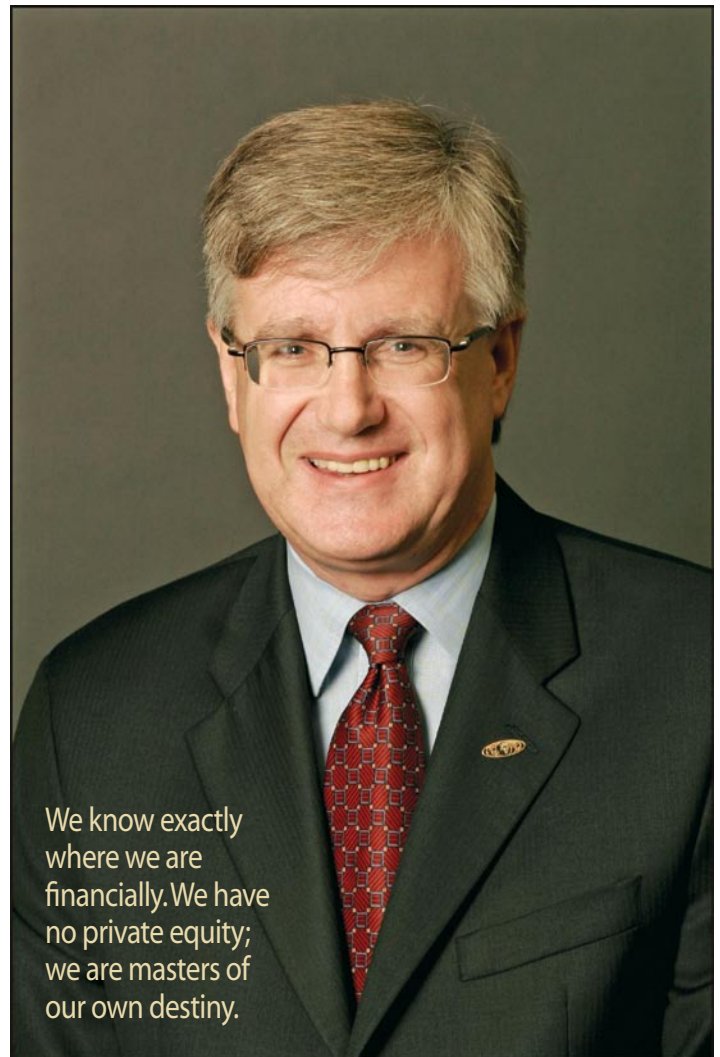


Georgia on my mind

While big may no longer be viewed as beautiful, Jeffrey Bowman argues that global businesses can attain unrivalled levels of transparency and compliance. The boss of Crawford & Company tells Mairi MacDonald how his firm is unfazed by today's testing economic environment.



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CRAWFORD & Company wants to be the one-stop global shop for handling all things claim-related that insurance companies do not want to do themselves. As such, it is a vast animal that spans 700 locations in 63 countries, with annual revenue of \$1.1bn (£652m).

The type of global conglomerate in fact that – in the US in particular, where Crawford is headquartered – has been viewed with heightened suspicion in recent months by a public that, sickened by stories of corporate greed and mismanagement, has fallen out of love with big business.

Therefore, it is understandable that chief executive and president Jeffrey Bowman is keen to explain how the company's ethos is based around adherence to compliant practices, capital management and transparency.

British-born, but a US resident since 1994, when he moved within commuter distance of Crawford's headquarters in Atlanta, Georgia, Mr Bowman is acutely aware of the public perception of large corporates.

Scrutinised practices

As boss of a major client-focused business – Crawford earns about \$600m in claims solution worldwide; \$400m in business process outsourcing, which includes Contractor Connection; and \$100m in consultancy – its practices are scrutinised from many different angles.

He mentions Crawford's regular audits by Ernst & Young and its adherence to *Sarbanes-Oxley*, the 2002 Act that followed the Enron

accounting scandal of 2001.

While a stock exchange listing alone is hardly evidence of a strong balance sheet – as any Enron or AIG investor would testify – the regulatory requirements imposed (in the case of Crawford by the Securities and Exchange Commission) are one of the company's selling points in Mr Bowman's view. Its 'two tickers' on the New York stock exchange are a differentiating factor for Crawford, he believes.

"We're the only listed company in our industry in the US," he claims. "This means we have transparency, which is a big deal when it comes to clients, government and regulation." Then there is the self-imposed variety of regulation, which Mr Bowman claims is multi-layered and to which Crawford staff are obliged to adhere.

The company expanded out of the US and went international with the acquisition of Mr Bowman's old company, London-based adjuster Graham Miller in 1990. The international arm now makes up 42.4% of its overall turnover.

The company includes three other main areas of business: its third-party administration and workers' compensation business accounts for 29% of turnover; while its US property & casualty business and legal settlement business generate 20% and 7% of income respectively.

Dealing as it does in workers' comp, the Broadspire brand is having a tough time in the US, where Mr Bowman says half a million people are

losing their jobs every month. "It is a challenge for us," he admits. "Looking back over the recession and the high levels of unemployment, payroll costs and workers' comp claims are being affected. It's not a bad model; it just floats up and down. Interest rates have also impacted us a little – income investment returns start going down on that basis." However, the roll-out of the Broadspire brand to the UK in June when it replaced Corporate Claims Solutions is a major step for the business, Mr Bowman explains.

He adds that Crawford's legal settlement administration business covers bankruptcy management and the company has received several high-profile bankruptcies on its books.

While Mr Bowman is pessimistic about the likelihood of a quick economic recovery, he is not convinced the recession has had an overwhelming impact on his business.

He explains that his team has researched the company's experiences of the "proper recession of 1991 as well as the 2001 one, which wasn't".

"We didn't find anything in our data that triggered the perception of fraudulent claims – at least nothing that sent the needle off. With workers' comp, there was a manufacturing industry in the US back in 1991, whereas today it is based on service, so we see lower values but higher volumes of claims," he adds. "At the moment I'm not convinced the recession is affecting us, but it's a question we will look at more closely in six months when we will probably see the impact."

Building a more joined-up business has been one of Mr Bowman's aims since taking over in January 2008 when he installed a new management team and started referring to the company as 'the new Crawford'.

Alluding to his four direct profit & loss managers who he describes as sales people and business managers, Mr Bowman explains that he wants to be surrounded by individuals with a variation of skills and believes the dwindling number of professional loss adjusters that now sit in the boardrooms of the sector's major companies is no bad thing.

Different people, different roles

Of the four CEOs, Kevin Frawley of the US P&C business is a compliance and governance lawyer; Broadspire's Ken Martino has been a consultant; David Isaac, of the legal settlement business Garden City, is ex-KPMG; and Ian Muress, boss for the EMEA and Asia-Pacific P&C business has a background in loss adjusting as well as management, says Mr Bowman.

"In businesses today you need different people for different roles. My background is accounting and I have been running organisations for 25 years."

Keen not to have his comments misconstrued as being negative about loss adjusters' abilities to manage a company, Mr Bowman explains that the industry has radically changed as more non-adjusters have landed top jobs – a change linked to the influx of venture capital.

"Loss adjusting is a profession that has a lot of intensity and training in various areas and I'm not suggesting that automatically means they don't make good managers. Adjusters are very good at client liaison and handling claims but they haven't been trained in running a business. Doing client stuff is fine, but going in front of a banker or someone to talk about employment law, regulation, compliance, governance or IT issues requires new skills.

"When private investment comes into organisations and you go from being a partnership to a corporation it becomes a different type of company."

Alluding to Crawford's rivals in the industry, Mr Bowman continues: "Look at claims adjusting and see what happened to Toplis and Harding, GAB Robins and Cunningham Lindsey. Where they didn't get it right was not around claims but the financial management of the business. We have been a public company since 1968 so we know exactly where we are financially. We have no private equity; we are masters of our own destiny."

He adds: "These days, lack of capital and cash flow is what will get you in trouble. We manage our

operations globally as a business, not as partnerships, so they're all absolutely part of regulated accounting conventions."

One of the main changes since Mr Bowman took up the reins has been the adoption of a new approach to debt collecting. "Last year we created \$71m in cash flow that was tied up in our balance sheet but was unbilled or billed but not being collected. So, we changed our approach with clients and have moved toward contractor-based revenue."

He explains that staff who are on bonus programmes are judged on whether there is cash to pay out. "Without the cash, we wouldn't have the bonuses to pay. We've said we have hundreds of millions of dollars on our balance sheet and we are going to collect them," he says.

"Cash management is crucial to any business. We have told staff worldwide that this is an issue to an organisation of our size. We are adequately financed but we want that to be zero, not existing as cash on the balance sheet. Financials matter – when I deal with investors, the figure they want to talk about is free cash flow on the balance sheet."

Common feature

Private equity has become a common feature of the industry. When PE house Stonepoint Capital bought GAB Robins it was the majority shareholder in Cunningham Lindsey, while GAB established an agreement with its PE backer Brera Capital Partners when the UK business went through a management buy-out.

Mr Bowman adds: "There's going to be a lot of refinancing of companies with heavy debt loads in the early part of next year; we will have to see if the corporations are able to refinance and at what rate."

When asked about the appeal of the adjusting industry to PE companies, Mr Bowman is thoughtful. It comes down to the as-yet untapped opportunities in claims outsourcing, he explains. "As an industry we are at the client-focusing end of handling claims. We investigate, we report, quantify and negotiate. Look at how the market is organised. Internationally, the unallocated loss adjusting expenses in the industry, outside the US, is about \$43bn. At the moment 4% is outsourced – that goes to Crawford, competitors and then the local players. Venture capital is saying, 'this is a huge amount'. Key for us is where companies are looking to transfer a fixed cost to a variable cost

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and that's one of the drivers behind VC coming in and the market conditions make it advantageous."

He claims that in the US, while 14% is outsourced, Crawford is the leader with 6%, but the market is crowded with approximately 4000 local providers. "This economy has created a market where insurance companies are not allocating as much of their capital expenditure on claims departments as is being demanded," he comments. "I don't think claims service level agreements are being breached but there is consolidation taking place. If you have 100 vendors or you have three vendors it makes a hell of a difference to your ability to manage them."

Pension problems

Back to the numbers, and while Mr Bowman says the company is "not as profitable as I think it should be" he believes it is going in the right direction through its renewed focus on building a more client-centric approach, its business processes, key account management and working capital management.

He admits the company has not been immune to the pensions issue, which has become a major problem for companies with underfunded pension pots caused by the dramatic drop in asset values. He explains that in the UK, it has been pumping cash into its underfunded defined benefit programme. "There's a cost but it's not a problem for us," he counters. "The bigger issue is in the US and we are in the process of sorting that out, but every organisation has a problem with that. The UK pension scheme has been frozen since 1997 and the US scheme in 2002.

"Liabilities were running away and contributions from the company were going to get higher and higher. On contribution schemes you choose to elect a percentage of salary into the scheme – then don't take on any liabilities as a corporation that go on balance sheet. It's easier for corporations to manage on direct contribution; just look at the 30% reduction in equities last year."

Mr Bowman reiterates that the big issues for major players remain pensions and claims volume, adding "but the reason the corporations are getting into trouble is cash."

He comments: "We need to

improve penetration of our client base and strengthen our cross-selling. I was happy with the products but wanted more synergy." Developing the right technological solutions has been a major part of building the new company.

Command centre

Within its US P&C division, Crawford manages 2500 contractors through networks via its Contractor Connection – known as Repairnet in the UK. He explains that all US P&C claims go into a command centre where the emphasis is on inventory management and technical expertise. Set up four months ago, he estimates it handles about 750,000 claims a year in the US.

"We triage claims coming into the operation - they can be handled by a direct repair provider, a desktop provider or straight into tasked assignments into our network. Through technology we have given clients one point of entry.

"Time is always of the essence – clients want to know what is going on immediately. So we set up a system that ensures nothing falls through the net as well as SLAs that ensure, for example, that an adjuster is not handling more claims than best practice recommends."

He says the company plans to introduce this command centre structure outside the US, adding: "We're getting all the bugs out of it in the US first to make sure technology is totally transferrable."

Another initiative the company wants to replicate outside the US is its Atlanta-based hub that manages all of Brit Insurance's claims deriving from its US-based managing general agents. "We handle the reporting for other loss adjusters and consolidate the data claims and report them all on one bordereux into Brit," Mr Bowman explains. "We're in discussion with other UK operations about developing that."

As the interview draws to a close, Mr Bowman hands over a small folded card that he says he gives to all visitors to Crawford offices. On it is written the corporate mantra, the four point plan – leveraging Crawford's 'leading' position, improving capital management, implementing innovative solutions and improving its employer status. "This is our strategy – I tell everyone about it. We're getting there," he says.