

# Property Casualty 360

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## Contents Claim Solved: The Case of the Big Rock

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Occasionally a contents consultant may work on a loss involving very expensive gems. Because of privacy concerns, we will not discuss the specifics of this next case but will instead focus on the process of evaluating gems and how to accurately assess damage and re-evaluate value.

What we *can* share is that the diamond involved in the case was **insured for several million dollars**. This large diamond, or "rock" as some would say, registered between 10 and 20 carats—with both incredible clarity and color.

### Certificate Stones

Today, stones of this type are almost universally "certificate" stones. A "certificate stone" means that an independent grading agency has inspected the stone in a laboratory, and has graded the stone, issuing a certificate documenting the grading. Just as the television ads for Carfax point out, it is often much better to have independent corroboration of a car's history instead of trusting the story being told by the salesmen trying to sell the car.

In addition to establishing the stone's weight (in carats), the agency grades the stone against established standards for color, clarity, and cut. The stone is inscribed with an identifying number, and a certificate is then issued displaying the stone's ID number.

There are several labs that perform diamond grading. The nonprofit Gemological Institute of America (GIA) is one of the most respected and most widely recognized among grading labs in the United States. Beware, however: Not all certificates are born equal. Just as different teachers grade differently, with some grading easier than others, the same is true of gem grading labs. It is always important to only compare stones graded by the same lab and understand that two stones with identical grades from two different labs may vary in quality and price.

### A Rare Gem

Large diamonds are rare. Furthermore, large diamonds of exceedingly great color and clarity are extremely rare. Finding an exact replacement of such a large stone of quality is virtually impossible.

Often the best source for such a stone is recutting the damaged stone. We know the stone will retain its wonderful color and clarity while simply losing some of its size. A diamond cutter needs to be consulted to determine how to best recut the stone and what the loss in weight will be. The stone should be re-graded and re-certified after it is recut. The only issue then becomes how much value diminution results from the loss of size.

If the stone loses half its weight, then would it be valued at half of the original stone? Absolutely not. Apportioning the value based on percentage of size is not appropriate. We have established that large diamonds of exceedingly high quality are extremely rare; high quality stones of half the size will be much more plentiful. A larger stone will have a much higher value per carat. A stone reduced to half of its size may only be worth a small fraction of the original stone.

In this case, the size and location of the damage was as "fortunate," as such damage can be—resulting in a recut gem with a somewhat minimal loss of weight (of less than a carat). A single stone of the same color and quality weighing one carat would cost \$22,000. Would the loss be equal to the value of this one carat stone? A carat is a carat, isn't it?

Well, because this carat happens to be part of a large, rare stone, the per-carat value balloons **nearly tenfold** to approximately \$200,000 per carat. I cannot tell you the actual dollar amount of this loss, but I can tell you that losing less than a carat in the re-cut results in a loss in value of more than the average value of a home in Atlanta, Georgia.

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