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Taking Inventory

Four things you are doing wrong when it comes to handling contents claims.

By Jay Straughan

Settling contents claims quickly and accurately is every company's aim, yet these target results are often missed due to common errors made during the claims process. The good news is that the most common errors are easily preventable with good claims judgment and investigative practices.

Let's take a look at four areas in which insurance carriers are making mistakes. No company is guilty of these all the time, but a few stubbed toes of my own and hundreds of closed file reviews across the claims industry have taught me a thing or two about common contents claims mistakes. By focusing their attention on these areas, carriers will ensure that policyholders get the fast and accurate claims settlements both parties desire.

1 Trusting, but Not Verifying

When a policyholder suffers a loss of something like a treasured piece of art due to theft, fire, or some other hazard, they file a claim with their carrier along with an appraisal for that particular item. Appraisals for insurance purposes describe the work of art and establish a value based on a number of factors that each individual appraiser applies in making their determinations of the value.

Where many insurance carriers go wrong in this scenario is by failing to conduct their own review of the process carried out by the appraiser for the insured. The fact is, in many instances, the appraiser for the policyholder has never seen the described work of art and is relying entirely upon a verbal representation or, perhaps, only a photograph provided to them.

In one noteworthy example, a diligent claims adjuster working for a major carrier decided to look beyond the initial $25,000 value asserted by an appraiser for a particular piece of damaged fine art. The adjuster hired an expert who, as part of the process, spoke directly with the artist of the lost item. By doing so, the expert confirmed what had been indicated by his initial research: the art piece in question was, in reality, a giclée, which is a sophisticated inkjet printing of an original work. The actual value of the missing piece turned out to be a scant $900, and the artist readily offered a replacement for that price.

The appraiser hired by the insured had made a determination based on a poor photo and the client's assurance of authenticity. Yet a knowledgeable, independent examination by a contents expert in fine art who acted in due diligence to unearth the true value of the insured item established a fair, equitable settlement.

2 The "Looks Good to Me" Method

When policyholders prepare to submit a claim, they often just list the lost items and provide a best estimate as to the relative replacement cost. While this is a perfectly acceptable first step in submitting a small claim, things can go astray from the goal of accurate, fast indemnification when the list hits a busy adjuster's desk. There are times when adjusters examine these lists and, based on their general experience in the field, simply say, "It looks good to me." And then they cut a check.

The problem is that while we all shop and have a general sense of what things cost, no one—not even an experienced claims adjuster—is up to date on prices for everything all the time. So in merely relying on one's sense of the accuracy of values attached to a number of items, adjusters risk a very real danger of underpaying or dramatically overpaying on a claim.

The bottom line is that there really is no shortcut for finding a true, like kind and quality match for each item on a submitted list as a means of determining the true replacement costs for every piece being assessed. Yes it's a bit more work, but the resulting accuracy of the final claims settlement is worth the effort and is the only way to ensure consistent accuracy for both the carrier and the insured.

3 The "I Saw It Online" Method

It seems that the last word in verification for the most common forms of research is to conduct an Internet search. And while this may be completely appropriate and trustworthy for determining the batting average of Babe Ruth or the true height in feet of the Eiffel Tower, it isn't always the best method for confirming the value of items that turn up on the average contents claims list.

A practice of "spot-checking" prices online to see if it supports the valuations reported for various covered items submitted by the insured can lead to inaccurate payments. The problem with this method is that in using such a technique, a claims handler almost assuredly can find a matching price for a similar item online because there are, in fact, a wide range of values applied to the exact same item, depending on where you look.

You need only try pricing the average HDTV this way to see the problem it can present to an insurance carrier attempting to determine the actual replacement cost for a particular item. For example, a television purchased at an upscale department store may cost twice as much as the exact same item sold at Walmart. In other words, looking for replacement value online may be a good first step in an appraisal process, but only if it is then followed up with a more exacting procedure to uncover the value of the specific item being evaluated.

4 Requiring the Insured to Bear the Burden

In many cases, the first time an insurance carrier sees a detailed list of claimed items is long after the loss occurred. If the adjuster or someone else did not assist with the inventory, it means the insured was left to do it himself or hire someone to do it for him.

The problem with this type of arrangement is that it puts the entire burden of recalling and itemizing the lost items on the shoulders of the insured, who is undoubtedly already going through a stressful period. It also adds to the overall cycle time of a claim, which of course adds to the inconvenience for the policyholder (and raises the carrier's expense).

While most policies require the insured to submit proof of loss, many insurers believe this is not a best practice. I've seen inventories created by insureds with whole sections left out as well as lists with inaccurate, over-reporting of lost items because due care and attention was not paid when preparing the list.

Taking a proactive approach to establishing an inventory of damaged items allows leading carriers to accomplish two important goals at one time: provide a valuable service to the policyholder and ensure a complete and accurate list of the lost items. Additionally, an important benefit of adjusters performing an inventory is that they capture the value drivers of each item. Haven't we all seen discrepancies like these on claims before? Organ: $57,000; piano: $7,500; clothes in son's closet: $2,500.

Taking a look at our claims practices and instituting new and better ways to ensure a high level of service and improved accuracy is something claims people are tasked with doing well. If you haven't looked at these common problems in your file handling or in your own operations, your next innovation and improvement opportunity has just presented itself.

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