stage there appears to be considerable ground to be made up between the approach of the two sectors before the full benefits of such practices can, if ever, be realised.

8.2.5 Objective 04
Research objective 04 was in:

Examining and clarifying the contractual relationship existing amongst insurance company, policyholder, network manager and building contractor.

Objective 04 was achieved by the production of a proposed new contract contained in section 6.6 entitled ‘The New Network Manager Building Contract for Domestic Reinstatement Works 2002’. This contract, outside of this research, has now been passed to the Joint Contracts Tribunal (JCT) and consideration is being given for adoption across wider industry.

8.2.6 Objective 05
Objection 05 was in:

Reviewing the procurement implications of scale and complex monopoly situations, which arise in consumer industries specifically as a consequence of the large number of mergers and acquisitions that took place in the UK business environment of the late 1990s.

Arising from the outcome of objective 01 such monopolistic conditions were identified as being likely to prevail within the general insurance building sector. However, the position had been clouded by historic statutory insurance reporting practices. The difficulties arising in such circumstances were exemplified within section 7.8. Following the review undertaken by this research the solutions of an insurance household building code of practice are developed within section 7.0 or alternatively a partnering charter is also offered within section 7.11. In the event and in the absence of government intervention it seems unlikely that insurers would adopt either of such practices.

8.2.7 Objective 06

The research objective was to:

Develop recommendations for industry specific best value practices.

Objective 06 has been achieved on three parts as summarised within section 6.10. The processes combine the outcomes of objectives 02, 04 and 06.

8.3 Summary of Research

The purpose of this research has been to provide an examination of the specific area of insurance funded building repairs to the private homes of the general public. This has been undertaken in an effort to identify this unique phenomenon through the perceptions of the participants 'bracketing' taken for granted assumptions and usual ways of perceiving. As such this examination attempts to provide an understanding of the participants' motivations and actions cutting through the clutter of taken-for-granted assumptions and conventional wisdom.
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As a result the services provided by the contractors involved were seen to be demanded in respect of two distinct areas. Firstly in ‘claims handling’ as defined by section 2.11 and secondly in effecting the physical repairs. In the past working practices have tended to blur the edges of these separate aspects but this research provides a contractual solution that clearly illuminates this problem.

Additionally in identifying the size of the market and importantly the structure of the client side of the industry, chapter four, and the potential for the provision of continuity of work over time has been amply demonstrated. However, this research, uniquely confirms there to be a potentially unhealthy concentration of work volumes within a reducing number of increasingly large and dominant insurers.

At present there is no infrastructure to provide for independent benchmarking of the performance of contractors or insurers within this narrow, but significant, section of the industry. This may in part be due to the commercially competitive nature of the client grouping. However, this ‘distrust’ of transparency and openness is not limited to the clients as the contractors themselves are also suspicious of the motives and intentions of their competitors.

In summary whilst the unique nature of this market sector, as demonstrated within chapter two, does indeed offer the novel benefits of work continuity over time possibly in perpetuity. There appears to be little evidence to suggest that the participants will in the near term move toward the recommended practices expounded by the CBPP and laid down within the most recent ‘accelerating change’ report. This situation may ultimately see progress through the auspices of the financial services authority who are currently reviewing general insurance administration having recently been given the power of statute under the Financial Services and Markets Act 2001. Their regulation commences late 2004/early 2005 but is currently only within the consultation phase.

8.4 Conclusions

In essence this research constitutes a pilot study to ascertain the credibility of the initial proposition contained within aim A1 and the transferability of the outcome of the inquiries developed through objectives 01 to 06.
Chapter 8

Conclusion

The following discussion details the conclusions derived from the current research.

8.4.1 Business Efficacies

It has become clear throughout the course of this research that what is of importance is that the contractor has a full understanding of the earlier mentioned conventions, maxims and oddities that collectively shape this specialised sector of industry. As the contractor is not merely entering into an agreement to carry out the physical repairs to the building but must also be capable of managing (and accepting the attendant interpretations risks of) the claims process involving an immeasurable proportion of customer care in an attempt to satisfy the often conflicting interests of the insurer and policyholder.

8.4.2 The Size of the Market

On an annual basis there are in excess of 1 million individual claims made upon household policies within the UK. Excluding the higher value subsidence related claims the average value of each work parcel approximates to £722.00. As the newly merged insurers develop their IT systems better information will doubtless become available on major cost centres, i.e. household building repairs. Ultimately this will inevitably lead to more purposeful capture of data. However, it seems that in the absence of the force of statute such data manipulation is unlikely to lead to greater transparency but more likely in the commercial advantage of the individual insurer alone.

8.4.3 Benchmarking Best Value

The general insurance sector is currently and increasingly under pressure from both outwith and within the sector to benchmark its performance. The attendant benefits of adopting such best practice values are becoming clear across wider industry and are identified in section 4.8. Whilst this research offers industry specific KPIs their adoption appears to have stalled due to the endemic suspicion that runs through both the sectors clients and contractors.

8.4.2 Contractual Practices

Historic practices in the sector leave insurers with no urgent desire to change the 'status quo' over clear communication of whether the approved repairer is acting on their
behalf or they have merely introduced the builder for adoption by the policyholder. The contractual form developed in this research affords a situation specific solution and at present it is under consideration for wider adoption within the industry.

8.4.3 Procurement Practices
Chapter six of this research demonstrates the existence of complex and most likely scale monopolies within the client grouping that dominates this market. In the current circumstances and drawing analogy from the supermarket supplier model it is seen as inevitable that insurers will continue to use their newly realised buying muscle to their own advantage. Regrettably this approach represents the antithesis to the philosophy that underpins the progress achieved through rethinking construction and more latterly the intended continuous improvement endeavours as developed within the recent Accelerating Change report from the CBPP (2002).

8.5 Limitations of this Research
This research has been carried out within the constrains of a five year one man project. At the outset of this project there was a poor understanding of the complex nature of this often taken for granted area of small works. In fact most of the issues were not well understood even when viewed separately. Thus the investigations undertaken in this thesis are aimed at improving this understanding by providing a qualitative inquiry.

This is initially for a number of separate reasons, but illuminating is the performance investigation, addresses the impact of a range of activities. With the constraints on the project resources these were best undertaken using the interpretivist inquiry tools. This allowed the acknowledgment of the located knowledge situated within the researcher but this is also the source of some of the limitations of this work.

A limitation of the investigation is seen in the opportunity of working with only four collaborating organisations, which may present problems to the transferability of the results.

8.6 Suggestions For Future Investigations
The limitations of the work that were highlighted in the previous section suggest that there is scope for a number of extensions to this research. This thesis has detailed a
number of previously un-investigated areas of construction management and insurer supplier management. However, further research is required for two purposes.

1. to establish the transferability of those findings.

2. to develop them into usable tools for the effective management of insurance building repair projects.

Therefore the following suggestions may assist in satisfying these two criteria

**Establish Transferability of Findings**

Comparative research should be undertaken to test the effectiveness of the key performance indicators as recommended by this research. Ultimately this with a view to confirming measurable continuous improvements in service/product delivery.

**Develop Useable Tools for Management of Insurance Building Repair Projects**

An investigation into the requirements of the policyholder when faced with the need for insurance funded repairs to be carried out at their property. This with an aim of determining whether true preferences exist for the use of their own or their insurers contractor and which aspects of the repair service do they themselves believe to be of the greatest importance.
Appendix A

Consumer Information Service

Buildings Insurance for

Home Owners 2001

Introduction

Buildings insurance policies differ in the cover they provide and in their terms and conditions. The information here is of a general nature - for detailed information you must read your policy.

Property Covered

In addition to the structure, a buildings policy covers permanent fixtures and fittings such as baths and toilets, fitted kitchens and bedroom cupboards. Interior decorations are also covered. Policies usually extend to include outbuildings such as garages, greenhouses and garden sheds. Boundary walls, fences, gates, paths, drives and swimming pools may not be covered - you need to check the policy if you need cover for these areas.

Against What Risks?

Most policies cover damage to your home by:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>Aircraft or things falling from them</td>
</tr>
<tr>
<td>Lightning</td>
<td>Subsidence, heave and landslip</td>
</tr>
<tr>
<td>Explosion</td>
<td>Falling trees or branches</td>
</tr>
<tr>
<td>Earthquake</td>
<td>Impact by vehicles or animals</td>
</tr>
<tr>
<td>Theft</td>
<td>Breakage or collapse of aerials</td>
</tr>
<tr>
<td>Riot and malicious persons</td>
<td>Escape of water from tanks or pipes</td>
</tr>
<tr>
<td>Storm &amp; Flood</td>
<td>Escape of oil from fixed heating installations</td>
</tr>
</tbody>
</table>

Extensions Of Cover

Most buildings policies have valuable extensions of cover.

- Alternative Accommodation - If your home is so badly damaged that you cannot
live in it until repairs are done, your policy will help to meet the reasonable cost of alternative accommodation up to a stated limit.

- **Liability** - If, as owner of your home you are responsible for any injury to someone or for damage to their property your policy will pay the damages and cost for which you are legally liable. There is usually an upper limit of £1 million or more. However, your main legal liability arises from you being occupier of your home and a contents policy covers this.

- **Underground Pipes and Cables** - supplying gas, electricity, oil or water, as well as sewage pipes, are insured against accidental damage. They are not insured against wear and tear.

- **Glass** - In doors, windows and skylights is covered against breakage together with baths, washbasins and WCs.

**Exclusions**

There are limits and exclusions to every policy so be sure you have read it. It is a legal contract and if there is anything you do not understand ask for an explanation.

One word you will come across is "excess". An excess is an amount of money you have to pay towards the cost of each claim. Excesses vary in amount. They may apply only to certain types of claim or they may apply to all claims. Your policy will tell you. One excess that appears in almost all policies applies to damage caused by subsidence, heave or landslip. This is usually a specific amount (for example £1,000). Common exclusions are war risks, damage caused by storm or flood to gates or fences, frost, sonic bangs and radioactive contamination from nuclear fuel or nuclear waste.

**Sum Insured**

The sum insured is the amount of money for which your home is covered. It is the most your insurers will pay under any circumstances. You must calculate an adequate sum insured to avoid claim payments being reduced because of under insurance. Regular checks should be made to ensure it remains correct. It is your responsibility to get the sum insured right.

The sum insured under a buildings policy must be the full rebuilding cost of the home. The market value of your home or the Council Tax band valuation have no direct relationship to the rebuilding cost of your home.

You can instruct a member of the Royal Institution of Chartered Surveyors to prepare a professional Rebuilding Cost Assessment for insurance purposes. This will normally be carried out by taking detailed measurements of the house and using the Guide to House Rebuilding Costs mentioned in the section 'Working Out Your Sum Insured'. However, (as mentioned in the section headed 'Tables'), this may not be appropriate in certain circumstances where the method of Rebuilding Cost Assessment will need to be specially agreed.

This information sheet gives you advice on how to work out the rebuilding cost for a
standard building.

Index Linking

You must make sure that the sum insured is kept up to date to allow for changing rebuilding costs. Many insurers help by "index linking" your policy. This simply means that your sum insured is altered automatically whenever there is a change in the rebuilding cost. Usually there is no charge for any increase between renewal dates. Index linking can work properly only if your sum insured is right to start with. Then make sure you keep it up to date by telling your insurance company if you improve your home - perhaps by installing central heating or building an extension. Do not rely on index linking alone to keep your sum insured up to date. Review your cover every few years.

Emergency Repairs

If your property is damaged, do what you can to stop the damage getting worse. Many policies cover the cost of temporary work.

Some insurers provide emergency "helplines" which will help you to find a competent tradesman who can carry out emergency repair work.

Prevention

Your insurance policy can help put things right, but cannot compensate for the upset and inconvenience. Take all the precautions you can to prevent the worst from happening.

It has been found, in particular, that tree roots can cause damage to your own or your neighbour's property. It is important to take professional advice before planting or felling trees.

Working Out Your Sum Insured

The tables on the back page give general information on rebuilding costs. They are based on the much more detailed 'Guide to House Rebuilding Costs' published by the Building Cost Information Service of the Royal Institution of Chartered Surveyors. You will see that one table shows a per-square foot rebuilding cost for a variety of types of property. The other table gives the costs on a metric basis. The rebuilding cost of even similar houses can vary depending on individual circumstances. Find out the external floor area of your home - both upstairs and downstairs. The best way is to go outside and measure the length and width of your home and multiply these figures together. If you cannot measure outside, measure inside and add the thickness of the walls. You can measure either in feet or metres.

Whilst an integral garage would be included in this calculation, if the garage is separate or built on the side of the house, an appropriate amount will need to be added to the rebuilding cost of the house. To take account of fences, gates, walls, patios, paths, drives and swimming pools, an appropriate amount should also be added to this figure.

You now know the ground floor area. For upstairs, you may be able simply to double the ground floor area. If the other floor area is a different size then calculate the upstairs area separately and add the figures together. For three storey houses, only 70% of the floor area
of the third storey need be included. A third storey of a house does not mean the attic in a two storey house, unless the roof space has been converted into a third storey. Write the answer against A in the table overleaf.

Identify your type of home in the appropriate table. Then, having established your region, work along the line until you reach the right age bracket. Finally, according to whether your home is small, medium or large (based for three storey houses on the area of the first two floors) choose the appropriate figure per-square foot or metre. Put this figure against B and complete the calculation.

Tables (see below)

These tables give rebuilding cost information for five different house types, related to ages, sizes and locations of houses. They are unsuitable for certain types of houses:

- Houses built of stone or materials other than brick.
- Houses with more than three storeys, or basements and cellars.
- Flats, because types of construction differ widely, as do responsibilities for shared parts.
- Houses with special design features or of greater size than those described in the tables.
- Houses containing hazardous materials e.g. asbestos, likely to require special precaution/treatment following damage or demolition.
- Houses which are considered to be historic or are listed buildings, which will almost certainly have to be rebuilt to their original design using identical materials.

Flats and Maisonettes

It is recommended that a flat or maisonette is insured together with the other flats or maisonettes that make up the block, under a single policy arranged for the whole block. This will avoid complications which may arise if units are insured individually and also ensure that you have the widest possible cover available, e.g. for common parts, which may not be available under an individual policy.

To calculate the rebuilding cost for any of the above categories, seek professional advice: do not rely on these tables.

The rebuilding costs in the tables provide for an average home to be rebuilt to its existing standard using modern materials and techniques and in accordance with current Building Regulations and other statutory requirements.

Where it is necessary for your home to be rebuilt exactly in its original style to comply with local authority requirements, you must allow for the additional costs and a professional Rebuilding Cost Assessment is essential.

The rebuilding costs also include an allowance for full central heating costs.
(approximately £3,500), demolition and site clearance costs, Architects' and Surveyors' fees, and one half of the cost of rebuilding party walls in both terraced and semi-detached houses.

Figures in the tables are based on houses of an average quality finish and might need adjusting. The figures given are in respect of double-glazing. If your house is of higher quality with, for example, a luxury kitchen and sanitary fittings, floor and wall finishes, your final figure may need to be increased by up to 25%.

Where a fire and/or intruder alarm system is fitted, replacement costs should be taken into account when calculating your sum insured.

For garages (other than integral), rebuilding costs range between £3,450 for a single pre-fabricated garage to £6,200 for a double pre-fabricated garage. Costs for a purpose built garage range between £8,450 for a single to £11,400 for a double built garage. Using this information as a guide, insert an appropriate figure against D.

To calculate the cost or rebuilding your home please select your Measurement Method (Sq.Feet or Sq.Meters), Type of House, Size, Year and Region.

Total external area (upstairs and down) Sq.ft or Sq.m

Area Measurement Method:

Type of House:

Size of House:

House Year Range:

Region:

Add for garage (see

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This figure is the approximate amount for which an average quality home should be insured.

Regions (Click here to view the definitions of regions.)

1 London and Channel Islands*;
2 South East;
3 South West, North West, Eastern, Scotland;
4 North East, East Midlands, West Midlands, Yorkshire and Humber, Wales and Northern Ireland**

* Building costs in the Channel Islands tend to be as high as those in London Boroughs but they are affected by particular local conditions.

** Building costs in Northern Ireland are considerably lower than in the rest of the UK and may be 20% below the costs given for Region 4.

The regional groups are based on broad cost bands. However, local variations are caused by a number of factors including competition between builders and the ease of rebuilding.

You should seek local advice if your home is in the Channel Islands or Northern Ireland.

Rebuilding Cost Tables:

Table 1: £ per square foot (PDF: 330Kb)

Table 2: £ per square metre (PDF: 330Kb)

Further Information

If you need further advice, your building society, insurance company, broker or insurance adviser will be pleased to help.
Appendix B

Intellectual Biography

Allan Tew, Chartered Builder and Chartered Insurer, by examination holds corporate membership of both the Chartered Institute of Building and the Chartered Insurance Institute.

This follows education to degree level at the former Leeds Polytechnic and the award of the degree of Master of Science by Heriot-Watt University in Edinburgh, dissertation title “A review of Non-traditional forms of Procurement”.

A.D. Tew has a working career spanning 30 years split equally between Construction Management and Loss Adjusting. Since 1997 the author has been employed within the insurance procurement sector in the positions of Operations Manager and Technical Director.

The employing organisations, in the UK, have turnovers ranging from £10 million to £30 million derived specifically from the subject area. In addition the researcher has also worked collaboratively with a further organisation that again work exclusively in this industry and claim to be the second largest dominant force in the terms of both financial turnover and work volumes.

In the initial stages of this research the employing organisation were actively seeking to reinvent their product definition and service delivery process. Crucially this involved the author in examining the emerging market structure and importantly to determining the overall market size in the terms of job frequency, value and total market value. This in the face of market practices which saw no purpose in going beyond the historical practice of recording “Property” claims of all types under the one heading.
The author is currently involved in research and development of desktop diagnostic tools for the determination of cause of damage and the scope of necessary repairs. Additionally the author is currently reviewing the impact of the “Consultation Phase” of the adoption of the Financial Services and Markets Act 2001, in the context of General Insurance out-sourced suppliers.
Appendix c

A better deal for tenants
Your New Right to Repair
Your Right to Repair

As part of the Citizen's Charter scheme, a new Right to Repair scheme was introduced for council tenants from 1 April 1994. The new Right to Repair is a scheme for council tenants. It will make sure that certain small urgent repairs which might affect your health, safety or security, are done quickly and easily. Councils will be told by law to carry out these repairs within a certain time.

If the council doesn't do your repair in time, you can tell it to get another contractor instead. If the second contractor doesn't do the repair in time, the council will pay you compensation. The council will tell you what repairs come under the new scheme and how long it has to carry them out. Repair times vary depending on the type of repair. For example, if your toilet isn't flushing, the council usually has one working day to come and repair it. It has three working days to mend a loose bannister rail and seven working days to mend a broken extractor fan in your bathroom or kitchen.

What repairs can you get done?

You can get certain small urgent repairs done (up to the value of £250) if they are likely to affect your health, safety or security. These are called qualifying repairs.

Qualifying repairs include:

- unsafe power or lighting sockets or electrical fittings;
- blocked flue to open fire or boiler;
- leaking roof;
- toilets which don’t flush;
- blocked sink, bath or basin;
- leaking from a water or heating pipe, tank or cistern;
• loose or broken bannisters or handrails.

2

Your council will have a full list of repairs which come under the scheme. It will be able to tell you if a repair you need is included in the scheme and how long it has to get the repair done. The council will also be able to tell you how it deals with repairs which aren’t covered under this scheme.

How can you get your repairs done?

You should tell the council what repairs need to be done. The council may need to send someone to your home to check the problem first. If the repair comes under the Right to Repair scheme, the council will tell a contractor to do it in the set time. The council will also send you a copy of the repair notice it sends to the contractor. The notice will show you:

• the name, address and telephone number of the contractor who will do the repair;
• the arrangements made for the contractor to do the repair (the date and time);
• what the repair is; and
• when the repair should be done by.

You must let the council know when someone can be at home to let the contractor in.

How long has the council got to carry out these repairs?

This depends on the type of repair you need, but the council can always tell you how long it should take. Qualifying repair times are set by law – not the council.
What happens if the first contractor doesn’t do your repair in time?

If the first contractor doesn’t do your repair in time, you should phone the council and tell them to get a second contractor to carry out the work. Unless there is a good reason why the work hasn’t been done, the council will get a second contractor. You will get a copy of the second repair notice – which the council sends to the second contractor. The second contractor then has the same amount of time to do the repair as the first one had.

Compensation

If the second contractor doesn’t do your repair in time, you will get £10 in compensation. For every extra day you wait, you will get another £2. The most compensation you can get for any one job is £50. The council will pay your compensation – unless you already owe it some money. If you do owe money to the council, it will take away the amount you owe from your compensation.

Sometimes there may be a good reason why a repair can’t be done. For example, if you didn’t keep your appointment to let the contractor in, and they therefore couldn’t carry out the repair, the council won’t have to pay you any compensation.

How to find out more

Contact your council’s housing department. This leaflet is one of a series of three dealing with the new tenants’ rights (Your New Right to Manage, Your New Right to Repair, and Your New Right to Compensation for Improvements).

For further copies please write to:

Department of the Environment, Transport and the Regions
Appendix D

The Quality Mark Scheme: Household Repairs, Maintenance and Improvement Contract

1 Between .................................... (the employer – the consumer or householder) of ............................................................................................................................
and .................................................................................................. (the contractor) of ............................................................................................................................

................................................... ................... (full address and telephone number)

2 The contractor will carry out and complete the following work for the fixed sum of £................ plus VAT (if this applies) at £ ...................... (itemised as appropriate where varying rates apply) to a total of £.. ........................ (If there is not enough space below, refer to separate specification, including any separate designs by architects or other designers).

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3 The work will start on ...../....../..... and will be completed by ...../....../....... The contractor will not leave the site for more than 5 days in a row without a reasonable explanation, and will carry out the work using reasonable skill, care and progress. The contractor will tell the employer straight away of the cause and extent of any delay. If the contractor cannot meet the original completion date because of things outside their control, such as bad weather or sudden illness, they will agree extra time with the employer for carrying out the work.

4 The contractor will provide everything necessary for, and be responsible for, carrying out the work properly and efficiently, including labour, materials and equipment, unless the employer says otherwise in writing. All materials will be fit for their purpose, and will be new unless the employer has agreed otherwise in writing.

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1 If employers need help or advice before undertaking work on their homes, they should contact their local authority (planning, building control or trading standards departments), Citizens Advice Bureau or other advice agency before signing the contract.
5. The following person is responsible for getting any necessary planning permission and building regulations consent and must make all notifications, arrange inspections and pay any application fees in connection with the work:

   the employer ☐ the contractor ☐

6. The employer will, where practical, make sure there are no obstructions on the site, such as blocked paths or driveways, and remove all furniture, fixtures and fittings that are necessary for the contractor to carry out the work. The employer will provide the necessary facilities (for example, power and water) as long as the contractor gives them plenty of notice.

7. The contractor will only carry out variations to the work (for example, extra or different work) if they have written instruction from the employer, including agreement to extra costs and time for completing the contract.

8. The contractor will take full responsibility for the work, including any work carried out by his subcontractors. They will put right, at their own expense, any loss or damage caused either by himself or his subcontractors. The contractor will also insure against any loss or damage to the work or materials under a contractor’s ‘all-risks’ policy. The contractor will give the employer appropriate evidence of insurance if they ask for it.

9. The contractor will meet legal insurance requirements for their employees; and provide suitable cover against injury to third parties or damage to third party property under public liability insurance, to a minimum of £2 million. The contractor will give the employer appropriate evidence of insurance if they ask for it.

10. The contractor will tell the employer if they plan to subcontract the work, or any part of the contract, and will make sure that any subcontractors meet the standards of the quality mark.

11. The contractor will be responsible for maintaining safety on the site, in accordance with legal requirements; and keeping the site tidy while work is in progress, including removing rubbish as necessary. When they have completed the work, they will leave the site clean and tidy, and remove all rubbish. The contractor will meet any legal requirements for removing waste products (including hazardous waste).

12. For short-term projects or projects normally under £5K in value. When the contractor has completed the work to the satisfaction of the employer, the employer will pay the contractor the full amount within 14 days of receiving the final invoice.

13. For long-term projects or projects normally over £5K in value. The employer and contractor may agree that the employer will pay in instalments as certain stages of the work are completed to the employer’s satisfaction. The contractor will give the employer an invoice at each stage with details of the work they have carried out as set out on a separate payment schedule (to be attached). The employer should make all payments within 14 days of the invoice date.

14. When the contractor starts the work, they will give the employer a warranty or guarantee recognised under the quality mark, which will include cover in case they do not complete the work or in case poor workmanship leads to faults or major damage.
The warranty is in addition to consumers’ legal rights relating to faulty services provided. Nothing in these conditions will reduce these rights. If the employer has any doubts about their legal rights, they should contact their local Trading Standards Department or Citizens’ Advice Bureau.

15 The employer may end the contract by sending the contractor a written notice if the contractor:

- does not carry out the work with reasonable skill, care and progress, or stops the work before it is finished without reasonable cause; or
- does not follow the employer’s instructions without reasonable cause for 14 days after receiving a written notice specifying the failure; or
- goes into bankruptcy or liquidation.

In any such case, the contractor must stop working, and another contractor may be employed to complete the agreed works. The cost of doing this will be deducted from any amount due to be paid to the contractor.

16 The contractor may end the contract by sending the employer a written notice if the employer:

- delays the work for four weeks or longer without reasonable cause, except by previous agreement; or
- does not make the agreed stage payments for work that has been completed to their satisfaction for 14 days after receiving a written notice that the payment period is over; or
- goes into bankruptcy.

In any such case the employer must pay for the work already carried out, as well as for goods and materials legitimately purchased for the work.

17 The contractor will keep to a code of practice recognised under the quality mark. The contractor will give the employer a copy of the code and information on complaints procedures at the start of the contract.

18 The contractor will co-operate with advice agencies and local authorities acting on the employer’s behalf.

The employer’s signature: .......................... Date: .......................... 

The contractor’s signature: .......................... Date: ..........................

NB. If applicable under legislation governing the provision of consumer credit or unsolicited visits to a consumer’s home the employer has the right to cancel this contract for a period of 7 days from the date of signature. The contractor will provide a cancellation form for this purpose.
Scope

1. This Code has been drawn up to provide the minimum standards to be maintained by all Builders.

2. All Builders shall observe the Code in so far as it applies. Firms in doubt as to their specific actions should refer to the relevant certification body for additional guidance.

3. Builders are required to have signed an undertaking that they have received a copy of this Code of Conduct as a condition of entry to the certification scheme.

4. Changes to the Code will be promulgated from time to time via the relevant certification body.

Duties and requirements

5. All Builders shall:

   i. comply with the law.

   ii. work in a competent and responsible manner.

   iii. have particular regard to matters of health and safety.

   iv. provide Clients with clear information about services offered and guarantees of workmanship and/or financial protection provided under the quality mark scheme.

   v. provide Clients with clear information of price for the work
to be undertaken and the method of payment.

vi. provide Clients with a clear timetable for any works to include a completion date.

vii. maintain skills and knowledge.

viii. be responsible for actions of their subcontractors, advisers and agents, taking all reasonable measures to ensure that work is only sub-let to quality marked firms or those firms who meet the standards of the quality mark.

ix. seek to ensure customer satisfaction through the provision of a clear method for handling customer complaints as provided for under the quality mark scheme.

x. uphold the standing of the quality mark scheme.

Guidance

6. The duties and requirements may be satisfied as follows:

i. Comply with the law

This requirement involves working in accordance with any relevant statutory requirements which may apply to the work undertaken by the Builder.

ii. Have particular regard to matters of health and safety.

Builders must ensure that work is carried out with due care to avoid causing danger and unreasonable nuisance.

iii. Provide Clients with clear information about services offered and guarantees of workmanship
and/or financial protection.

Clients must be clear about the nature and extent of the work that will be done. Assurances must be given about the workmanship, materials (which must be fit for purpose) and appearance involved prior to the commencement of any work. This should involve providing the Client with a written Contract (such as the model 'Fair Deal' contract or other contract approved by the quality mark management body). Where appropriate, e.g. large of complex jobs, provide further guidance to Clients about obtaining additional professional advice.

Documentation detailing the Financial Protection provided shall be provided before the work is started. Insurance certificates, warranties, and the like shall be handed over promptly on completion of the works.

iv. Provide Clients with clear information of price for the work to be undertaken and the method of payment.

Clients need clear information on the cost involved in doing the work and whether this represents an estimate or firm quotation. Builders must agree the price for the job and how they wish to be paid, e.g. on completion or in stages. This should involve providing the Client with a written estimate or quotation. Full payment should not normally be requested in advance. However, an agreed deposit may be appropriate and shall be covered by the Financial Protection arrangements.

v. Provide Clients with a clear timetable for any works to include
a completion date.

**Clients** need to know when work will start, the particular implications of any stages of work and when work will be finished. **Builders** will provide **Clients** with appropriate information for each job prior to starting any work. **Clients** will also need to be kept fully aware of any alterations to timetables and explanations for changes should always be given.

vi. **Work in a competent and responsible manner.**

Work must be carried out to comply with ** Relevant Standards.** This involves the **Builder** being confident of his ability to do the work. The **Builder** shall act in a courteous manner and respect the privacy and property of the **Client.**

vii. **Maintain skills and knowledge.**

**Builders** must keep up to date with changes in building practices appropriate to the services they offer.

viii. **Seek to ensure Client satisfaction through the provision of a clear method for handling Client complaints.**

**Builders** must provide a clear method for considering customer complaints and, where appropriate, offering redress. Complaints should be dealt with promptly and within a clearly understood timescale. **Builders** shall inform **Clients** of their right to seek redress from the financial protection body.

ix. **Uphold the standing of the quality mark scheme.**

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All Builders will seek to uphold the standing of the quality mark scheme with a view to enhancing its support among Clients.

Published July 1999
Annex C: Complaints and Dispute Management
Procedure for Quality Marked Builders

Scope

1. This procedure outlines the procedures certification bodies should have for dealing with complaints about Builders and disputes with Clients.

2. Builders may wish to include other sources of complaints or feedback on their performance in their own complaints or customer service procedures.

Process

3. All quality marked Builders should have their own internal complaints management process, suited to the size and nature of their business.

4. BSI DC 98/402550 Draft British Standard: Guide to positive complaints management gives guidance to firms on how to set up and run their own complaints process.

5. All Client complaints should be first dealt with by the Builders. Only when the Client has exhausted the Builder's complaints system, or becomes dissatisfied with it, should the certification body become involved.

Certification Bodies' Complaints Management Process

6. All certification bodies should have a written complaints management process. This should:

   i. be open and available to all Clients, at no cost to the Clients.

   ii. be written into the terms of membership of the certification body, or terms of the Builder's certification.

   iii. be part of or associated with a Code of Practice containing requirements for competence, professionalism, business practice and acting safely.
iv. be adequately resourced for effective operation.

v. ensure fairness to Clients and Builders.

vi. involve an independent party or parties at appropriate stages.

vii. have clear performance and response criteria.

viii. be monitored and reviewed by senior management of the certification body.

ix. have arrangements for appeal against disciplinary actions proposed by the certification body. Appeals may be made by Clients or Builders.

tax. managing any restitution processes including liaison with the bodies providing Financial Protection (warranties, etc.).

Advice

7. Certification bodies shall provide advice to Clients on methods of resolving problems or disputes with Builders.

8. The certification body shall also advise Clients and Builders how they may complain about the handling of complaints or disputes by the certification body.

Formal complaints

9. If a Client wishes to make a formal complaint it should normally be in writing. This allows the scope of the complaint to be defined and gives the Builder the opportunity to respond and deal with specific issues. (Where this is not possible, due for example to a lack of written skills or disability on the part of the client, certification bodies should make provision for complaints to be taken by other means such as the telephone.)

10. All complaints should be recorded. A nominated person (the Complaint Handler) should be responsible for handling the complaint, including monitoring progress. The Complaint Handler must be competent and have the authority to progress the complaint.

11. All complaints should be acknowledged within 3 working days.
12. The complainant should be advised in the letter of acknowledgement of

   i. the certification body's complaints management process.

   ii. the action that has been taken and the likely course of events and their timescales.

   iii. What to do if they feel their complaint is not being handled properly.

Initial response

13. The Complaint Handler should decide the most appropriate initial response depending on the seriousness or urgency of the complaint. Normally this would be to invite the Builder to respond in writing to the complaint.

14. In cases where the Builder is invited to respond to the complaint, the response shall be provided within 10 working days but normally within 5 working days of the date of the letter of notification.

15. In cases where an investigation visit or expert advice is required the Client and Builder complainant should be advised of the likely timescale involved.

Follow up response

16. If, after reviewing the correspondence, the Complaint Handler believes there has been an infringement of the Code of Practice, action appropriate to the nature of infringement, after considering any other relevant complaints history, should be taken. The range of actions could include dismissing the complaint to censure, financial penalty or ultimately the removal of the Builder from the list of quality marked Builders.

The complaints handling process should specify the level and scope of follow up action that the Complaint Handler may take. Where removal of the Builder from the list of quality marked Builders is proposed the case shall be considered by a panel that has at least one third of its members independent of the certification body.

17. Where the facts are disputed the Complaint Handler may arrange for a conciliator to investigate the complaint and seek an agreed resolution. Some complaints may be unsuitable for conciliation, for example where the Client...
refuses access or refuses to allow the Builder to return to rectify faults.

18. Where conciliation is not considered appropriate the Client and/or Builder may be offered, at their cost, independent adjudication or arbitration.
Appendix G

Quality Mark

FINAL REPORT OF THE COWBOY BUILDERS WORKING GROUP

Annex B: Requirements for Financial Protection provided by 'Quality Marked' Builders

Scope

1. Financial protection shall be offered by the Builder to the Client against:

   i) Loss of deposit or advance payments caused by the Builder becoming insolvent, ceasing to trade or fraud of the Builder.

   ii) Additional costs resulting from failure to complete The Works by the Builder.

   iii) Failure of the Builder to remedy Defects caused by non-compliance with Relevant Standards.

   iv) Failure of the Builder to remedy Major Damage caused by Defects in materials, or workmanship.

This protection may be provided in a number of ways and not necessarily in a single integrated package.

Exclusions

2. Financial protection against the following need not be provided:

   a. Consequential losses, including, but not limited to, inconvenience, distress or loss of enjoyment

   b. Losses, such as damage to health, safety or welfare.

   c. Loss, Defects, and damage caused by designs/instructions, materials or workmanship given, provided or carried out by the Client.

   d. Loss of deposit or advance payments caused by cancellation of orders by the Client.
e. Work not included in the Contract. Agreed variations to the original Contract should receive the benefit of the protection.

f. Rectification or repair work carried out by the Client without first giving the Builder the opportunity to put the work right.

g. Any loss, cost or liability for which redress is provided for by legislation or by any other insurance policy.

h. Work costing £100 or less.

i. The first £100 of every claim.

j. Any Damage caused by Exceptionally Adverse Weather Conditions or the failure of the Client to take precautions against Exceptionally Adverse Weather Conditions.

k. Any Defects or Damage caused by work carried out by third parties after The Works have been completed.

l. Any item of work specifically excluded by written agreement between the Builder and the Client.

m. Legal, professional, removal and alternative accommodation costs.

n. Fair wear and tear and Damage caused by failure to maintain The Works.

**Periods of Cover**

3. Financial protection shall be provided, as a minimum, for the following periods:

1. 12 months from the date the deposit or advance payment was paid, for protection against loss of deposit or advance payments.

2. 12 months from the date The Works were started, for protection against loss resulting from the Builder's failure to complete The Works.

3. Two years, after completion of The Works, for Defects caused by a failure to comply with Relevant Standards.

4. Six years, after completion of The Works, for Major Damage caused by a Defect in materials or workmanship.

**Levels of Financial Protection**
4. The following minimum levels of financial protection shall be provided:

   a. The amount of any deposit or advance payment, up to £10,000 or, if less, 25% of value of The Works.
   b. The reasonable amount required to complete The Works up to 125% of the original value specified in the Contract less any retention monies and liabilities the Client would have met had the Builder completed The Works.
   c. The reasonable cost of rectification work in respect of Defects and Major Damage up to the original cost of The Works increased by 12% a year compound from the date of the final payment under the Contract to the date of payment for the rectification work.

Other limitations

5. Financial protection in relation to loss due to the failure of:

   i. Electrical moving parts.
   ii. Central heating boilers and related equipment and
   iii. Any other heating or cooling equipment of the like kind

May be limited to 12 months from the date of completion of The Works.

The Works.

If The Works or any part thereof involves the agreed use of second hand materials or the re-use of existing materials, liability under the financial protection scheme may be limited to 120% of the Contract price.

Miscellaneous

6. Financial protection schemes should:

   i) allow transfer to subsequent owners without additional cost or the requirement for notification of transfer.
   ii) require all claims to be made in writing.
   iii) require the Builder to have valid public and, where appropriate, employer's liability insurance in place before starting a job.
   iv) be covered by the ABI Code and subject to supervision by the Financial Services Authority or at a comparable level of security.
v) include arrangements for dealing with disputes and disciplinary action/exclusion of the Builder and/or notification to their certification body.

Definitions

Adverse Weather Conditions

Weather conditions that are exceptional having regard for the time of year.

Builder

The company, firm or individual that agrees with the Client or the Client's nominated representative to carry out The Works.

Contract

The formal written contract, or written Client Order or a written Quotation or Estimate and written acceptance thereof.

Client

The private individual or his nominated representative who has entered into the Contract for The Works.

Damage

Physical damage to The Works caused by Defects.

Defects

Any defect or defects in The Works, leading to a failure to meet the Relevant Standards, caused by the Constructor, his professional advisers, subcontractors or any other agent employed by him or acting on his behalf.

Major Damage

Damage to The Works resulting from faulty or inadequate materials or bad workmanship requiring complete demolition and/or substantial rebuilding or replacement of The Works.

Relevant Standards

Technical standards for materials and workmanship that are in force at the time The Works start (or in the case of Water Regulations and when plans are Building Regulations and passed) and are

i. required by law and/or

ii. stated in the Contract, or in the absence of detailed specifications in the Contract, the appropriate British Standard in the case of materials and in the case of workmanship the standard capable of being achieved by a competent trades person.

The Works

The building or other specialist work carried out or intended to be carried out as described in the Contract.
Appendices

Published July 1999
APPENDIX G

Insurance Household Building Repair (Code of Practice)

Insurers should ensure that the standard terms on which they do business are in writing, and are made available to suppliers.

If Insurers wish to vary those terms reasonable notice should be given to the supplier.

Insurers should pay suppliers within the time specified in the agreement, and in any event within a reasonable time after the date of the invoice.

Insurers should give suppliers reasonable notice (i.e. with regard to individual contractual arrangements, written or oral) of any intention to change a price previously agreed; and should not request retrospectively any form of discount or overrider.

Insurers should not request suppliers to contribute to Insurers' costs of auditor's visits.

Insurers should not seek any form of compensation for profits affected through contractor's reserving errors where made in good faith.

Where Insurers change any volume ordered, or the specification of any goods, or introduce changes to any supply chain procedures they should give reasonable notice, (sufficient for the supplier to make arrangements for changes to production schedules), and should compensate suppliers for any costs or losses to them where reasonable notice is not given.

Insurers should compensate suppliers for costs caused through the Insurers' forecasting errors.
Appendices

Insurers nor their appointed Network Managers should not seek lump sum payments or annual subscriptions of any kind whatsoever from contractor’s for enrolment/inclusion on Approved Repairer panels.

Insurers should not charge suppliers in respect of consumer complaints unless the complaint has been verified as being justified, and as being caused by the supplier, and the supplier has been notified of the outcome; charges should not exceed the purchase cost of the goods to the retailer.

Insurers should not require suppliers to use particular third party suppliers of goods or services.

Any penalties imposed on suppliers for alleged discrepancies or other failure to meet contractual obligations should be cost related; Insurers should have written procedures covering the imposition of penalties.
APPENDIX H

Insurance Repairers Partnering Charter

In the likely event that the Code of Practice should prove too bitter a pill to swallow by insurers then a Charter is proposed for signature by all parties. The Charter would be appended to the validation form and passed to the household on each occasion at the commencement of the works.

Insurance Household Building Repair Partnering Charter

The purpose of this Charter is to formally express the way in which the parties would like to see and will seek to develop their relationships throughout all dealings. The sense of purpose and identity is endorsed by the signatures to this document.

“We will work together in an open and honest manner dedicated to a completion of the project to the satisfaction of All Parties”

With the following Objectives

To operate in a professional, honest and trustworthy manner
To ensure that the activities of all are conducted safely and to a high standard
To collaborate to expeditiously complete the works
To recognise the importance of mutual respect between ALL Parties throughout the whole project
To ensure that when payment is due it is made without delay
To work to the common goal of early completion
To recognise the need to provide value for money whilst allowing the commercial parties to be profitable
To encourage improvement in performance and quality

We will cultivate a no blame attitude in identifying issues. At the same time we will be constructively critical in monitoring our performance
Appendices

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