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Ignoring the Sales Rack

Data trends show reported contents claims prices are vastly higher than average retail prices.

By Jon McNeill

Having spent my early career running a national chain of collision repair shops, I figured out quickly how auto insurers applied tight controls and rigor on each and every claim. Their information was based on huge amounts of structured data analysis. They knew exactly, for instance, what it cost to replace the rear panel on a 2008 Toyota Corolla. There was scant room for error, misappropriation, or settlement overages.

Today's contents property business also has access to reams of data, and insurers stand to benefit from the insights it has to offer. Borrowing a page from how auto insurers use and analyze data, we conducted research to study why a profitability gap exists between auto and homeowners', along with ways that insurers can close the difference.

We dove into our data warehouse, which is comprised of some billions of dollars of settled contents claims across all geographies, perils, policy types, and claims sizes. We analyzed all types of property claims against consumer product categories, their frequency, and the time of year when the claims were filed. Also factored in is data from the aggregated pricing of millions of consumer products from hundreds of retailers, with pricing data updated daily.

The results revealed surprising patterns and some potential opportunities for carriers. Theft claims, the largest category producing the highest volume in homeowners' claims, are increasing and nearing the average claims amount for structural claims. Our own data analysis has shown a 15 percent increase in claims severity from January 2010 to February 2013, whereas auto has remained relatively flat during that same time period.

Where contents are involved, our data shows that the average claim is more than \$4,000. However, when you compare an insured's stated value of items claimed to the actual retail value of these same items, the amounts claimed are more than twice the actual retail value.

We also discovered a higher frequency of claims being reported in December, April, and September. Burglary claims are the most prominent filings and are increasing in frequency and value. In summary, our data yielded four major trends.

1 Average Claims Values Surpass Average Retail Values

Analyzing the main categories on which people file claims revealed that jewelry, electronics, and apparel topped the charts among consumer goods. The top item in the jewelry category that people claimed were rings, with the average claim hovering around \$834. We cross-referenced that with the average retail price for a ring, which, as it turns out, is \$350. That's a difference of 138 percent.

Next, we examined electronics and found that laptops were the most popular item claimed. This time the average claim amount was \$772. Similarly, our research revealed that the average retail price for a laptop is \$456, a difference of 69 percent.

The third most-popular category where insureds are filing claims is apparel, with woman's purses the top item. The average claim is \$448; however, the average retail price for a women's purse is just \$65. That's nearly seven times the average, or a difference of a whopping 589 percent.

2 Burglary Claims Reporting Trends

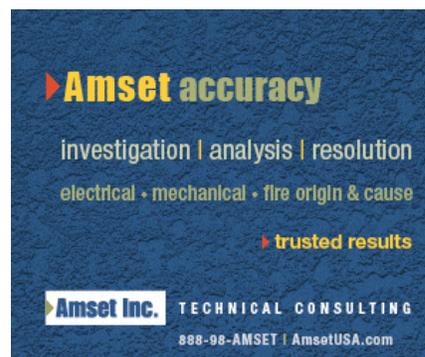
Next, we looked at patterns in volume. We compared the claims reported each month to insurance

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carriers against those claims reported as crimes each month to law enforcement. We found that far more burglary claims were being reported to insurers than to law enforcement in December, April, and September.

Not surprisingly, the highest volume of theft claims seems to occur in December at the height of the holiday season. The second-highest volume of claims recorded was April, coinciding with tax time. Finally, September was the third-highest in claims frequency, a time of year associated with back to school and tuition expenses. In comparison to the rest of the year, these seasonal fluctuations are suspicious. For three months of the year, policyholders are submitting more burglary claims to insurers than to the police.

3 Burglary Claims Rising Faster Than Rate of Inflation

The highest volume of claims that insurance companies address are in the property business. The biggest single category within property may not be what you'd expect. It's not storm-damaged roofs or basement flooding. In reality, it is garden variety theft claims. These are your high-frequency, typically low-dollar claims that include such things as jewelry, electronics, and apparel—and they are on a steady rise. We dug into the data and found that average burglary claims have been increasing at two to three times the rate of inflation, which the Bureau of Labor Statistics pegs at 1.5 percent.

Slow Down, Scrutinize

For insurers, it may be tempting to speed the settlement process for all high-volume, low-value claims. But this data reveals that insurers need to do quite the opposite and, perhaps, slow things down for a closer inspection, in particular, for suspicious claims made in December, April, and September.

Also, it's vital to take a closer look at the substance of these claims and question values that don't fit within average price ranges. Ask the policyholder for proof of purchase. If they don't have it, then ask for a credit card statement or the contact details of the jeweler from which the ring was purchased. Anything that can be used to verify the purchase and its value is worth pursuing.

This doesn't have to add to your adjuster's workload. These details can be automated with software, and policyholders often are willing to work through the process themselves. As we know, the vast majority of claims are valid, especially when adjusters have at their fingertips actual, current retail prices on those items being claimed as stolen.

A list of ready-made questions to ask the claimant also will go a long way toward investigating the outcome further. Ideally, claims transactions can be self-serviced online and done efficiently without human intervention. If there is something suspicious about a theft claim, technology can flag it, allowing adjusters to focus their time on higher margin cases and more strategic tasks.

In addition to scoring suspicious claims and policyholders, this type of data also can identify your most loyal and profitable customers and ensure that you pay the right amount in settlements. Accurate settlements are good news for all of us; they provide the visibility required to run homeowners' more profitably, and they lower premiums for the industry as a whole.

Jon McNeill is the CEO of Enservio, which provides software and services to property insurance carriers and their policyholders nationwide for contents inventory creation, valuation and replacement.

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