

Property Casualty 360

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Contents Claims Go Commercial

Fresh Approaches to Complex Cases

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PHILADELPHIA, PA - FEBRUARY 23: Damaged gold records are displayed during a press conference detailing the fire that heavily damaged the Philadelphia International Records headquarters on February 23, 2040 in Philadelphia, Penn. Artists such as Michael Jackson, Teddy Pendergrass, Patti LaBelle, the OoJays, Lou Rawls, and Chubby Checker all have recorded at the studio. (Photo Jeff Fusco/Getty Images)

If you pause for a moment to shine light on your commercial contents claims handling process, then you might be surprised at what you find. Even a casual examination will reveal inefficiencies and inaccuracies the industry has been more or less sweeping under the rug for years now. This is remarkable and even a bit alarming when you consider that commercial contents claims have a natural complexity that make them ideal candidates for improvement. Rather than standing still, some innovative carriers are beginning to implement new approaches that dramatically improve accuracy, efficiency, and the customer experience for commercial contents claims.

A Patchwork Approach

Let's consider the wide range of businesses and enterprises that can sustain a loss—retailers, manufacturers, hospitals and other health care facilities, educational institutions, libraries, religious institutions, and museums. The variety is endless. Without personal knowledge of each type of business, how can you quickly and efficiently get the business back up and running? What are the costs of materials, equipment, supplies, and finished goods? In trying to answer these questions, adjusters and carriers have traditionally relied on a patchwork approach, blending together a variety of resources: salvors, perpetual inventories, forensic accountants, engineers, insured's lists, and so on. In addition to being cumbersome, this approach most often leads to redundancy, inconsistency, and inaccuracy in settlements.

The Inventory Sets the Foundation

Adjusters have all seen the angst on the face of the business owner who is losing production and sales time after a loss. The business leader's mind focuses on how to keep customers happy during the downtime and how to get not only employees but also the business back to full capacity as quickly as possible. Insureds are often bombarded with solicitations from public adjusters after a loss, with one of the attractions being an apparently easy path to producing an inventory. Carriers who find ways to provide insureds assistance with the inventory at the outset reduce this attraction significantly.

Similarly, a salvor's core competency is making markets for the sale of distressed goods. To accomplish its primary goal, the salvor has to perform inventories. It is important, however, to remember that the salvor is primarily interested in total loss items that retain some value in the secondary markets. In the absence of better alternatives, insurers have also turned to salvors to perform inventories of restorable and non-saleable items. Engineers are highly adept at determining the restorability of sophisticated technical equipment, but it makes little sense to pay engineering rates to catalog inventories. Moreover, while forensic accountants add tremendous value to the claims process when analyzing the business interruption (BI) claim, it makes little sense to pay the commensurate fees for contents inventory and valuation work.

Because these resources have business models that focus on services other than non-restorable contents valuation, competing business priorities and lack of integration of personnel, communications, technology, and software tools inevitably conspire to affect the ultimate result. When problems occur along the way, it is often difficult to assign and enforce accountability. Inefficiencies and inaccuracies are more likely to occur when numerous parties with varied approaches are involved.

Aggregated Reporting And Analytics

A single-source provider for inventory and valuation of commercial contents claims eliminates the need for the adjuster having to review and combine reports from multiple sources to determine a settlement. At the home office level, carriers are now enjoying, for the first time, the benefits of having their commercial contents claims data aggregated for analytical purposes.

Historically, adjusters have felt pressure to become knowledgeable about an array of industries just to do perform the job. A growing number of commercial carriers have discovered, however, the benefit of specialized commercial contents claims services and software to achieve accurate and timely settlements. Adjusters armed with these fully integrated resources no longer must become overnight experts in several distinct industries. Instead, they are able to focus on the structural and BI

elements of the claim, while the contents claims experts apply specialized knowledge, technology, and software solutions to the inventory and valuation of lost and damaged items.

When one considers a loss at a major city hospital, for example, this can be a huge burden taken from the shoulders of adjusters and carriers while the rest of the claim moves forward. To fully grasp the concept, weigh the following brief examples:

Medical Center: Fire and Smoke

Who: A regional acute and outpatient care facility with more than 450 beds.

What: A fire in the power supply of an MRI machine caused extensive smoke damage inside the hospital's central supply containing more than half a million items.

How: Under pressure to keep the hospital up and running, the hospital quickly emptied the supply room, placing the contents in temporary storage trailers brought on site. The hospital employees, not having any experience or expertise in disaster recovery, did not follow any specific processes. In their haste, no record was made of which supplies were moved to which trailer. The supplies were co-mingled haphazardly in the storage containers. Documentation was limited to the insured's perpetual inventory.



As an experienced health care purchasing consultant, the contents specialist's health care project manager coordinated with hospital administrators to move the trailer's contents to a local temporary storage facility where the items could be unpacked and staged for proper identification. The contents project manager identified the highest value items, performed counts of those, and verified other items through inspection and sampling while the team corrected the on-hand inventory records to reflect what was actually lost. Working closely with the hospital's materials manager, their suppliers and their purchasing software application, the project manager was able to verify the pricing at the true costs to the hospital.

Result: The contents specialist team's analysis revealed an actual loss 32 percent lower than the insured's perpetual inventory had suggested. Presented with detailed, superior reporting, the insured's management team found itself in complete agreement with the contents specialist's recommendations.

Higher Education: Water Damage

Who: A private liberal arts college with more than 3,500 students.

What: Water damage from torrential rainstorms flooded the basements of nine buildings on campus, including the library, student center, and several science labs. The loss occurred in late summer, just weeks from the start of classes. Time was of the essence.

How: While the waters were still receding, contents specialists met with the adjuster, the broker, the facilities manager, other services providers, and the president of the college to establish an orderly protocol as to how to proceed with the contents inventory.

The project manager and team worked closely with emergency restoration vendors to assess the items that had been affected by water. Items that could be cleaned successfully were taken off site for work, while items determined to be questionable were moved to a secure area on site. The contents team worked with an industrial hygienist to ensure that only appropriate items were deemed to be a total loss.



Result: The net result was a loss payment for total loss items under six figures and closure of the entire claim in less than 30 days. The contents specialist inspected thousands of items: the vast majority were documented as not damaged, with only 557 deemed questionable and inventoried, and of those, only 315 were determined to be a total loss. The college was able to focus on launching the school year with minimal disruption for the administration, faculty, and student body. The contents claims specialists created reports that identified numerous items that could be saved as well as which items were a total loss, applied depreciation for actual cash value (ACV) coverage, and shared those reports with the adjuster to consider when resolving the claim.

Comprehensive Project Management

In both of these cases, the combination of specialist knowledge with on-site inventory personnel and a project management approach to the contents portion of the claim led to swift and accurate settlements. The adjuster and carrier were able to focus on other aspects of the claims, while the insured benefited from a transparent process that minimized disputes and disagreements that could otherwise delay claims settlements. The expertise and knowledge contents claims specialists bring to the process provide another level of customer service to the insureds, who trust they are getting a fair and accurate inventory, valuation, and settlement.

The following are the key elements that, when working closely together, will help carriers improve the accuracy and efficiency of their commercial contents claims:

Repair versus replacement. Commercial claims become inflated when too much reliance is placed on insureds' perpetual inventories. Field inventory specialists—and in some cases, those possessing contents expertise in that particular industry—are needed to conduct accurate on site inventories of all lost and damaged items.

Identifying the best course of action for damaged items can be one of the most challenging aspects of commercial contents claims. Carriers benefit from contents project managers who work with relevant vendors to make sure the right decisions are made with regard to cleaning, restoration/repair and total loss. Reporting on the status of each item should also be provided.

Expert valuation. Subject matter expertise is essential to ensure a positive experience for the insured and the adjuster. The contents claims team should

have access to deep and relevant industry vertical knowledge.

Detailed reporting is aligned with coverages. Which items, such as stock, are valued at cost? Which items in the manufacturing process need to reflect WIP (work-in-progress) valuation? Are the items on the loading dock valued at full sales value? The office equipment and furniture needs either RC or ACV valuation. Detailed reports, broken out to reflect settlement provisions according to the various coverages on a claim, arm adjusters and carriers with the documentation and transparency needed for internal and insured-facing reporting to resolve the claim.

Facilitated scrapping and/or salvage. Carriers can benefit from a team of contents claims experts that can themselves facilitate salvage operations, or provide their reporting to a salvor of the carrier's choice. In either instance, the contents specialist's superior, accurate and thorough inventory promotes a better salvage recovery.

Single point of contact. Commercial contents project managers provide carriers with a single point of accountability and ensure that commercial claims are handled in the fastest, most efficient manner possible. A comprehensive project management approach for complex claims smooths the process for adjusters and greatly increases the customer satisfaction of insureds.

Replacement and reinstallation. A total solution that includes elective replacement services can be a great benefit to carriers and insureds by minimizing business interruption. Carriers can close claims more quickly and cost effectively, while insureds gain access to discounted replacement items through specialty and national suppliers.

In summary, innovations in contents claims technology, software, and services are already redefining how insurance carriers handle contents claims for personal lines. Carriers are discovering the benefits of leveraging these innovations with their commercial clients. There are numerous success stories demonstrating time and cost savings for carriers and adjusters. Insureds benefit from swifter and more accurate settlements as well as greater transparency of every step of the inventory and valuation process. Implementing innovative approaches to commercial contents claims can have a tremendous impact on customer satisfaction and claim payment accuracy. Ours is an industry that historically evolved very slowly, but the pace of innovation is picking up, delivering some great results. Isn't it satisfying to be a part of that?

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