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A Contents Complex

by Jim Fini
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Today's volatile economic climate—with high unemployment, underwater mortgages, and global instability—further complicates an insurer's already challenging task of balancing good faith law with the potential moral hazards of policyholders. The challenge is even more daunting when you factor in the homeowner's lack of knowledge about their policy. It is not uncommon for first-time homebuyers to overlook the limitations or exceptions typical of policies as they are caught up in a whirlwind of unfamiliar financial and legal processes. There are tools in the marketplace that help to lessen or alleviate the challenges, so keeping up with both technology and best practices is key to success.

Homeowner Policy Knowledge

Let's say John and Jane Doe purchased their first home 10 years ago and, at the time, neither had any articles of significant value. Even if their agent explained the concept of limits, there was no need to schedule high-value possessions at the time, and adding higher limits to the policy could have been looked upon as a means for the insurer simply to gain more of John and Jane's money.

On their 10th anniversary, John purchased a $7,000 diamond anniversary band for Jane. The jewelry theft limit on their policy was $1,500—far from enough to cover the replacement cost of the item. Worse still, should one or more of the stones ever be lost, it would not be covered under the typical policy. Factoring limits and average deductibles in, the $7,000 ring could easily translate to a $1,000 check should a theft occur. Any contents adjuster knows it's not a pleasant scenario when John calls and is informed that Jane's lost ring has dropped in "value" by $6,000.

Educating consumers about policy riders, such as personal property floaters and theft coverage endorsements, can be a powerful tool in walking the tightrope between protecting the company and good customer service. The education also shouldn't be limited to the policy's inception. Communicating with the policyholder throughout the life of the policy to educate them about limits and exceptions can protect both parties economically in the long term. Consumer outreach can be further aided with emerging "insure to value" tools and technologies that forward-looking insurance carriers are beginning to use today. These new analytics tools can be used by carriers to accurately predict the total value of contents in an insured's home and will help uncover areas of inadequate coverage. Security First Insurance is one of the first carriers to offer this type of solution to their policyholders.

The Fraud Factor

It is not uncommon during periods of economic downturn to witness increases in homeowner arson arrests in property loss investigations, but these hazards are also common on the contents side of the policy. Staged thefts and inflated contents claims are two examples of policyholder fraud that increase during these periods.

High-value items such as jewelry and electronics are two of the most common types of consumer goods categories reported in contents claims. Year after year, the two categories typically amount to 30 percent of the replacement cost value of claims. According to the most recent Enservio Contents Claims Index (CCI), an annual report that tracks and analyzes contents loss claims and the replacement cost value of items on those claims, jewelry comprised more than 17 percent of the claim total, overtaking electronics as the top category from the previous year (see sidebar). The number of jewelry items claimed in 2011 increased 57 percent over the previous year, with rings making up 47 percent of that total.

The National Insurance Crime Bureau (NICB) gathers and analyzes trends, and it's no surprise that jewelry is one of the focal points of recent reports. An NICB ForeCAST Report shows that suspicious disappearance/loss of jewelry increased 35 percent between 2008 and 2009 and another nine percent between 2009 and 2010. Suspicious theft/loss trended 15 percent and 16 percent in the same periods. One expects to see the tendency continue as economic conditions remain uncertain, or even worsen, with jewelry and electronics poised to maintain their place as the top CCI categories.

Additional Complexity Factors

Of course, the CCI increase is not just a representation of policyholder fraud, as there are certainly other factors that come into play.

One such factor is the case of the inflated appraisal. As jewelers battle for the ever-shrinking consumer dollar, providing inflated estimates of fine jewelry becomes more prevalent. Some of the more unscrupulous retailers may even demonstrate that an estimate is the "real deal" by providing a genuine diamond certificate.

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Let's revisit John and Jane. The $7,000 ring that John had purchased was on sale for 50 percent off from the local jeweler. John was thrilled to find this bargain, and he was even provided a genuine appraisal for the ring showing its $14,000 value. This half-price concept is very common. It is wise for the consumer to obtain an independent appraiser's report from a certified gemologist promptly after purchasing fine jewelry. Certifications from appraisers other than respected authorities, such as the Gemological Institute of America (GIA) or the American Gem Society (AGS), with values inflated over the sale price should be suspect.

When it comes to jewelry, the problem is not limited to homeowners. In January of 2010, a jeweler from Los Angeles submitted a claim for $256,000 in items when his courier was robbed. The jeweler was later convicted of fraud when it was proven that one of the gems, a 4.1 carat diamond, was actually being appraised in Israel at the time of the loss. In March of the same year, two New York Diamond District jewelers were sentenced to 15 years in prison for staging a heist in their office.

Yet another factor to be considered is that 2010 was a record year for jewelry sales. Between 2005 and 2010, jewelry sales increased by 12.8 percent to $63.4 billion according to the International Diamond Exchange (IDEX). The amount of items purchased along with the increase in production costs both play into the retail figures.

The Bureau of Labor Statistics publishes the Producer Price Index (PPI), which "measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services." The jewelry industry has seen the PPI move from 129 in 2002 to 218.6 in 2011. The preliminary data for 2012 show the PPI trending to 237. From 2005 to 2010, gold prices have increased 170 percent.

As we can see from this snapshot of the challenges insurance carriers face in accurately underwriting and assessing the value of jewelry, it becomes clear that contents claims as a whole are even more daunting. Benchmarking tools and predictive analytics solutions that allow carriers to take some of the guesswork out of contents can go a long way toward helping insurance carriers more accurately underwrite policies and assess contents claims valuations and settlements in the event of a loss.

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Enservio: Annual Contents Claims Index

Top contents categories as compiled from claims filed with insurers in 2011. Ranked by dollar value as a percent of total claims.

1	Jewelry	17%
2	Electronics	13%
3	Furniture	11%
4	Apparel	11%
5	Home Goods	9%
6	Tools	4%
7	Appliances	4%
8	Sporting Goods	3%
9	Books & Magazines	3%
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