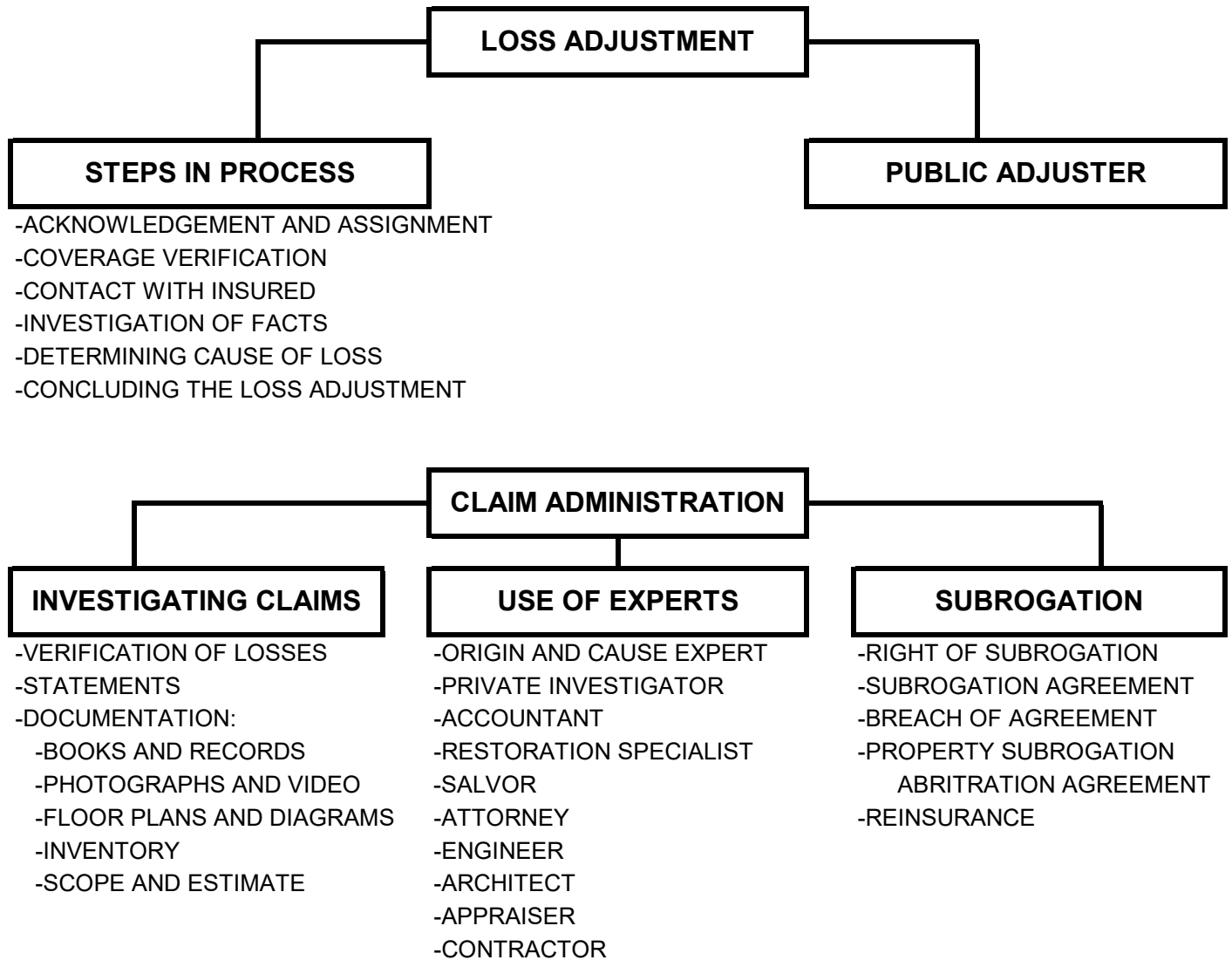


Module 1

Property Claims Handling Process



Property Claims Handling Process

Module 1 Chapter 1

1

Learning Objectives

- ☐ Obj I – Steps in the Loss Adjustment Process
- ☐ Obj II – Public Adjusters
- ☐ Obj III – Investigating and Documenting Claims
- ☐ Obj IV – Use of Experts in Claims Situations
- ☐ Obj V – Subrogation and Reinsurance

2

Steps in the Loss Adjustment Process

Objective I

3

Notifying the Insurer

- ❑ When a loss occurs, several steps must be taken before the insurer can begin the loss adjustment process.
 - ❑ Loss notice is submitted to the insurer.
- ❑ After loss notice is received, the insurer begins the loss adjustment process.

4

Loss Adjustment Process

- ❑ Steps in the loss adjustment process:
 - ❑ Step 1: Acknowledgement and assignment to an adjuster.
 - ❑ Step 2: Coverage verification.
 - ❑ Step 3: Contact with insured.
 - ❑ Step 4: Investigation of facts.
 - ❑ Step 5: Determining cause of loss and extent of damage.
 - ❑ Step 6: Concluding the loss adjustment.

5

Acknowledgement and Assignment

- ❑ Step 1: Acknowledgment and Assignment to an Adjuster
 - ❑ Insurer assigns loss to an adjuster.
 - ❑ Most insurers follow up with written confirmation of the assignment.
- ❑ Most adjusters handle losses within a specific geographic area.
 - ❑ Should be familiar with adjuster licensing laws in the area.

6

Coverage Verification

- ❑ Step 2: Coverage Verification
 - ❑ Typically, the adjuster can quickly determine that a policy is in force.
 - ❑ Adjuster may need to consult with an expert to determine issues such as cause of loss.
- ❑ Sometimes coverage verification cannot be completed before contacting the insured.
 - ❑ Adjuster must not say anything that might waive any policy defenses.

7

Contact With the Insured

- ❑ Step 3: Contact With the Insured
 - ❑ Adjuster should contact the insured and make an appointment to meet at loss location.
 - ❑ Adjuster should get information about the extent of the loss and how the loss occurred.
- ❑ Most insureds do not understand their coverage thoroughly.
 - ❑ Adjuster must convey any possible policy violation, exclusion, or limitation.

8

Investigation

- ❑ Step 4: Investigation
 - ❑ Good investigation is the basis of every claim settlement.
- ❑ Adjuster investigates, inspects, and appraises the loss.
 - ❑ Must determine what level of investigation is appropriate.
 - ❑ A loss's dollar value does not necessarily indicate the amount of investigation needed.

9

Determining Cause of Loss

- ❑ Step 5: Determining Cause of Loss and Extent of Damage
 - ❑ Adjuster must communicate whether the loss was caused by a covered cause of loss and how much of the loss is recoverable.
 - ❑ Investigation forms the basis for an opinion.
 - ❑ Negotiations as to the extent of the loss often occur at this time.

10

Concluding the Loss Adjustment

- ❑ Step 6: Concluding the Loss Adjustment
 - ❑ Adjuster should assemble the claim and submit it to the insurer for review.
- ❑ The statement of loss is an accounting overview of the adjustment.
 - ❑ Lists the value of the property, the amount of loss, and amount claimed under the policy.
- ❑ Closing, or final, reports are made whenever the adjuster has completed the assignment.

11

Practice

- ❑ The insurer begins the loss adjustment process after:
 - ❑ A. Contacting the insured and arranging a meeting at the loss location.
 - ❑ B. Determining the insured has completed all required duties under the policy.
 - ❑ C. Receiving the loss notice from the insured.
 - ❑ D. Verifying a policy is in force.

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Public Adjusters

Objective II

13

Public Adjuster

- A public adjuster is hired by an insured for a fee to represent the insured in a claim.
 - Active in some states and metropolitan areas.
 - Most often involved in presenting fire claims to insurers.
- Public adjusters perform many of the duties required of insureds in presenting and documenting claims.
 - Also are involved in settlement negotiations.

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Public Adjuster

- Public adjusters can help insureds by:
 - Presenting claims in an organized manner.
 - May expedite settlement.
 - Compiling and documenting claims to fulfill the insured's obligations under the policy.
 - Allows insured to focus on other tasks.
 - Reassuring the insured the claim settlement is fair.

15

Public Adjuster

- ❑ Public adjusters may obtain business by monitoring police and fire calls and appearing on the scene immediately after a loss.
 - ❑ May take advantage of insured's vulnerable position.
 - ❑ May cause an insured to distrust the insurer.
- ❑ Public adjusters are usually paid a percentage of the amount paid to the insured by the insurer.
 - ❑ May encourage some public adjusters to overstate amount of loss.

16

Practice

- ❑ Public adjusters, active in some states and metropolitan areas, are involved in many claims. These public adjusters are hired by:
 - ❑ A. An appraiser.
 - ❑ B. The policyholder.
 - ❑ C. A contractor.
 - ❑ D. The insurer.

17

Investigating and Documenting Claims

Objective III

18

Verification of Losses

- Every investigation should determine what caused the loss and how coverage applies.
 - Statements from the insured and witnesses can be critical in determining the cause of loss.
 - Adjusters must appropriately document the extent of loss or damage.

19

Statements

- Statements taken from the insured and witnesses can establish:
 - Property's ownership.
 - Cause and extent of loss.
 - Facts surrounding the loss.
 - Whether any third party is responsible.
 - May establish basis for subrogation.
- Statements can either be written or recorded.
 - Statement may be waived if claim is small.

20

Statements

- Obtaining a statement might waive the insurer's right to an examination under oath.
 - A nonwaiver agreement avoids the problem of waiving any conditions.
- A witness statement is needed when gathering information regarding the cause of loss.
 - Particularly if fraud is involved.
 - When identifying witnesses, adjuster should be careful not to imply the insured was responsible for the loss.

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Documentation

- ❑ Adjusters must document losses to:
 - ❑ Identify the property covered.
 - ❑ Inform insurer of magnitude of loss.
 - ❑ Establish cost of repairs.
 - ❑ Avoid disputes with the insured.
 - ❑ Assist contractors in preparing bids for repairs.
- ❑ The type of documentation required depends upon the type of loss.

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Documentation

- ❑ Types of documentation include:
 - ❑ Books and records – useful in documenting loss to inventory and personal property.
 - ❑ Photographs and video – photos/video should be taken during initial inspection.
 - ❑ Extremely close photography is sometimes needed for serial numbers.
 - ❑ Floor plans and diagrams – helpful in noting structure's size and damaged areas.

23

Documentation

- ❑ Types of documentation include:
 - ❑ Inventory – should include as much pertinent information about the property as is available.
 - ❑ Manufacturer, serial and model numbers, size, and pre-loss condition are all helpful.
 - ❑ Scope and estimate – a scope sheet is a list of damaged areas and proposed repairs.
 - ❑ Preliminary scope allows the contractor to prepare a bid.
 - ❑ Scope can help in reserving.

24

Practice

- ❑ Which one of the following statements is correct regarding the gathering of statements from the insured and witnesses?
 - ❑ A. In all jurisdictions, statements cause the insurer to waive their rights to an examination of the insured under oath.
 - ❑ B. Witness statements are especially important if fraud is suspected.
 - ❑ C. A statement is only valid if it is written.
 - ❑ D. In large and complicated losses, the insured's statement is often waived.

25

Use of Experts in Claims Situations

Objective IV

26

Use of Experts

- ❑ The ultimate reason for using experts is to help the adjuster determine to what extent coverage applies.
 - ❑ Experts include origin and cause experts, as well as accountants.
 - ❑ Experts can be used in subrogation cases to determine if insurer can recover damages from a third party.

27

Types of Experts

- Types of experts:
 - Origin and Cause Experts – determine if a fire was accidental or intentionally started.
 - Also can identify responsible person/entity.
 - Private Investigators – have knowledge and skills required to obtain information.
 - Gather facts relating to a claim.
 - Accountants – some specialize in claims.
 - Can determine financial condition of insured's business.

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Types of Experts

- Types of experts:
 - Restoration Specialists – help limit amount of damage and protect property.
 - Clean structures and merchandise.
 - Salvors – mainly used to separate damaged from undamaged merchandise.
 - Also sell or purchase salvage.
 - Attorneys – commonly provide advice and counsel to insurers on coverage issues.
 - Can also file subrogation suits.

29

Types of Experts

- Types of experts:
 - Engineers – occasionally needed to resolve issues related to the cause of loss.
 - Usually employed to document whether a third party is responsible for a loss.
 - Architects – needed to draw plans and provide specs for reconstruction of structures.
 - Appraisers – establish value of property, or can resolve disputes about amount of loss.
 - Some appraisers are certified or licensed.

30

Types of Experts

- Types of experts:
 - Contractors – often asked to repair structures.
 - Can also act as appraisers in disputes over the amount payable.
 - Conflicts of interest can arise between an expert, an adjuster, and/or an insured.
 - If an appraiser is needed, they should be impartial.

31

Practice

- Certain professionals specialize in the cleaning of equipment, merchandise, inventory, structures, and personal property after a loss caused by fire, smoke, or another peril. These professionals are commonly referred to as:
 - A. Salvors.
 - B. Origin and cause experts.
 - C. Private investigators.
 - D. Restoration specialists.

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**Subrogation and
Reinsurance**

Objective V

33

Subrogation and Reinsurance

- ❑ After a loss adjustment is complete, the adjuster must pursue the insurer's right of recovery.
 - ❑ An insurer that pays a claim has a right of subrogation.
 - ❑ Subrogation is the substitution of one party for another in a claim.
- ❑ An adjuster also needs to be aware of when a policy is subject to reinsurance.

34

Subrogation

- ❑ Subrogation rights are established by policies and by law.
 - ❑ Expressed in the "Transfer of Rights of Recovery Against Others to Us" condition.
- ❑ Insured must execute assignment of rights to the insurer.
 - ❑ Known as a subrogation agreement.
 - ❑ Sworn statement in proof of loss often contains the subrogation agreement.

35

Subrogation

- ❑ Insured might breach subrogation condition by interfering with insurer's right of subrogation.
 - ❑ In this case, insurer would have right to collect from insured.
- ❑ Some policies permit insured to waive rights of recovery before a loss.
 - ❑ In those cases, the insurer waives its right of subrogation.
- ❑ Insured might also release a third party before a loss in connection with bailment situations.

36

Subrogation

- ❑ Insurer has the right to receive only the amount that it has paid.
 - ❑ No right of recovery for losses insured absorbs because of lack of coverage, exclusions, or policy limitations.
- ❑ Decision to pursue subrogation usually is based on cost involved and likelihood of success.

37

Subrogation

- ❑ When liability is questioned, arbitration can resolve disputes between the insurers.
 - ❑ Intercompany arbitration.
- ❑ Many insurers are members of the Property Subrogation Arbitration Agreement.
 - ❑ Gives insurers a means of resolving matters without resorting to litigation.
 - ❑ Member insurers must use arbitration when amount payable is in dispute.
 - ❑ Claim typically cannot exceed \$100,000.

38

Reinsurance

- ❑ Reinsurers assume financial consequences of a loss otherwise payable by the original insurer.
 - ❑ Each insurer has its own reinsurance procedures.
 - ❑ Each insurer sets a dollar threshold for the amount of loss requiring notice to the reinsurer.
- ❑ Reinsurers have the right to participate in a claim's investigation and settlement.

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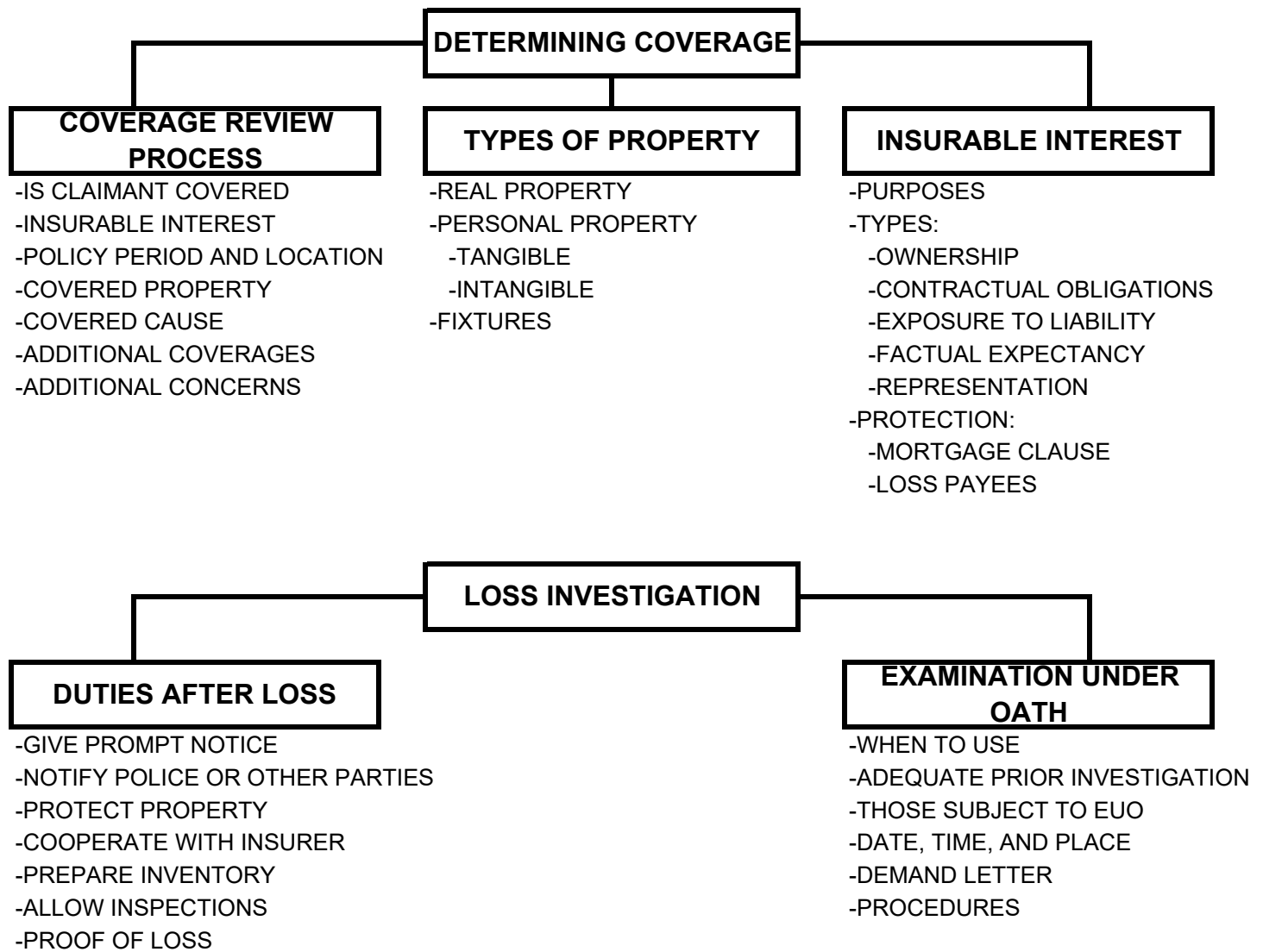
Practice

- Which one of the following statements is correct regarding the right of subrogation?
- A. The insurer has the right to receive only the amount it has paid in a claim.
 - B. Some policies permit the insured to waive rights of recovery after a loss.
 - C. It is the most common approach used to resolve insurer disagreements regarding overlapping coverage.
 - D. The insurer's decision not to pursue subrogation precludes the insured from pursuing a negligent third party.

40

Module 2

Property Insurance Basics



Property Insurance Basics

Module 2 Chapter 2

1

Learning Objectives

- ☐ Obj I – Determining Coverage for a Claim
- ☐ Obj II – Types of Property
- ☐ Obj III – Insurable Interest
- ☐ Obj IV – Protecting Insurable Interests
- ☐ Obj V – Insured's Duties After Loss
- ☐ Obj VI – Examinations Under Oath

2

Determining Coverage for a Claim

Objective I

3

Coverage Review Process

- ❑ A claims representative rarely receives a claim that can be paid immediately.
 - ❑ Rep must review the loss facts and policy.
 - ❑ Determining the applicable coverage should precede the calculation of the insured loss.
- ❑ A systematic coverage review process can be applied to direct property loss claims.

4

Coverage Review Process

- ❑ Questions to ask during the process:
 - ❑ Is the claimant covered?
 - ❑ Does the claimant have an insurable interest?
 - ❑ Did loss occur within policy period/location?
 - ❑ Is the property covered?
 - ❑ Is the cause of loss covered?
 - ❑ Which financial consequences are covered?
 - ❑ Do any additional coverages apply?
 - ❑ Have policy conditions been met?
 - ❑ Do laws affect coverage?

5

Is Claimant Covered

- ❑ The named insured is the party listed in the policy.
 - ❑ Some policies cover additional parties, such as relatives.
- ❑ Most commercial policies cover only persons or organizations listed as insureds.

6

Insurable Interest

- ❑ A claimant must have an insurable interest.
 - ❑ A condition that would cause the individual to suffer a loss if an insured event occurred.
- ❑ Types of insurable interest:
 - ❑ Property ownership.
 - ❑ Tenant or lessee.
 - ❑ Mortgageholders and lienholders.

7

Policy Period and Location

- ❑ Damage must generally occur during policy period to be covered.
- ❑ Property must also be at a covered location.
 - ❑ Commercial policies can extend coverage to newly acquired buildings.
 - ❑ Homeowners policies typically cover personal property located anywhere in the world.

8

Covered Property

- ❑ Buildings and personal property are often damaged in the same claim.
 - ❑ Some policies have different insuring agreements for buildings and personal prop.
- ❑ Policies have a Property Not Covered section.
 - ❑ Must be reviewed by claims representative.

9

Covered Cause

- ❑ Property policies often limit coverage to direct physical loss.
 - ❑ Must be caused by a covered cause of loss.
- ❑ Approaches to coverage:
 - ❑ Specified perils – each covered peril is listed in the policy.
 - ❑ Claimant has burden of proof.
 - ❑ Open perils – all perils are covered unless specifically excluded.
 - ❑ Insurer has burden of proof.

10

Additional Coverages

- ❑ Property policies can contain additional coverages and coverage extensions.
 - ❑ Provide coverage for various loss exposures.
- ❑ Commercial policies contain more additional coverages than homeowners policies.

11

Additional Concerns

- ❑ Insurers and insureds must perform certain obligations before or after a loss.
 - ❑ Conditions precedent – met before a loss.
 - ❑ Insured must pay policy premiums.
 - ❑ Conditions subsequent – met after a loss.
 - ❑ Insured must promptly report losses.
- ❑ Courts or the insurance commissioner may render decisions that affect policy interpretation.

12

Practice

- ❑ Which one of the following is considered a direct physical loss at a factory?
 - ❑ A. Loss of income following a flood in the factory.
 - ❑ B. Loss of production time due to an electrical outage.
 - ❑ C. Loss of merchandise due to a fire in a storage room.
 - ❑ D. Overtime labor costs incurred following a tornado.

13

Types of Property

Objective II

14

Real and Personal Property

- ❑ Types of property:
 - ❑ Real property – land and structures that are permanently attached.
 - ❑ Personal property – anything that isn't real property.
 - ❑ Tangible or intangible.
- ❑ Fixtures and improvements are not always clearly defined.

15

Real and Personal Property

- ❑ Reasons it is important to distinguish between real and personal property:
 - ❑ Overlapping coverages – more than one policy might cover a loss.
 - ❑ Valuation – valuation methods often differ for real and personal property.
 - ❑ Coinsurance requirement – insured must purchase adequate insurance.
 - ❑ Coinsurance requirement is often based on value of real property only.

16

Fixtures

- ❑ Personal property can become real property by becoming attached to real property.
 - ❑ Building fixtures are part of the real property.
 - ❑ For insurance purposes, fixtures are property added to a building after its construction.
- ❑ Considerations in determining if property is a fixture:
 - ❑ Attachment.
 - ❑ Adaptation.
 - ❑ Intent.

17

Trade Fixtures

- ❑ Property installed in a structure and used in a business is often referred to as trade fixtures.
 - ❑ Intent is for property to be moved when tenant leaves.
- ❑ Trade fixtures include:
 - ❑ Cabinets and counters.
 - ❑ Display windows.
 - ❑ Racks and shelves.
- ❑ Trade fixtures are usually considered personal property for insurance purposes.

18

Improvements and Betterments

- ❑ Improvements and betterments are changes made by a tenant.
 - ❑ Improvements and betterments are fixtures.
- ❑ Insurance coverage might exist under the landlord's policy or the tenant's policy.
 - ❑ Lease typically details whether improvements will be removed or retained by the landlord at the end of the lease term.

19

Practice

- ❑ Lisa owns a specialty food store in Kansas. Which one of the following would be classified as trade fixtures under her property insurance policy?
 - ❑ A. Her desk in the manager's office.
 - ❑ B. The light fixtures.
 - ❑ C. The shelves used to display her inventory.
 - ❑ D. The reusable water bottles sold in the store.

20

Insurable Interest**Objective III**

21

Insurable Interest Requirement

- Insurable interest exists when someone would suffer monetary loss from property destruction.
- Purposes of insurable interest requirement:
 - Indemnification – insurance policy is designed to restore insured to the same financial condition as before a loss.
 - Wagering – requirement prevents wagering by removing the possibility for gain.
 - Fraud – requirement discourages insureds from intentionally causing a loss.

22

Types of Insurable Interests

- An insurable interest is not limited to property owners.
- Types of insurable interests:
 - Ownership interests.
 - Contractual obligations.
 - Exposure to legal liability.
 - Factual expectancy.
 - Representation of another party.

23

Ownership Interests

- Personal ownership means one or more individuals control property.
 - Joint tenants – two or more persons each having a full interest in the property.
 - Tenancy by the entirety – type of joint tenancy between spouses.
 - Tenancy in common – each owner has a distinct percentage interest.
 - Partnership – exists when two or more people voluntarily join in business.

24

Contractual Obligations

- An insurable interest can arise out of some contractual obligations.
 - Rights regarding people – contract may give one party the right to bring a claim against another party.
 - Rights regarding property – contract may allow one party to bring a claim against specific property.
 - Mortgageholder can repossess the home.
 - Typically creates an insurable interest.

25

Exposure to Legal Liability

- A party may have legal responsibility for property owned by others.
 - Hotel owner has insurable interest in the property of guests.
 - Tenant has insurable interest in the portion of the premises they occupy.
 - Contractor has insurable interest in building under construction.

26

Factual Expectancy

- Factual expectancy is a situation in which a party experiences economic:
 - Advantage if an event does not occur.
 - Harm if an event occurs.
- Majority of states have accepted factual expectancy as a basis for insurable interest.
 - A party only needs to demonstrate potential financial harm resulting from an event.

27

Representation of Another Party

- Representatives may have an insurable interest.
 - Bailee – may insure property in their own name for bailor’s benefit.
 - Trustee or guardian – may insure property in their own name on behalf of the trust.
 - Agent – may insure property in their own name for the principal’s benefit.

28

Practice

- When real property is owned by two joint tenants, and one of the tenants dies, the surviving tenant will:
 - A. Not have any ownership interest in the property.
 - B. Have unrestricted ownership and control of the entire property.
 - C. Own a fractional share of the property.
 - D. Have full use of the property only for the remainder of his or her life.

29

Protecting Insurable Interests

Objective IV

30

Protection

- ❑ Policies typically list individuals with an insurable interest directly, or as loss payees or mortgagees.
 - ❑ Mortgagees have rights separate than those of the named insured.
 - ❑ Loss payees, lienholders, and assignees do not have the same protection as mortgagees.
- ❑ Those with an insurable interest are responsible for ensuring they are named under the policy.

31

Named Insureds

- ❑ Property owners should be listed on the policy as named insureds.
 - ❑ Name should be listed exactly the same way as on the title.
 - ❑ Occupants have several ways to protect their property interests.
- ❑ Bailees can be protected for legal liability or cover the interest of the owner as well.
- ❑ Trustees are usually named on the policy as named or additional insureds.

32

Occupancy Interests

- ❑ An occupant of property may have an insurable interest, even if they don't own the property.
 - ❑ Someone who pays to occupy property belonging to another is a tenant, or lessee.
 - ❑ Insurable interest arises out of the property's use value for the time remaining on the lease.
- ❑ Some tenants make improvements.
 - ❑ Improvements usually stay with the property when tenant moves.

33

Mortgage Clause

- ❑ Mortgage clause gives a mortgagee rights and duties independent of the named insured.
 - ❑ Clause is included in all property policies written for buildings.
- ❑ A mortgagee is entitled to make a claim even if the insured's claim can be denied.
 - ❑ Mortgagee must comply with provisions of the mortgage clause to collect.
- ❑ Mortgagee will be notified at least 10 days before cancellation or non-renewal of policy.

34

Loss Payees

- ❑ A loss payee is a person or entity who will be paid if a property loss occurs.
 - ❑ Can be named in the declarations or by endorsement.
 - ❑ Usually owners of equipment rented by the insured.
- ❑ Rights of loss payees are often described in an endorsement attached to the policy.

35

Loss Payees

- ❑ Endorsements include:
 - ❑ Loss Payable Clause – right to have payment made jointly to insured and loss payee.
 - ❑ Lenders' Payable Clause – provides protection similar to mortgageholder.
 - ❑ Contract of Sale Clause – purchaser or seller has right to have payment made jointly to insured and loss payee.
 - ❑ Building Owner Loss Payable Clause – owner of building can be covered if insured is tenant.

36

Practice

- ❑ Which one of the following statements is correct regarding the mortgage clause contained in an insurance policy?
 - ❑ A. The insurer will notify the mortgagee at least 30 days before a non-renewal of the policy.
 - ❑ B. The rights and duties of the mortgagee are the same as those of the named insured.
 - ❑ C. The mortgagee is entitled to make a claim even if the insured's claim can be denied.
 - ❑ D. This clause is only included in policies covering buildings used for business purposes.

37

Insured's Duties After Loss

Objective V

38

Insured's Duties

- ❑ The insured's duties are stated in the policy.
 - ❑ Failure to comply could release the insurer from its duty to provide coverage.
- ❑ Duties of the insured:
 - ❑ Give prompt notice to the insurer – includes description of property & how loss occurred.
 - ❑ Need not be in writing.
 - ❑ Notify the police or other parties – required when a law is broken, such as a theft.

39

Insured's Duties

- ❑ Duties of the insured:
 - ❑ Protect the property from further damage – insured must take reasonable steps.
 - ❑ Insurer usually reimburses insured for necessary expenses to protect property.
 - ❑ Cooperate with the insurer – failure to cooperate can be grounds for claim denial.
 - ❑ Prepare an inventory and allow inspections.
 - ❑ Insured must also provide records.

40

Examination Under Oath

- ❑ Examination Under Oath (EUO) gives the insurer a means to determine if it will provide or deny coverage on a claim.
 - ❑ EUO is a statement given by someone who is sworn to tell the truth.
 - ❑ Valuable to insurer when arson or fraud is suspected.
- ❑ EUOs enable the insurer to obtain sufficient documentation from the insured either to support or refute the claim.

41

Proof of Loss

- ❑ The insured must submit a proof of loss to the insurer after a loss has occurred.
 - ❑ Describes details of loss, property values, and interests in the property.
 - ❑ Commits the insured under oath to a specific set of facts.
- ❑ Some insurers require a proof of loss at the end of the adjustment process.
 - ❑ For small claims, insurer may waive the proof of loss requirement.

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Proof of Loss

- ❑ Insurer must, within a designated time, make a decision with the proof of loss.
 - ❑ Accept proof of loss as submitted.
 - ❑ Reject the proof of loss and give insured an opportunity to refile a corrected proof of loss.
 - ❑ Reject the proof of loss and allow insured to make the next move without any further guidance.
- ❑ If the proof of loss is rejected, it must be rejected for specific reasons.

43

Practice

- ❑ Which one of the following statements is correct regarding a proof of loss?
 - ❑ A. The insurer can reject the proof of loss without giving a reason for the rejection.
 - ❑ B. The insurer can reject the proof of loss at any point during the claims process.
 - ❑ C. The insurer can waive the necessity for a proof of loss if it makes the adjusting process more efficient.
 - ❑ D. The insured can decline to provide a requested proof of loss without jeopardizing their loss recovery.

44

Examinations Under Oath

Objective VI

45

When to Use

- ❑ An examination under oath (EUO) can be a valuable tool for an insurer when a fraudulent claim is suspected.
 - ❑ Clarifies issues sufficiently for the adjuster to recommend acceptance of a claim.
- ❑ Insurer can use the EUO to resolve:
 - ❑ Serious questions about a claim.
 - ❑ Doubts about whether a loss actually occurred.
 - ❑ Questions about who is covered.

46

Adequate Prior Investigation

- ❑ Prior to obtaining an EUO, the adjuster should:
 - ❑ Obtain statements of the parties involved.
 - ❑ Receive, verify, and fully review bills, receipts, records, and other documentation.
- ❑ Whoever is conducting the examination must thoroughly establish the questions that must be asked.
- ❑ Most adjusters prefer a signed, sworn proof of loss be submitted before the EUO is scheduled.

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Those Subject to EUO

- ❑ The examination is a condition of the policy.
 - ❑ Can be demanded at any time by the insurer.
 - ❑ Attorney usually conducts EUO.
- ❑ Anyone claiming benefits under the policy is subject to a demand for such an examination.
 - ❑ Insurer can demand an EUO of anyone it chooses.

48

Date, Time, and Place

- ❑ The insurer demanding the EUO must include a specific date, time, and place in a demand letter.
 - ❑ Must be reasonable for the person being examined.
- ❑ An insurer cannot set a date and time that would make it impossible for the person to comply.
 - ❑ Cannot select a place that is an unreasonable distance from the examinee.

49

Demand Letter

- ❑ Demand letter must contain:
 - ❑ A demand stating the insurer is intent on conducting the EUO.
 - ❑ A definite time and place for the examination as well as the name of the conductor.
 - ❑ The records or documents the examinee must bring to the examination.
 - ❑ The name, telephone number, and address of the person to contact if the examinee cannot be present for the examination.

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Procedures for EUOs

- ❑ Procedures for EUO vary by area and company.
 - ❑ Formalities – insured must appear in person and give oral testimony.
 - ❑ Need not submit to a polygraph test.
 - ❑ Types of questions – examiner can ask anything relating to the loss.
 - ❑ Questions about the insured's financial condition are acceptable.
 - ❑ Examinee cannot invoke Fifth Amendment right against self-incrimination.

51

Procedures for EUOs

- Procedures for EUO.
 - Continuances – every effort should be made to allow enough time to complete the examination in one sitting.
 - If EUO is not completed in one sitting, the record should state that the examination is incomplete and will be continued.
 - Signing and swearing to transcript – attorney or adjuster sends the document to the examinee to review and sign.

52

Failure to Appear

- Insurer options when an examinee does not appear and does not request a reschedule:
 - Do nothing further.
 - Send a letter requesting the person contact the adjuster to reschedule the examination.
 - Send a reservation of rights letter stating coverage for the loss may be denied.
 - Insured has violated his or her duties after the loss.

53

Failure to Bring Documents

- Options when an examinee does not have the demanded documentation:
 - Proceed with the EUO without documentation.
 - EUO continues later when the examinee must return with the documents.
 - Reschedule the EUO for another date and time.

54

Separate Examinations

- ❑ When more than one person is to be examined, adjuster may want separate examinations.
 - ❑ Examinees' attorney might reject the demand and insist on the presence of all parties.
 - ❑ The law of the applicable state must be checked.
 - ❑ Current ISO policies allow the adjuster to exclude any other "insured" from the examination.

55

Insured Facing Criminal Charges

- ❑ An adjuster can demand an EUO from an insured who is being prosecuted or who is suspected of arson or fraud.
- ❑ Criminal charges do not eliminate the insured's contractual obligation to appear for an EUO.
 - ❑ However, it is better for the insurer to wait, if possible.
 - ❑ Unless adjuster's investigation will be prejudiced by delay, the investigation should be suspended until insured can cooperate.

56

Practice

- ❑ Which one of the following statements is correct regarding an examination under oath (EUO)?
 - ❑ A. An EUO must be completed in a single sitting.
 - ❑ B. The demand letter should include a definite time and place for the examination as well as the documents the examinee must bring.
 - ❑ C. An insured can submit written responses to the questions given by the insurer.
 - ❑ D. The insured can invoke the Fifth Amendment right against self-incrimination and refuse to answer any question in the EUO.

57

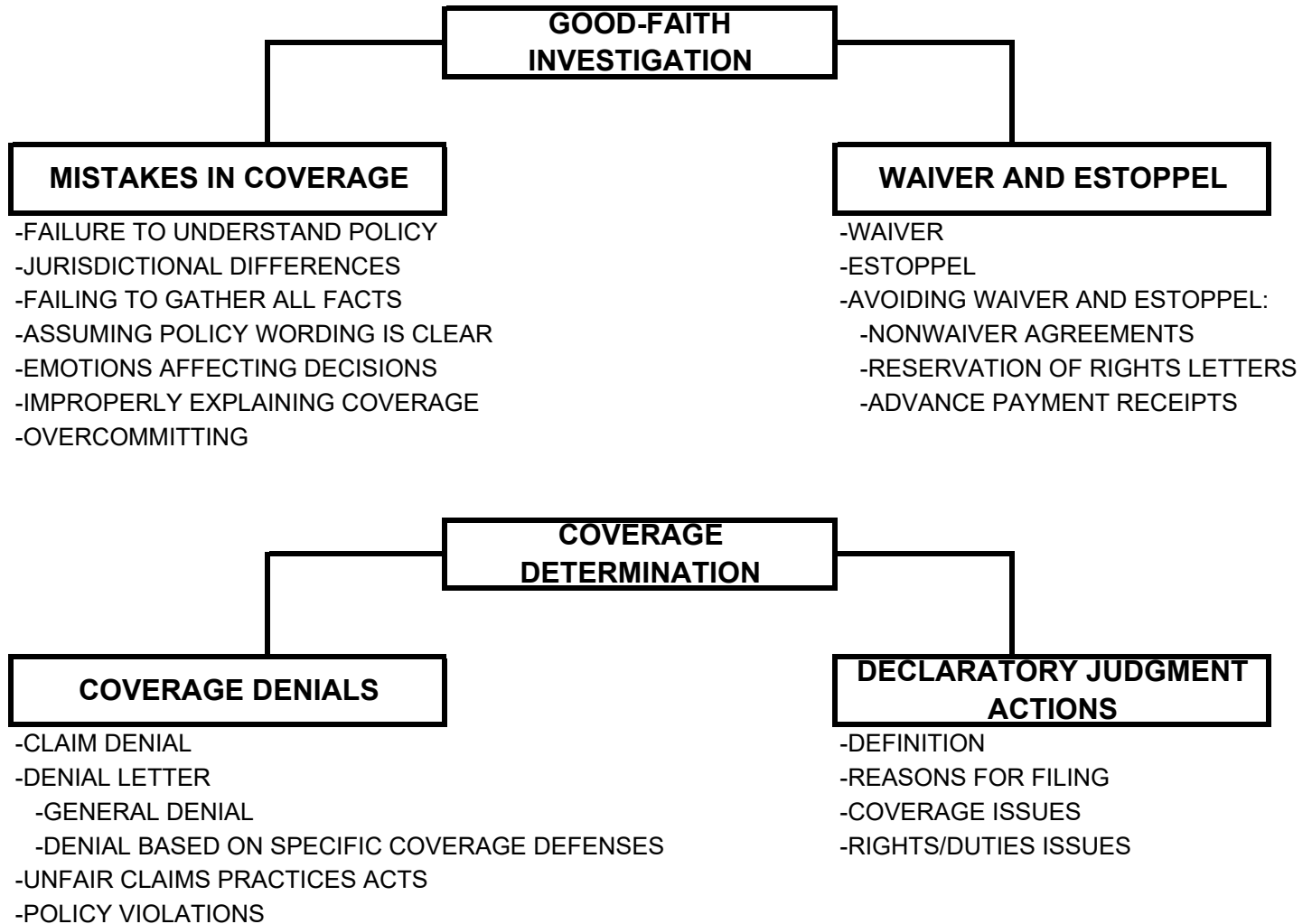
Practice

- ☐ Susan sustained damage to her home following a fire. She filed a claim with her insurer and submitted a proof of loss but then refused to sign a nonwaiver agreement. She also stopped responding to the adjuster's phone calls. The insurer scheduled an examination under oath (EUO) and sent Susan a demand letter, but Susan did not appear to the EUO. What would be the insurer's best course of action in this situation?
- ☐ A. Deny the claim.
 - ☐ B. Do nothing further.
 - ☐ C. File a civil suit against Susan for breach of contract.
 - ☐ D. Send a reservation of rights letter to Susan indicating coverage may be denied.

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Module 3

Handling Coverage Issues



Handling Coverage Issues

Module 3 Chapter 3

1

Learning Objectives

- ☐ Obj I – Avoiding Mistakes in Coverage Decisions
- ☐ Obj II – Avoiding Waiver and Estoppel
- ☐ Obj III – Coverage Denials
- ☐ Obj IV – Declaratory Judgment Actions

2

Avoiding Mistakes in Coverage Decisions

Objective I

3

Avoiding Mistakes

- ❑ Mistakes in coverage decisions can lead to:
 - ❑ Bad-faith awards.
 - ❑ Litigation.
 - ❑ Loss of customer satisfaction.
 - ❑ Increased loss ratios.
- ❑ Learning the best ways to review an insurance policy and investigate a claim helps avoid mistakes.

4

Type of Mistakes

- ❑ Common mistakes that should be avoided:
 - ❑ Failing to understand policy provisions.
 - ❑ Not considering jurisdictional differences.
 - ❑ Making a decision without all the facts.
 - ❑ Assuming the policy is worded clearly.
 - ❑ Letting emotions affect decisions.
 - ❑ Improperly explaining coverage.
 - ❑ Overcommitting to a coverage decision.

5

Failure to Understand Policy

- ❑ Policies often contain complex provisions.
- ❑ Claims representatives may overlook certain specific provisions.
 - ❑ May apply coverage based on how they believe the policy reads.
 - ❑ Can lead to wrongful claims denials.
- ❑ Claims representatives are not expected to memorize every word of the policy.
 - ❑ They should, however, review policy wording before making a decision.

6

Jurisdictional Differences

- ❑ Different states or jurisdictions can interpret the same policy differently.
 - ❑ Claims representatives who handle claims in multiple states should consider these differences.
- ❑ The jurisdiction overseeing a coverage determination is usually the one where the policy was issued.

7

Not Having All Facts

- ❑ If a claims representative fails to gather all the facts, they may make a poor decision.
 - ❑ Should always obtain a detailed account of all relevant facts.
- ❑ If insured initially provides insufficient details, may need to reserve the right to apply coverage defenses.

8

Assuming Policy Wording is Clear

- ❑ A claims representative may assume claimant interprets policy the same way they do.
 - ❑ Claims representative's perspective may differ from policyholder.
- ❑ Differences can sometime be overcome if claims representative thoroughly explains provisions to policyholder.

9

Emotions Affecting Decisions

- ❑ Claims representatives must separate personal feelings from their coverage decisions.
 - ❑ Insureds are sometimes unpleasant or make unusual claims.
- ❑ Coverage decisions should be based on the application of facts to policy wording.

10

Improperly Explaining Coverage

- ❑ Several factors can contribute to poor explanation of coverage.
 - ❑ Claim representative may be busy.
 - ❑ Policyholder may be difficult to reach.
- ❑ Voicemails may be insufficient to explain policy provisions.
- ❑ Inadequate explanations can lead to complaints and dissatisfied customers.

11

Overcommitting

- ❑ Claims representatives may overcommit to their initial coverage position.
 - ❑ May be difficult to change position later.
- ❑ Coverage investigations don't always provide for what claims representatives suspect.
 - ❑ The cost of the investigation should not influence a coverage decision.

12

Practice

- ❑ When making decisions about coverage for a claim, the claims representative needs to do all of the following, EXCEPT:
 - ❑ A. Keep an open mind about different interpretations of the policy.
 - ❑ B. Memorize policy language.
 - ❑ C. Avoid letting emotions and preconceived notions get in the way.
 - ❑ D. Gather all the relevant facts.

13

Avoiding Waiver and Estoppel

Objective II

14

Waiver

- ❑ Coverage issues must be resolved quickly.
 - ❑ Avoids waiver, estoppel, and bad faith.
 - ❑ Many situations that present coverage questions require further investigation.
- ❑ A waiver is the voluntary and intentional relinquishment of a right.
 - ❑ Can be made expressly or by implication.
 - ❑ Can be oral, written, or inferred by conduct.

15

Waiver

- Possible waiver situations:
 - If an insurer offers to make a settlement, insurer waives a fraud/concealment defense.
 - Insured might allege insurer breached its obligations, thereby waiving continued application of policy conditions.
 - Insurer can waive the insured's compliance by offering to pay the loss before compliance.
 - A waiver of the insurer's option to repair or replace the property can occur when the insurer elects to pay the claim in money.

16

Estoppel

- An insurer's conduct might result in estoppel.
 - Insured must rely on insurer's conduct.
- Detrimental reliance occurs when an insured relies on the actions of an insurer.
 - This reliance harms the insured's financial position.
- Property insurance policies contain provisions against a waiver or change of policy provision.
 - Unless insurer consents to waive or change a provision in writing.

17

Avoiding Waiver and Estoppel

- Nonwaiver agreements and reservation of rights letters can help avoid waiver and estoppel.
 - Should be followed by prompt investigation.
 - Laws differ by jurisdiction.
- If an advance payment is made, nonwaiver language should be included in advance payment receipt.

18

Nonwaiver Agreement

- ❑ Purposes of nonwaiver agreements:
 - ❑ Advise the insured that any action taken by the insurer in investigating the loss is not intended to waive any policy conditions.
 - ❑ Clarify the intent is to permit an investigation of the claim without waving rights.
- ❑ Nonwaiver agreement is signed by the insured.
 - ❑ Can be general or specific.

19

Reservation of Rights Letter

- ❑ Reservation of rights letters serve the same purposes as nonwaiver agreements.
 - ❑ Usually sent to named insureds by certified mail and are return receipt requested.
- ❑ Typically used when face-to-face contact cannot be made to obtain a nonwaiver agreement.
 - ❑ Could be used when insured refuses to sign a nonwaiver agreement.

20

Advanced Payment Receipts

- ❑ Partial payments of claims are sometimes advanced to insureds.
 - ❑ Insureds may need a payment for emergency reasons.
- ❑ Advance payments are usually made:
 - ❑ During the first few days after a loss.
 - ❑ Before the insured has fully complied with policy conditions.
- ❑ Advance payment receipt is essentially a nonwaiver agreement.

21

Advanced Payment Receipts

- ❑ Serves to advise the insured that:
 - ❑ Insurer has not accepted nor denied claim.
 - ❑ Payment is not an admission of liability.
 - ❑ Payment is made in response to the insured's good-faith representation regarding the loss.
 - ❑ Insurer does not waive any conditions and expects full compliance under the policy.
 - ❑ If claim is not covered, insured agrees to repay the insurer the amount advanced.

22

Practice

- ❑ Which one of the following represents a difference between a nonwaiver agreement and a reservation of rights letter?
 - ❑ A. A nonwaiver agreement is signed by the insured, while the reservation of rights letter is not.
 - ❑ B. A nonwaiver agreement is drafted by the insurer, while a reservation of rights letter is drafted by the insured.
 - ❑ C. A nonwaiver agreement is delivered to the insured by certified mail, while a reservation of rights letter is only kept in the insurer's file and is not sent to the insured.
 - ❑ D. A nonwaiver agreement is only effective in avoiding waiver, while a reservation of rights letter is only effective in avoiding estoppel.

23

Coverage Denials

Objective III

24

Claim Denial

- ❑ A claim may be denied due to lack of coverage or failure of insured to meet a condition.
 - ❑ Denial must usually be approved by an underwriter and a claims manager.
- ❑ The insured is typically given the benefit of the doubt with respect to any ambiguity relating to coverage.

25

Denial Letter

- ❑ Upon receiving the authority to deny a claim, the adjuster must prepare a denial letter on a timely basis.
 - ❑ Often drafted by attorneys.
- ❑ The denial letter should always be signed by the adjuster, even if an attorney drafts it.
 - ❑ Adjuster who signs the letter is likely to be called as a witness in the event of a lawsuit.

26

Denial Letter

- ❑ Two types of denial letters:
 - ❑ General denial – reserves an insurer’s right to all possible policy defenses.
 - ❑ Invite litigation because they don’t explain why coverage is being denied.
 - ❑ Denial based on specific coverage defenses – details why the insurer is denying coverage.
 - ❑ Preferred denial letter for insureds.
- ❑ Some courts require insurers to list the reasons for denying coverage in the letter.

27

Claim Denial

- ❑ Denial letters should be:
 - ❑ Sent by certified mail, return receipt requested, with a backup copy sent by regular mail.
 - ❑ Restricted to the addressee only.
 - ❑ Marked “personal and confidential” for claims denied on the basis of arson or fraud.

28

Unfair Claims Practices Acts

- ❑ All states require that denials be prompt, timely, and fair.
 - ❑ Some states unfair claims practices laws outline how denials should be made.
- ❑ Some states require denials to:
 - ❑ Provide detailed explanation of all denials.
 - ❑ Provide an explanation of the facts that formed the basis of the denial.
 - ❑ Clearly inform claimants of insurer’s position on any disputed matter.

29

Policy Violations

- ❑ Claims that are ordinarily covered may be denied if insured violated policy conditions.
- ❑ Most common violations leading to disputes:
 - ❑ Fraud.
 - ❑ Late reporting of losses by insured.
 - ❑ Failure to cooperate with insurer.
- ❑ Courts examine if insurer was prejudiced.
 - ❑ Ability to investigate or defend claim is adversely affected by insured’s late notice.

30

Practice

- ❑ Upon receiving authority to deny a claim on the grounds of fraud, the property loss adjuster prepares a denial letter. All of the following statements are correct regarding the denial letter, EXCEPT:
 - ❑ A. The letter should be marked “personal and confidential.”
 - ❑ B. The letter should be prepared by the adjuster and signed by an attorney.
 - ❑ C. The letter should be sent by certified mail, return receipt requested.
 - ❑ D. The letter should specifically describe why the claim was denied.

31

**Declaratory Judgment
Actions**

Objective IV

32

Declaratory Judgment Actions

- ❑ A declaratory judgment action is a lawsuit seeking a determination of whether policy coverage applies to a claim.
 - ❑ Does not address the issues of fault or monetary damages.
- ❑ Insurers normally file declaratory judgment actions to determine whether a claim:
 - ❑ Falls within the insuring agreement.
 - ❑ Meets the definition of a policy term.
 - ❑ Falls within a policy exclusion.

33

Declaratory Judgment Actions

- DJA can resolve coverage issues such as:
 - If an exclusion applies.
 - If damages are “bodily injury” or “property damage.”
 - If other insurance policies apply.
 - When the event occurred.
 - What are the limits of liability.
 - If a policy violation precludes coverage.

34

Declaratory Judgment Actions

- DJA can resolve rights/duties issues such as:
 - If insured has violated policy conditions.
 - If the insured must provide additional information.
 - If the insured is required to submit to more than one examination under oath.
 - If the insured is required to permit the insurer to conduct another investigation.

35

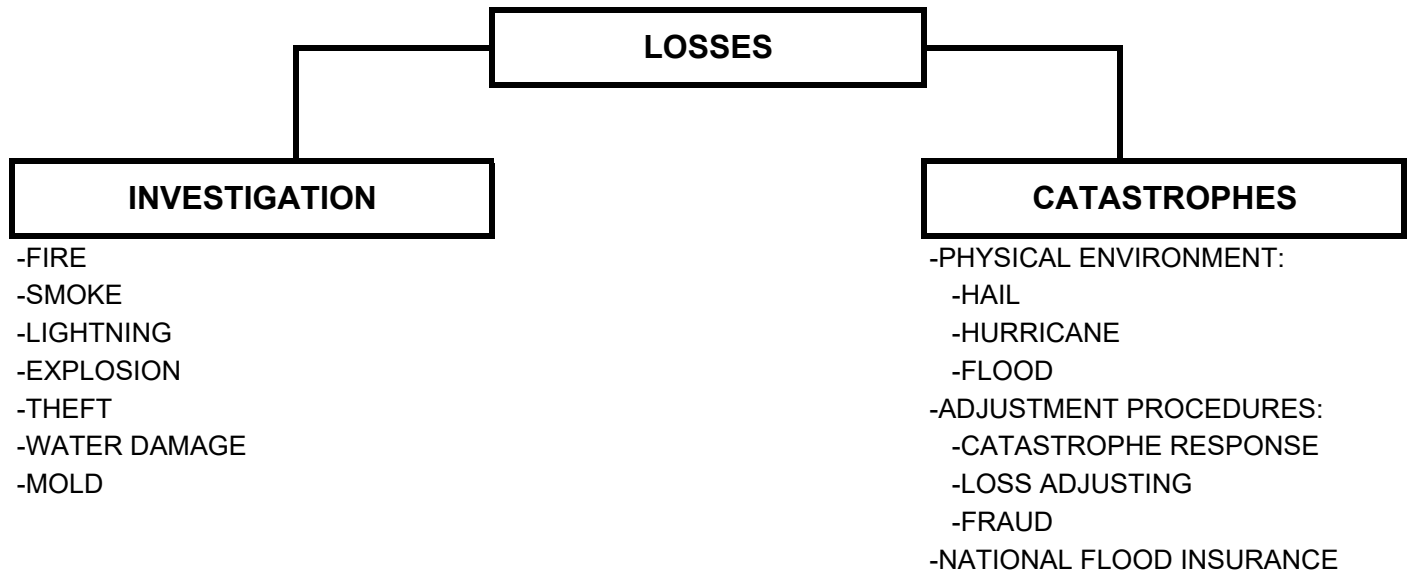
Practice

- As used in most insurance coverage claims, a declaratory judgment action is a lawsuit seeking a judicial determination of:
 - A. Whether an insured intentionally caused the loss.
 - B. Who is at fault for the loss.
 - C. The amount the insurer needs to pay to settle a claim.
 - D. Whether policy coverage applies to a claim.

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Module 4

Investigation of Losses



Investigation of Losses

Module 4 Chapter 4

1

Learning Objectives

- ❑ Obj I – Fire, Smoke, Lightning, and Explosion
- ❑ Obj II – Windstorm, Hail, and Water Damage
- ❑ Obj III – Property Claims Involving Mold
- ❑ Obj IV – Theft
- ❑ Obj V – Catastrophes: Physical Environment
- ❑ Obj VI – Catastrophes: Adjustment Procedures

2

Fire, Smoke, Lightning, and Explosion

Objective I

3

Fire Losses

- ❑ Fire losses can be as simple as a grease fire or as complex as an arson fire in a warehouse.
 - ❑ Adjuster must be able to articulate the origin and the cause of the fire.
 - ❑ Local fire officials issue origin and cause reports.
- ❑ Every fire loss requires a list of the damaged areas or scope.
 - ❑ Adjuster can obtain scope and estimate in several ways.

4

Fire Losses

- ❑ Commercial fire losses provide certain challenges that homeowners fire losses do not.
 - ❑ Fire might produce hazardous material that requires services of clean up company.
 - ❑ Adjuster should be prepared to discuss options for business relocating.
- ❑ Homeowners fire loss can be challenging also.
 - ❑ Sensitive issues involved in loss of a home.

5

Origin and Cause Report

- ❑ A good Origin and Cause report should:
 - ❑ Document the damage patterns.
 - ❑ Reconstruct the scene.
 - ❑ Eliminate all other sources of ignition.
 - ❑ Show the mechanism of ignition clearly.
- ❑ Adjuster should understand the report.

6

Smoke Losses

- ❑ In small fires, smoke can cause even more damage than the fire itself.
 - ❑ Heavy smoke develops when burning material is shut off from an adequate supply of oxygen.
- ❑ Type of smoke depends on the:
 - ❑ Fire's intensity.
 - ❑ Material consumed in the fire.
 - ❑ Amount of oxygen consumed.

7

Types of Smoke

- ❑ Two types of smoke cause damage:
 - ❑ Hot smoke – found closer to fire's source.
 - ❑ Can penetrate surfaces it contacts.
 - ❑ Can deeply stain masonry.
 - ❑ Cold smoke – cools as it moves from fire.
 - ❑ Rests upon, rather than penetrates, the surfaces it contacts.
 - ❑ Easier to remove from surfaces.
 - ❑ Does not leave pungent odor.

8

Smoke Damage

- ❑ Metal and ceramic fixtures should be test-cleaned before being replaced.
 - ❑ Cold smoke can usually be cleaned.
- ❑ Fire restoration companies specialize in working with insurance companies and adjusters.
 - ❑ Perform early cleaning and prevent further damage caused by hot and cold smoke.
 - ❑ All fire loss adjusters should keep a list of fire restoration companies.

9

Lightning Losses

- ❑ A bolt of lightning can carry roughly six times the electrical generating capacity of the U.S.
 - ❑ Most frequent targets are roofs, chimneys, power lines, trees, and antennas.
- ❑ Direct strikes of lightning can have an explosive effect or start a fire.
 - ❑ Lightning can also cause a power surge if it strikes near a power line.

10

Verifying a Loss

- ❑ Adjuster's challenge is to determine the damage was caused by lightning.
 - ❑ First step is to confirm lightning occurred in the area at the time of the loss.
- ❑ Physically inspecting the damage is another means of verifying a lightning loss.
 - ❑ Adjusters should not attempt inspections such as examining electrical products' internal workings.

11

Pattern of Lightning Damage

- ❑ Adjuster should be aware lightning destroys electrical equipment and its components in an expected order.
 - ❑ Damages more fragile parts before more sturdy components.
 - ❑ Does not damage parts such as pipes or rotors.

12

Explosion

- ❑ Most explosion losses show evidence of:
 - ❑ Shattered glass.
 - ❑ Broken/displaced masonry.
 - ❑ Splintered timbers.
 - ❑ Scattered debris.
- ❑ Adjuster cannot always conclude from the evidence that an explosion occurred.

13

Explosion

- ❑ Determining the type and cause of an explosion can be difficult.
 - ❑ Adjusters must often arrive at a logical conclusion by using process of elimination.
- ❑ Adjusters should ask if explosives were housed in the building.
 - ❑ Should also ask what safety precautions were taken in using and storing these materials.

14

Explosion Vs. Cracking

- ❑ Claims are often submitted under the explosion peril when construction activity is nearby and explosives are being used.
 - ❑ Principal complaint is cracked plastering.
 - ❑ However, many cracks result from normal shrinkage or expansion of building materials.
- ❑ Adjusters must distinguish the results of explosion and cracking from other sources.
 - ❑ Newly occurring cracks should look fresh and be free of dust and dirt.

15

Practice

- Which one of the following statements is correct regarding cold smoke?
- A. It can deeply stain masonry.
 - B. It is found closer to the source of the fire than hot smoke.
 - C. It can often be removed by vacuuming and washing the affected area.
 - D. It typically leaves a pungent odor.

16

Practice

- Which one of the following statements is correct regarding the peril of lightning?
- A. Lightning damages more sturdy parts before it damages the more fragile components.
 - B. Lightning typically causes damage to pipes and rotors.
 - C. If the picture tube of a TV is the only component damaged, it is unlikely a result of lightning.
 - D. If only the heating coils are damaged in an electric dryer, it was probably a result of lightning.

17

**Windstorm, Hail, and
Water Damage****Objective II**

18

Windstorm, Hail, and Water Damage

- ❑ The key to successfully adjusting a windstorm, hail, or water loss is speed.
 - ❑ Temporary repairs must be made quickly to prevent further damage.
 - ❑ Restoration services are needed to begin drying out water damage.
- ❑ Not all windstorm, hail, and water losses are covered.

19

Windstorm and Hail Losses

- ❑ Windstorm and hail can cause catastrophic losses over large geographical areas.
 - ❑ Specified perils policies typically have a single peril called “windstorm or hail.”
- ❑ Hurricanes and tornados are the most destructive type of windstorm.
 - ❑ Hailstorms often accompany violent thunderstorms.

20

Windstorm and Hail Losses

- ❑ Some policies contain an exclusion for losses to property inside a building caused by rain.
 - ❑ Exclusion typically applies to coverages that apply on a specified perils basis.
 - ❑ Exclusion does not apply to open perils.
- ❑ In homeowners policies:
 - ❑ Watercraft are not covered for windstorm or hail damage unless located inside a building.
 - ❑ Windstorm or hail percentage deductible may apply.

21

Windstorm and Hail Losses

- ❑ Many insurers contract with vendors that provide wind and hail reports.
 - ❑ Includes dates, location, wind direction, and types of hail.
 - ❑ Helps claims rep verify areas that may have been damaged and the type of damage.
- ❑ Insurers can use drones to help determine the extent of damage.
 - ❑ Can provide roof images, dimensions, and slopes.

22

Water Damage

- ❑ The key to successfully adjusting a water damage loss is speed.
 - ❑ Must quickly stop water from flowing so the drying process can begin.
 - ❑ Water does not necessarily travel in a straight line, so finding a leak within walls and ceilings can be difficult.

23

Water Damage

- ❑ Visual inspection will show only the result of a leak, be it a water stain, a puddle, or mold growth.
 - ❑ Usually necessary to do some tear-out before the source of the leak can be found.
- ❑ Both the HO-3 and BPP provide coverage for the cost of tearing out and replacing a part of a building.
 - ❑ Covered if necessary to repair a leaking system or appliance.

24

Water Damage

- ❑ Homeowners policies contain a water exclusion, but some types of water damage are covered.
- ❑ Specified perils HO policy typically covers:
 - ❑ Accidental discharge of water from a plumbing, heating, air, or sprinkler system.
 - ❑ Sudden tearing apart of a hot water system.
 - ❑ Freezing of a plumbing or sprinkler system.
 - ❑ Insured must have used reasonable care to maintain the heat in the building or shut off the water supply.

25

Water Damage

- ❑ Commercial property water exclusion is similar to exclusion in homeowners policies.
 - ❑ Cause of Loss – Broad Form also includes cause of loss titled “Water Damage.”
 - ❑ Similar to accidental discharge peril in homeowners policies but excludes discharge from a sprinkler system.

26

Practice

- ❑ Which one of the following statements is correct regarding water damage losses?
 - ❑ A. The key to successful adjustment is quickly stopping the water from flowing so the drying process can begin.
 - ❑ B. Finding a leak within walls and ceilings is fairly easy because water typically travels in a straight line.
 - ❑ C. If a hurricane has torn a hole in a roof and rain is entering the structure, finding the source of the water damage is still somewhat difficult.
 - ❑ D. The BPP and HO-3 policies do not provide any coverage for the cost of tearing out and replacing part of a building damaged by water.

27

**Property Claims
Involving Mold**

Objective III

28

Mold

- ❑ Mold is a possible byproduct of water damage.
 - ❑ Most mold does not cause serious damage.
 - ❑ Not all molds are harmful.
- ❑ Water is main ingredient needed to grow mold.
 - ❑ Clean water – escapes from sources such as leaking pipes or an overflowing sink or tub.
 - ❑ Gray water – sources include washing machine or toilet overflow.
 - ❑ Black water – sources include sewage and seawater.

29

Loss Exposures

- ❑ Mold problems are common in areas where moisture can seep into building components.
 - ❑ Includes improperly fitted windows or unrepaired roof damage.
 - ❑ Plumbing leaks, appliance failure, sprinkler leakage can also cause mold growth.

30

Determining Coverage

- ❑ Mold is neither a covered cause of loss nor a covered peril.
 - ❑ Property policies have a mold exclusion.
- ❑ Coverage may exist for certain mold claims.
 - ❑ Mold growth resulting from covered water damage is covered unless specifically excluded.

31

Investigating Mold Losses

- ❑ Reasons it is important to promptly adjust mold claims:
 - ❑ Early recognition and remediation of potential mold growth minimizes damage costs.
 - ❑ Prompt identification of mold growth can minimize health risks for building occupants.

32

Investigating Mold Losses

- ❑ With respect to mold claims, adjusters should:
 - ❑ Recognize types of losses that result in conditions supporting mold growth and inspect them quickly.
 - ❑ Use good photos and diagrams to document and identify locations of mold.
 - ❑ Be alert for preexisting damage that could have supported mold growth.
 - ❑ Work with the insured to hire a well-trained remediator.

33

Identifying Mold Growth

- ❑ Early mold growth can resemble dirt on the surface of walls, carpets, and other materials.
 - ❑ Mold can migrate through materials and affect both sides.
- ❑ Ventilation systems should be visually inspected when damp filters are observed.
 - ❑ Moisture meter can be used to detect moisture in walls and ceilings.
- ❑ Further investigation is warranted if building's occupants report symptoms of illness.

34

Identifying Mold Growth

- ❑ Indicators that mold likely exists:
 - ❑ Color changes in wallpaper.
 - ❑ Warping of wood floors.
 - ❑ Discoloration of drywall, fabrics, or carpet.
 - ❑ Earthy odors.
 - ❑ Rot on baseboards.
- ❑ Strong cleaners can sanitize a moldy surface.
 - ❑ Mold can come back unless every microscopic spore is removed.

35

Remediating Mold Damage

- ❑ One source of mold remediation identifies five levels of mold damage.
 - ❑ Suggests appropriate remediation for each.
- ❑ The first step to remediation is to immediately dry any moisture and correct the source of water infiltration.
 - ❑ Cleaning and drying the affected area will prevent mold growth.
- ❑ Choice of remediation contractor is an important decision for the insured.

36

Investigating Mold Losses

- ❑ Mold claims can promote fraud.
 - ❑ Created an environment in which disreputable remediation contractors and dishonest insureds can thrive.
- ❑ Following any loss, an insured has a duty to protect the property from further damage.
 - ❑ Insurer should advise the insured on the appropriate steps to protect the property.

37

Practice

- ❑ The first step in remediating any mold damage is to:
 - ❑ A. Sanitize moldy surfaces using strong cleansers.
 - ❑ B. Conduct an air sampling analysis.
 - ❑ C. Immediately dry any moisture and correct the source of water infiltration.
 - ❑ D. Tear out the affected area and replace it with like-kind materials.

38

Theft

Objective IV

39

Theft

- ❑ Theft includes burglary, robbery, fraud, and deception.
 - ❑ For theft losses, adjuster first determines whether theft is covered under the policy.
- ❑ Theft claims often leave physical evidence to support them.
 - ❑ Adjuster should confirm signs of forced entry, disabled or malfunctioning alarm systems.

40

Theft

- ❑ Adjuster might request the insured to prepare an affidavit of theft, a proof of loss, or an inventory.
 - ❑ Documents that prove ownership and value should support the inventory.
- ❑ Best type of document is original bill or receipt.
 - ❑ Least credible document is a photocopy of such a document.

41

Theft

- ❑ With theft claims, there is always the possibility that the stolen property might be recovered.
 - ❑ Adjuster should place the investigating law enforcement agency on notice of the claim payment.
 - ❑ Insurer will then be notified if recovery occurs.
- ❑ Theft claims are the easiest to inflate or fabricate.
 - ❑ Adjuster should be skeptical when dealing with theft losses.

42

Practice

- ❑ In order to begin a theft claim investigation, an adjuster first:
 - ❑ A. Confirms who owns the property.
 - ❑ B. Determines if theft is a covered peril under the policy.
 - ❑ C. Evaluates who has an insurable interest in the property.
 - ❑ D. Ascertains if a police report has been filed.

43

Catastrophes: Physical Environment

Objective V

44

Hail

- ❑ Hailstorms do not receive the same publicity in the national media as do other catastrophes.
- ❑ A claim for minor or moderate hail damage often raises two issues:
 - ❑ Whether property needs to be repaired at all.
 - ❑ Policy that measures loss as cost to repair or replace might require the insurance company to pay for replacement.
 - ❑ Whether claimed damage existed prior to the hail.

45

Hurricanes

- ❑ Hurricanes are geographically the largest type of catastrophe.
 - ❑ Most structures can withstand, with minor damage, a relatively low-velocity hurricane.
 - ❑ Rainy weather often follows a hurricane.
- ❑ Policies cover damage from wind and wind-driven rain.
 - ❑ Generally do not cover damage from floods.
 - ❑ Adjuster must determine if damage caused by wind or water.

46

Floods

- ❑ Floods can result from melting snow, rising rivers and lakes, hurricanes, or heavy rains.
 - ❑ Flood policies can be expensive, so many people choose to go without.
- ❑ Most flood insurance comes from the National Flood Insurance Program (NFIP).
 - ❑ NFIP has its own provisions and requirements for who can adjust flood claims.

47

Other Catastrophes

- ❑ Earthquake damage is excluded from standard property insurance policies.
 - ❑ Earthquake can occur in any state.
- ❑ Fires are usually limited to one property.
 - ❑ Some are extensive enough to cause a catastrophe.
- ❑ Riot losses include damage caused by fire, vandalism, and looting.
 - ❑ Commercial structures are damaged much more than residential property by riots.

48

Catastrophe Environment

- Common characteristics of catastrophes:
 - Geographic concentration – catastrophes strike within a relatively limited area.
 - Interruption or shortage of services – utilities might be disrupted.
 - Political sensitivity – elected political officials face as much challenge from catastrophes as does the insurance industry.
 - Emotional stress – adjusters must be aware of the emotional climate.

49

Practice

- Which one of the following statements is correct regarding types of catastrophes?
 - A. Wind is the most destructive in terms of widespread damage.
 - B. Earthquakes strong enough to cause damage might occur in any state.
 - C. Tornados cover the largest geographical area.
 - D. Hailstorms generally receive more publicity in the national media than other catastrophes.

50

Catastrophes: Adjustment Procedures

Objective VI

51

Catastrophe Response

- ❑ A catastrophe requires that a huge number of adjusters and supplies be brought to the catastrophe area.
 - ❑ Catastrophe planners must arrange for office supplies and major office equipment.
 - ❑ Planning for computers is important.
- ❑ Most insurers try to be fully operational within 2-3 days after a catastrophe.

52

Catastrophe Response

- ❑ Catastrophe planners must prearrange various services.
 - ❑ Adjusters must have hotel rooms, rental cars, office space, and telephones.
 - ❑ Catastrophe planners prearrange prices with contractors and independent adjusters.
- ❑ Staff assigned to catastrophe duty must be rotated out after a certain time period.

53

Catastrophe Loss Adjusting

- ❑ Initial response and reserving practices.
 - ❑ Immediately after a catastrophe, insurers send initial survey team to the area.
 - ❑ Information from the initial survey and from Property Claim Services (PCS) is used to set proper reserves for the catastrophe.
 - ❑ Another important aspect of an insurer's initial response is hiring specialists to provide restoration services.

54

Catastrophe Loss Adjusting

- Price increases and settlement costs.
 - Prices of many goods and services increase after a catastrophe.
 - Especially building supplies and contractor services.
 - Adjuster mistakes when prices are high:
 - Insisting normal prices should prevail and refusing to settle claims for higher amount.
 - Paying any amount to close claims.

55

Catastrophe Loss Adjusting

- Adjuster may be less thorough with procedures and more flexible about settlement costs.
 - Challenge is to do this with harming insurer.
- Adjuster may waive proof of loss requirement for some insureds after a catastrophe.
 - This should not happen in all situations.
- Adjusters may have to reopen many files from a catastrophe.
 - Many settlements are made at ACV, and then claim is concluded replacement cost.

56

Fraud

- Insurance fraud creates challenges for adjusters.
 - Many claims will be paid because they are fraudulent but not provable.
- Property insurance policies will be void when the insured engages in fraud, concealment, or misrepresentation.
 - Misrepresentation in the application occurs when an insured concealed or misrepresented a material fact the insurer has relied.

57

Fraud

- Definitions:
 - Fraud – intentional deception, by word, deed, or concealment, to cause another to part with something of value.
 - Concealment – withholding of information by someone that has a duty to disclose.
 - Misrepresentation – statement of something as fact that is false.
- To void a policy, the insurer must prove the misrepresentation or concealment was willful.

58

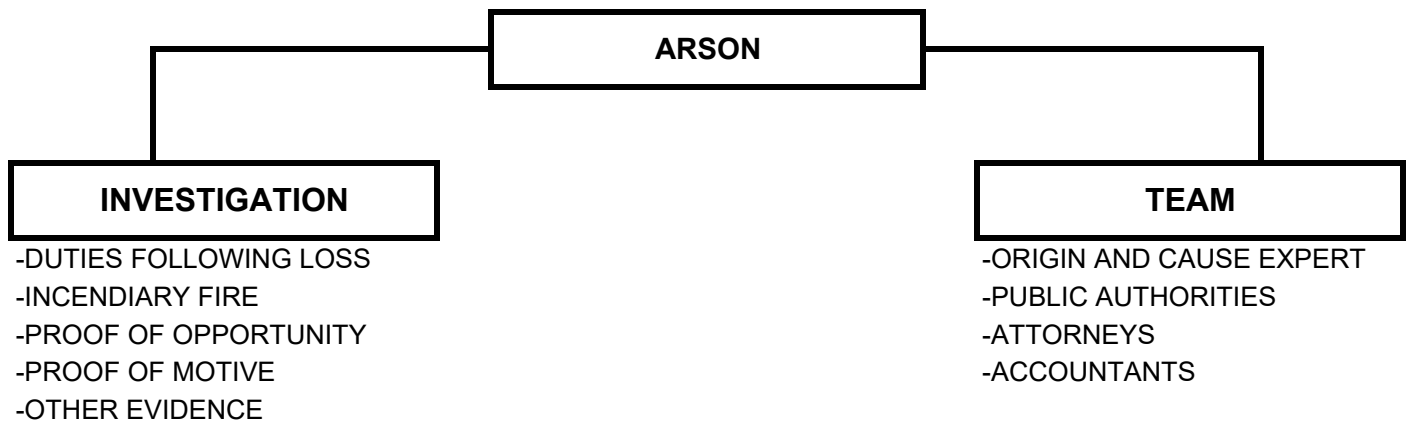
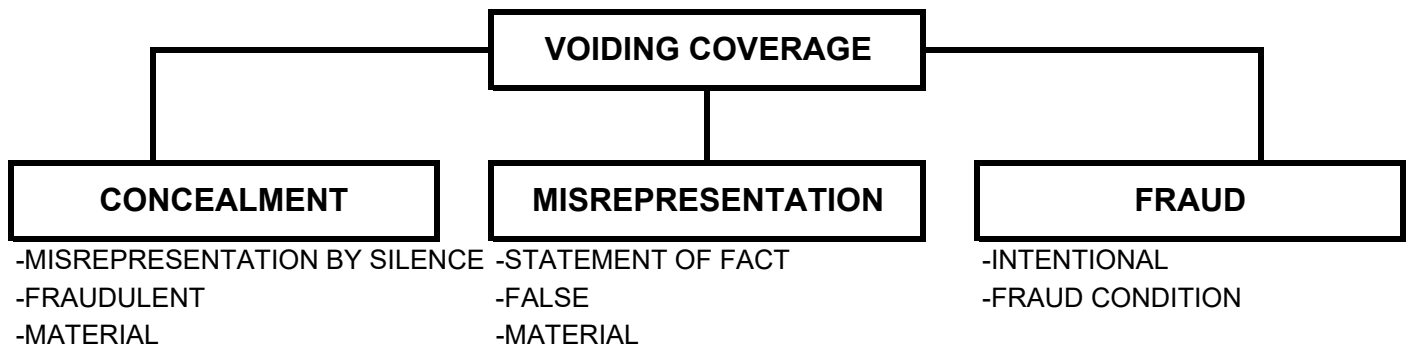
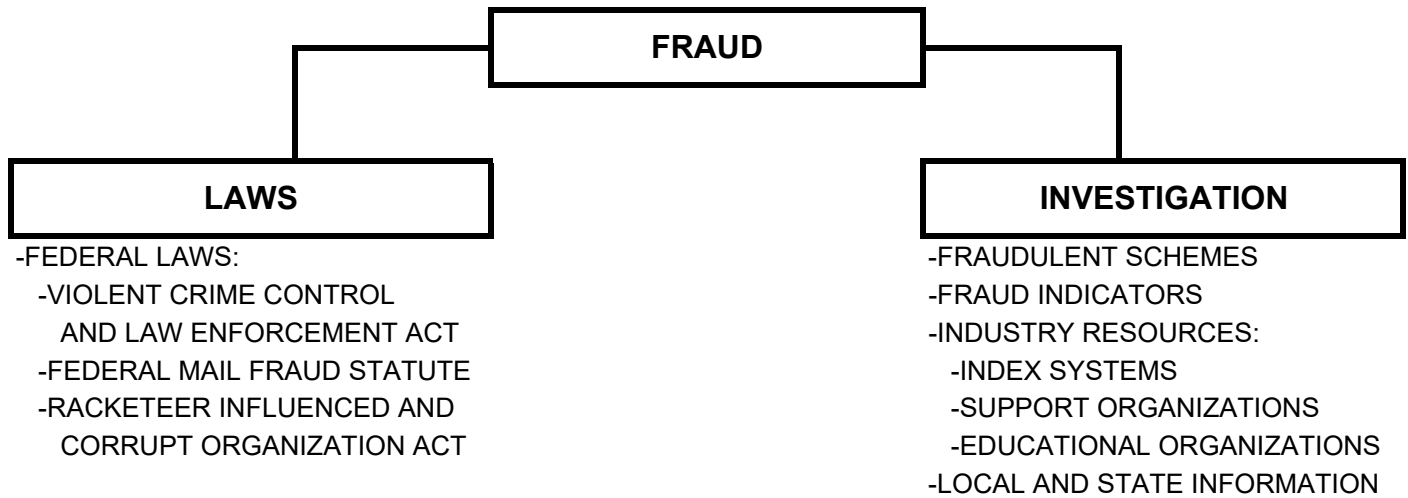
Practice

- Which one of the following statements is correct regarding adjusting standards relating to a catastrophe?
 - A. Adjusters should always waive the sworn proof of loss in a catastrophe situation.
 - B. Adjusters seldom have to reopen files from a catastrophe because most losses are total losses.
 - C. Adjusters should attempt to pay any amount to close a claim rapidly, because the prices of goods and services are likely to increase after a catastrophe.
 - D. Adjusters are likely to be less thorough in their adjusting procedures and more flexible about settlement costs.

59

Module 5

Investigating Suspicious Property Claims



Investigating Suspicious Property Claims

Module 5 Chapter 5

1

Learning Objectives

- ❑ Obj I – Fraud Detection and Investigation
- ❑ Obj II – Voiding Coverage
- ❑ Obj III – Investigating a Suspicious Fire Loss
- ❑ Obj IV – The Fire Investigation Team
- ❑ Obj V – Staged Burglaries and Thefts, Padded Claims, and Multiple Policies

2

Fraud Detection and Investigation

Objective I

3

Fraud Detection and Investigation

- ❑ Adjusters must be vigilant for signs of fraud during the claims-adjusting process.
 - ❑ Must also conduct good-faith investigation.
 - ❑ Adjuster is primarily responsible for detecting and investigating fraud.
- ❑ Adjuster should be familiar with fraudulent schemes.

4

Fraudulent Schemes

- ❑ Fraudulent schemes can be simple or complex.
 - ❑ Can involve one or more individuals.
- ❑ Typical elements of fraudulent schemes:
 - ❑ Deliberately causing an accident or a loss.
 - ❑ Claiming that a loss or an event occurred when it did not.
 - ❑ Exaggerating the amount of a loss.
- ❑ Some insurers are using technology to enhance the fraud-screening process.

5

Federal Laws

- ❑ Federal laws addressing fraud include:
 - ❑ Violent Crime Control and Law Enforcement Act of 1994 – makes insurance fraud a federal crime when it affects interstate commerce.
 - ❑ Federal Mail Fraud Statute – prohibits use of the U.S. Postal Service for the purpose of defrauding or obtaining property by fraud.
 - ❑ Racketeer Influenced and Corrupt Organization Act – specifies certain activities as racketeering activities.

6

Detection

- ❑ Common fraud indicators include:
 - ❑ Insured is overly pushy for a quick settlement.
 - ❑ Insured is unusually knowledgeable regarding insurance terminology.
 - ❑ Insured is willing to accept a small settlement.
 - ❑ Losses include numerous appraised items or scheduled property.
 - ❑ Insured verifies coverage shortly before loss.
 - ❑ Coincidental absence of insured and family at time of loss.

7

Investigating Fraud

- ❑ A claims rep has a good-faith obligation to conduct a fair investigation.
 - ❑ In addition, insureds are expected to document their losses.
 - ❑ Documentation should be verified.
- ❑ Claims rep should be careful to avoid possible invasion of privacy.
 - ❑ May need to consult with legal counsel.
- ❑ A special investigation unit should be contacted if a claim appears suspicious.

8

Industry Resources

- ❑ Industry resources that can assist in identifying potentially fraudulent claims:
 - ❑ Index systems – can research claimants and specific properties that are involved in claims.
 - ❑ Investigative support organizations – provide databases that match claims to individuals.
 - ❑ Art Loss Register, National Equipment Register, National Insurance Crime Bureau.
 - ❑ Educational organizations – specifically devoted to detecting and proving fraud, including arson.

9

Local and State Information

- An adjuster can access information from many other sources.
 - Federal Bankruptcy Court.
 - Credit reporting agencies.
 - County registrar of deeds.
 - Local building permit department.
 - Local city recorder or clerk.
 - Telephone and utility companies.

10

Practice

- Jane owns a gift shop, and her new property insurance policy went into effect on July 1. She files a fire claim on February 16 of the following year for a fire that occurred on February 15. The claim includes losses related to Valentine's Day cards and decorations. The insurer investigates the claim on February 18. Jane submits receipts and invoices in person to the insurer on February 20 and then calls the adjuster to inquire about payment of the claim on February 22. All of the following are indicators of potential fraud in this case, EXCEPT:
 - A. The loss occurred in the middle of the policy term.
 - B. The Valentine's Day cards were destroyed one day after Valentine's Day.
 - C. The insured was pushy for a quick settlement.
 - D. The insured avoided conducting business by mail.

11

Voiding Coverage

Objective II

12

Voiding Coverage

- ❑ An insurer may give a claims rep authority to deny a claim on the grounds the insured breached one of the following policy conditions:
 - ❑ Concealment.
 - ❑ Misrepresentation.
 - ❑ Fraud.
- ❑ The final decision to deny a fraudulent claim is usually made by senior members of Claims Dept.
 - ❑ However, every claims rep should understand these concepts.

13

Concealment

- ❑ Concealment is misrepresentation by silence.
 - ❑ Must be fraudulent and material for the insurer to avoid liability.
 - ❑ Applicants are required to communicate all knowledge in the applicant's possession regardless.
- ❑ Concealment occurs when the applicant hides material information that is material to the insurer's decision to assume the risk.

14

Misrepresentation

- ❑ Misrepresentation is representing something that is false as a fact.
 - ❑ A statement of fact must be false and material for misrepresentation to occur.
- ❑ The insurer does not have to prove the misrepresentation was intended to deceive the insurer.

15

Fraud

- ❑ Fraud is an intentional misrepresentation resulting in harm to a person or organization.
 - ❑ Intentional deception by word, deed, or concealment.
 - ❑ Fraud can occur any time, even before a policy is issued.

16

Fraud Condition

- ❑ Policies typically contain a condition voiding the policy in the case of concealment, fraud, or misrepresentation.
 - ❑ Coverage will not be provided if insured engages in these acts either before or after a loss.
- ❑ Condition applies to both fraud in the insurance application and claims fraud.

17

Voiding the Policy

- ❑ To void a policy, an insurer must prove the misrepresentation or concealment was willful.
 - ❑ Considered intentional if the insured knows his or her statements are false or swears to the truth without actually knowing the facts.
 - ❑ Intent to defraud can be assumed whenever the misrepresentation or concealment is willful and material.
- ❑ Inadvertent mistakes do not warrant voiding the policy.

18

Practice

- Barbara recently applied for a life insurance policy on her life. Although she smokes two packs of cigarettes per day, on the insurance application, she indicated that she does not smoke. The type of behavior that Barbara has exhibited is referred to as:
 - A. Bad faith.
 - B. Adhesion.
 - C. Nondisclosure.
 - D. Concealment.

19

Investigating a Suspicious Fire Loss

Objective III

20

Duties Following Loss

- Insured's duties following a loss are crucial in cases of suspected arson.
 - Adjuster must remind the insured that these duties are conditions to the policy.
 - A proof of loss must be signed and sworn to and must state the cause of the loss.
- The adjuster should require the insured's examination under oath (EUO).
 - If arson is suspected, an experienced examiner should conduct the EUO.

21

Course of an Arson Investigation

- ❑ In any significant loss, the adjuster should obtain a nonwaiver agreement or issue a reservation of rights letter.
 - ❑ Preserves insurer's rights.
- ❑ Arson investigations explore four areas:
 - ❑ Proof of incendiary (intentional) fire.
 - ❑ Proof of opportunity.
 - ❑ Proof of motive.
 - ❑ Other miscellaneous evidence.

22

Incendiary Fire

- ❑ Intentionally set fires usually present suspicious circumstances as to both the origin and cause.
 - ❑ Origin is the place where fire ignited.
 - ❑ Intentional fires usually have multiple origins.
 - ❑ Arsonists often use accelerants to accelerate the heat and spread of the fire.
- ❑ A fire that is thorough and intense is not typical.
 - ❑ Determining the cause of such a fire might be sufficient evidence of an incendiary fire, even if the origin is never determined.

23

Incendiary Fire

- ❑ Fires spread upward much more readily than they spread horizontally.
- ❑ A fire will not spread horizontally unless:
 - ❑ It is trapped from moving upward by a ceiling.
 - ❑ Combustible material is present.
 - ❑ An accelerant is present.
- ❑ A fire trapped by a ceiling will burn the ceiling intensely.
 - ❑ A fire should not traverse the floor unless the ceiling is severely burned.

24

Incendiary Fire

- ❑ Actions that may give rise to suspicion that the insured caused the incendiary fire:
 - ❑ Insured is only one at property at time of loss.
 - ❑ Insured and family are staying at another location temporarily at time of loss.
 - ❑ Insured has copy of policy at time of loss.
 - ❑ Insured is having financial difficulties.
 - ❑ Insured is pressuring for a quick settlement.
 - ❑ Insured avoids using U.S. Postal Service.

25

Insured's Opportunity

- ❑ The opportunity to commit arson can be demonstrated by the lack of an alibi.
 - ❑ Also by behavior that enables another to commit arson.
 - ❑ An adjuster should thoroughly explore an alleged alibi.
- ❑ Insured's involvement can be inferred when the insured apparently knew arson was about to occur.

26

Insured's Motive

- ❑ The insured's motive is sometimes included as an essential element of the arson defense.
 - ❑ Arson defense only requires proof that the insured deliberately caused the fire.
 - ❑ Motive is not strictly necessary.
- ❑ Financial need is the usual motive for an insured to commit arson.
 - ❑ Adjuster should examine whether the insured would be better off with cash than with the insured property.

27

Practice

- Which one of the following is a sign of a fire that has been intentionally set?
 - A. Fire started at the corner of the building.
 - B. All the windows in the building are open.
 - C. A single point of origin.
 - D. Fire started inside an electrical appliance.

28

The Fire Investigation Team

Objective IV

29

Arson Team

- Adjusters should work with experts:
 - Origin and cause expert – crucial to proving that a fire was incendiary.
 - Often former fire department investigators.
 - Could include forensic chemist.
 - Public authorities – fire marshal's conclusions can identify suspects for criminal prosecution.
 - When authorities investigate a suspicious fire, they usually obtain a statement from the property owner.

30

Arson Team

- Adjusters should work with experts:
 - Attorneys – help prepare adjusters for court and can answer legal questions.
 - Attorney usually conducts EUO.
 - Accountants – can review insured's financial statements and work with adjuster to obtain appropriate financial documents.
 - A common motive for arson is financial.

31

Defending an Arson Claim

- Key elements of defending an arson claim:
 - Good investigation with proper documentation and qualified experts.
 - Timely and effective denial of the claim.
 - Declaratory judgment action filed shortly after the denial is issued.

32

Practice

- By the time of an examination under oath, an adjuster should know as much about the insured's financial condition as the insured does. If an adjuster lacks sufficient training to understand the insured's financial condition, he or she should enlist the help of:
 - A. An attorney.
 - B. A private investigator.
 - C. A certified financial professional.
 - D. An accountant.

33

Staged Burglaries and Thefts, Padded Claims, and Multiple Policies

Objective V

34

Staged Burglaries and Theft

- ❑ The keys to fighting any type of fraud are detection and proof.
 - ❑ Adjusters must be alert for indicators of fraud and must gather evidence to prove the fraud.
 - ❑ Burglaries and thefts are easy to stage.
- ❑ Following a burglary or theft, the insured property is gone and is rarely recovered.
 - ❑ Most homeowners cannot document the majority of their personal property.

35

Staged Burglaries and Theft

- ❑ Alleged burglaries to commercial insureds present different challenges than do homeowner claims.
 - ❑ Commercial insureds should have complete records of their property.
 - ❑ With commercial insureds, a typical fraudulent burglary involves relocating the “stolen” property.
- ❑ Adjusters should require all insureds to report all burglaries or thefts to the police.

36

Staged Burglaries and Theft

- ❑ Indicators associated with claims process:
 - ❑ Insured provides receipts for inexpensive items but no receipts for expensive items.
 - ❑ Insured indicates distress over possible EUO.
 - ❑ Insured provides receipts with no sales tax figures or no store logo.
 - ❑ Insured cannot recall place and date of purchase for items of significant value.
 - ❑ Insured provides receipts from same supplier that are numbered in sequence.

37

Padded Claims

- ❑ A legitimate loss can be the occasion for an insured to inflate the claim.
 - ❑ Can include items that were not part of the loss or by inflating the value of items that were.
- ❑ Requiring the insured to prove his or her claim is crucial to fighting padded claims.
 - ❑ Adjusters should insist insureds submit sworn proofs of loss.

38

Multiple Policies

- ❑ An insured who has two or more policies covering the same loss and who does not disclose this has probably intended fraud.
 - ❑ An insured should not collect multiple recoveries for the same loss.
- ❑ An insured who submits the same claim to several insurers has probably staged the claim.

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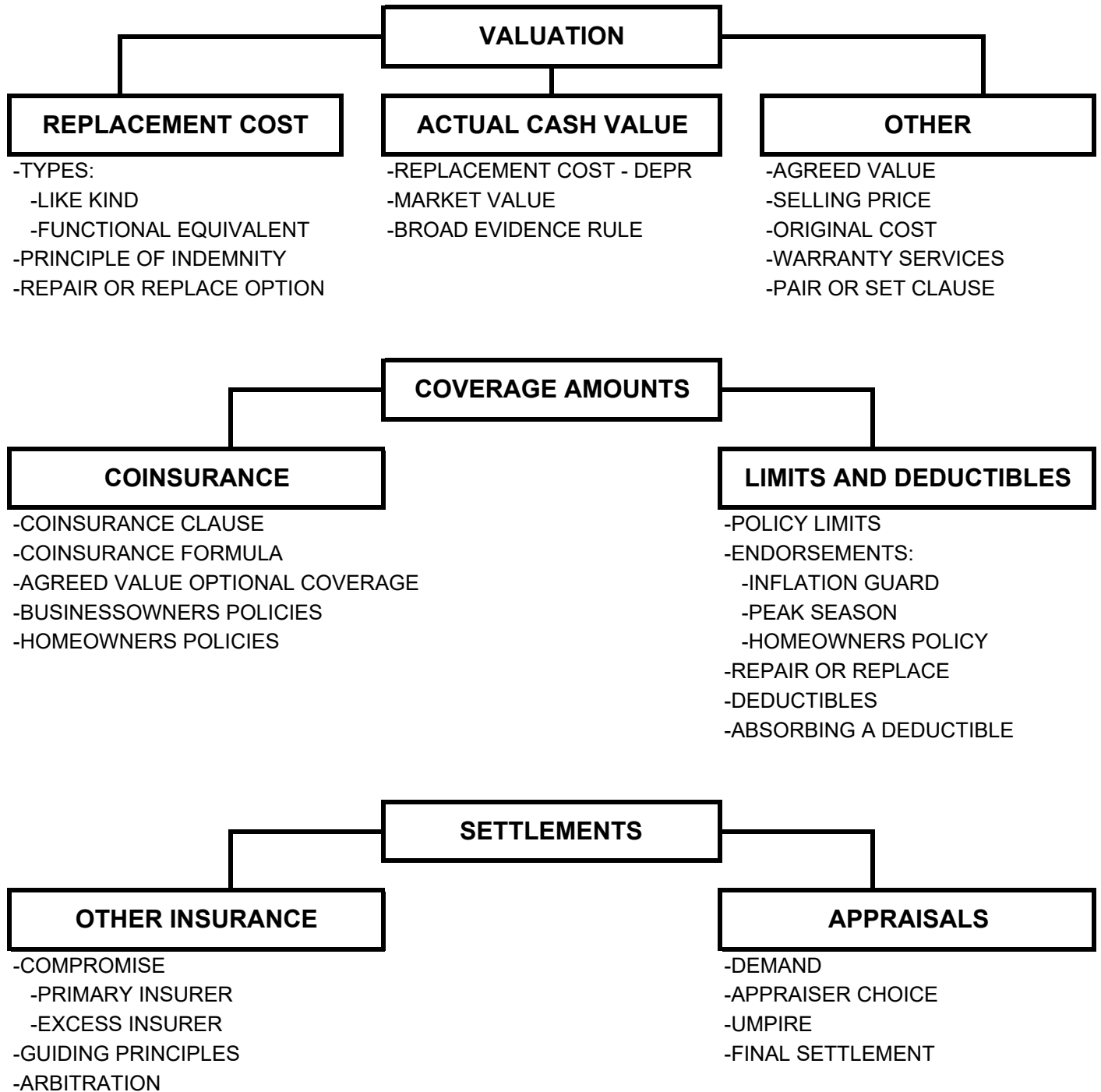
Practice

- Which one of the following is an indicator associated with the claims process?
- A. Insured can recall place and date of purchase for items of significant value.
 - B. Insured has receipts for expensive items but not inexpensive items.
 - C. Insured indicates no distress over prospect of an examination under oath.
 - D. Insured provides receipts from same supplier that are numbered in sequence.

40

Module 6

Determining Amounts Payable



Determining Amounts Payable

Module 6 Chapter 6

1

Learning Objectives

- ☐ Obj I – Replacement Cost and Actual Cash Value
- ☐ Obj II – Other Valuation or Loss Settlement Provisions
- ☐ Obj III – Applying Coinsurance and Other Insurance-to-Value Provisions
- ☐ Obj IV – Applying Property Insurance Limits and Deductibles
- ☐ Obj V – Settlements Involving Other Insurance
- ☐ Obj VI – Appraisal Provision

2

Replacement Cost and Actual Cash Value

Objective I

3

Property Valuation

- ❑ Property is almost always valued at replacement cost or actual cash value (ACV).
 - ❑ Replacement cost – cost to replace damaged property with new property.
 - ❑ ACV – considers decline in value.
- ❑ Policies specify the valuation basis for property that is lost or damaged.
 - ❑ Insurers can repair or replace property, but they usually make settlements in cash.

4

Replacement Cost

- ❑ Replacement cost is the cost of replacing property with new property of like kind or its functional value.
 - ❑ Like kind and quality – determines replacement cost using comparable product.
 - ❑ Functional equivalent – determines replacement cost using current construction methods and materials.

5

Replacement Cost

- ❑ Replacement cost provisions violate the principle of indemnity.
 - ❑ Insurance policies should only compensate insured for losses.
 - ❑ Insured that has sustained a loss to used property and replaces it with new property has profited.
- ❑ For this reason, until the insured has replaced the property, they only receive ACV settlement.

6

Actual Cash Value

- ❑ Loss settlements can be based on ACV.
 - ❑ Homeowners policy – ACV common with personal property.
 - ❑ Commercial policy – ACV common with both buildings and personal property.
- ❑ Approaches to ACV:
 - ❑ Replacement cost minus depreciation.
 - ❑ Market value.
 - ❑ Broad evidence rule.

7

Replacement Cost Minus Depreciation

- ❑ Depreciation represents any loss of value.
 - ❑ Straight-line – takes equal amount of asset's cost as an expense each year of useful life.
 - ❑ Accelerated depreciation – applied when an item depreciates rapidly when first purchased and then more slowly in subsequent years.
 - ❑ Decelerated depreciation – occurs slightly for a period of time then increases rapidly.

8

Replacement Cost Minus Depreciation

- ❑ Rate at which a particular item is depreciated depends on what it is and how it is used.
 - ❑ Physical wear and tear is the most obvious cause of loss of value.
 - ❑ Object's age usually corresponds closely to its extent of physical wear and tear.
 - ❑ Obsolescence is the loss of value caused by changes in technology or fashion.
- ❑ Most insurers publish guides for their adjusters indicating useful life of various assets.

9

Market Value

- ❑ Some courts determined ACV is market value.
 - ❑ Amount at which a knowledgeable buyer would be willing to buy an item.
 - ❑ Knowledgeable seller would be willing to sell.
 - ❑ Neither party is under unusual pressure.
- ❑ Useful when there is no real replacement cost.
 - ❑ Antiques, works of art, and other collectibles.
- ❑ Property insurance policies apply only to the structure, making the land's value irrelevant.

10

Broad Evidence Rule

- ❑ The broad evidence rule is a court ruling.
 - ❑ Requires all relevant factors be considered when determining actual cash value.
- ❑ Factors to consider:
 - ❑ Replacement cost.
 - ❑ Obsolescence.
 - ❑ Income that can be derived from property.
 - ❑ Other related factors.

11

Practice

- ❑ In the case of a property insurance policy insuring a building, the value of the underlying land is:
 - ❑ A. Irrelevant.
 - ❑ B. The amount a willing buyer would pay a willing seller.
 - ❑ C. The appraised value based on property tax records.
 - ❑ D. A percentage of the value of the building.

12

**Other Valuation or Loss
Settlement Provisions**

Objective II

13

Settlement Provisions

- ❑ Standard loss settlement provisions:
 - ❑ Cash settlement – replacement cost or ACV.
 - ❑ Repair or replacement of property.
- ❑ Provisions applicable to special cases:
 - ❑ Agreed value.
 - ❑ Pair or set clause.
 - ❑ Selling price.
 - ❑ Invoice price.
 - ❑ Original cost.

14

Agreed Value

- ❑ The agreed value loss settlement method requires the insurer to pay an agreed amount.
 - ❑ Commonly used when insuring an item of property whose ACV or replacement cost would be difficult to determine.
- ❑ This settlement method is often found in inland marine and ocean marine policies.
 - ❑ Scheduled personal property endorsement to homeowners policy may also provide agreed value loss settlement.

15

Agreed Value

- ❑ Scheduled Personal Property Endorsement (With Agreed Value Loss Settlement) – scheduled personal property is covered on an agreed-value basis.
 - ❑ Endorsement to homeowners policy.
- ❑ Under this endorsement, when a scheduled item has only partial damage, the agreed amount must be paid by the insurer.
 - ❑ Insurer can offer to sell the damaged property back to the insured.

16

Pair or Set

- ❑ Property policies often contain a pair or set clause.
 - ❑ Value of property may be diminished when part of a set is damaged.
- ❑ Pair or Set Clause allows insurer to:
 - ❑ Repair or replace any part of a pair or set to restore it to its value before the loss, or
 - ❑ Pay the difference between the property's actual cash value before and after the loss.

17

Selling Price

- ❑ Selling price endorsement provides coverage based on an inventory's selling price.
 - ❑ Would include seller's normal markup above replacement cost.
 - ❑ Normally, inventory is insured for replacement cost or ACV.

18

Invoice Price

- ❑ Transit policies often use invoice price when valuing shipments.
 - ❑ Selling price of the goods.
 - ❑ Policy also pays for freight that was prepaid or guaranteed to the carrier.
- ❑ Amount of loss can usually be determined quickly and without dispute.

19

Original Cost

- ❑ Original cost – tenant’s improvements and betterments are sometimes settled based on the unused amount of the original cost.
 - ❑ Improvements become landlord’s property at end of lease term.

20

Practice

- ❑ Michael had two custom made lanterns, one located on each side of his driveway in the front of his house. One of the lanterns was stolen, and it cannot be replaced. Information regarding the lanterns:
 - ❑ Original cost of lanterns - \$2,000 for the pair
 - ❑ Actual cash value of one lantern - \$1,000
 - ❑ Actual cash value of lanterns as a pair - \$4,000
- ❑ Assuming Michael has an HO-3 policy, how much will the policy pay him?
 - ❑ A. \$1,000.
 - ❑ B. \$2,000.
 - ❑ C. \$3,000.
 - ❑ D. \$4,000.

21

Applying Coinsurance and Other Insurance-to-Value Provisions

Objective III

22

Coinsurance

- Coinsurance clauses encourage insureds to carry adequate insurance.
 - Insured must carry insurance of at least a specified percentage of the property's value.
 - Most common percentage is 80%.
 - 90%-100% are also available in exchange for a reduced premium.

23

Coinsurance

- Coinsurance formula:

- Loss payment =

$$\frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \times \text{Loss}$$

- Amount is then reduced by the deductible.

24

Coinsurance

- ❑ The coinsurance provision is applied separately to each type of property covered.
 - ❑ Building – provision applies separately to each building unless blanket coverage exists.
 - ❑ Business personal property.
 - ❑ Property of others in insured's custody.
- ❑ Blanket insurance covers one or more types of property in one or more buildings.
 - ❑ The word "blanket" is added to the statement of coverage in the declarations.

25

Coinsurance

- ❑ Flat policies are not subject to coinsurance.
 - ❑ Property policy without a coinsurance clause.
- ❑ Some insurers will delete the coinsurance provision in exchange for a substantially higher premium.

26

Agreed Value Optional Coverage

- ❑ Agreed Value optional coverage suspends the Coinsurance condition.
 - ❑ Insured must obtain insurance at an agreed value listed in the policy.
 - ❑ Insurers require proof of agreed value before writing coverage.
- ❑ If limit of insurance equals or exceeds agreed value stated in the declarations, losses will be paid in full up to the limit of insurance.

27

Businessowners Policies

- ❑ BOP provides for replacement cost valuation, if insured carries insurance equal to at least 80% of replacement value.
 - ❑ This is an insurance-to-value condition, not a coinsurance condition.
- ❑ If insurance is less than 80% of replacement cost, insurer will pay the greater of:
 - ❑ Actual cash value of property.
 - ❑ Proportion of the cost to repair or replace, after applying the deductible.

28

Homeowners Policies

- ❑ Insurance-to-value provision in homeowners policies is similar to businessowners policies.
 - ❑ Only applies to property insured under Coverage A and B.
- ❑ If the limit of insurance is at least 80% of the replacement cost, the insurer will pay replacement cost up to policy limit.

29

Practice

- ❑ Joe and Vera purchase a home for \$200,000 that has a current replacement cost of \$175,000. They have an unendorsed HO-3 – Special Form policy with a Coverage A limit of \$150,000. A tornado rips through their neighborhood and completely destroys their house. Ignoring any deductible that may apply, how much will Joe and Vera's insurer pay for their destroyed house under the policy?
 - ❑ A. \$125,000.
 - ❑ B. \$150,000.
 - ❑ C. \$175,000.
 - ❑ D. \$200,000.

30

Applying Property Insurance Limits and Deductibles

Objective IV

31

Policy Limits

- ❑ Policy limits are normally the maximum that can be paid on a claim.
 - ❑ Endorsements exist providing for payment of full cost to replace property, even if payment exceeds the policy limit.
- ❑ Special limits of liability exist in many policies.
 - ❑ Limits on specified classes of property.

32

Policy Limits

- ❑ Endorsements relating to policy limits:
 - ❑ Inflation guard – increases limits annually by an inflation factor.
 - ❑ Peak season – increases limits during the period described in the endorsement.
 - ❑ Homeowners policy – increases limit when a total loss occurs to the residence.
- ❑ Other provisions can reduce the policy limits.
 - ❑ Special limits of liability adds limits for items such as cash (\$200) and watercraft (\$1,500).

33

Repair or Replace Option

- ❑ In almost all property policies, the insurer has the option to repair/replace the damaged property rather than paying a claim.
 - ❑ Strictly the insurer's choice.
- ❑ Many insurers have relationships with furriers, jewelers, and similar merchants.
 - ❑ Insurer can obtain discounts.
- ❑ Repair/replace option makes it more difficult for insured to profit from a claim.

34

Deductibles

- ❑ Deductibles are included in most property policies.
 - ❑ Require insured to share in the loss.
 - ❑ Eliminate insurer's obligation for small losses.
 - ❑ Lowers premiums for insured.
- ❑ Most insureds should choose the highest deductible they can comfortably afford.

35

Deductibles

- ❑ Types of deductibles:
 - ❑ Flat deductible – deductible stated as a specified dollar amount.
 - ❑ Common with homeowners policies.
 - ❑ Percentage deductible – deductible expressed as a percentage of some other amount, such as the amount of insurance.
 - ❑ Windstorm or hail deductible in HO policy.
 - ❑ Split deductible – applies different deductibles for different causes of loss.

36

Absorbing a Deductible

- ❑ A deductible is sometimes applied to the actual loss before applying any coverage limits.
 - ❑ Absorbing a deductible.
 - ❑ Although common, the practice is never specifically stated in an insurance policy.
- ❑ Principle applies to both commercial property and homeowners coverage.
 - ❑ To absorb a deductible, the excess loss amount must exceed the deductible amount.

37

Practice

- ❑ Which one of the following statements is correct regarding deductibles?
 - ❑ A. Deductibles eliminate the insurer's obligation for small losses.
 - ❑ B. As deductibles increase, premiums also increase.
 - ❑ C. Most homeowners policies have a split deductible.
 - ❑ D. Commercial property policies typically have a standard \$5,000 deductible.

38

**Settlements Involving
Other Insurance**

Objective V

39

Overlapping Coverages

- ❑ More than one insurance policy sometimes covers a loss.
 - ❑ Overlapping coverage usually occurs inadvertently.
 - ❑ An adjuster should identify overlapping coverage when investigating a claim.
- ❑ Policy conditions typically address overlapping coverages.

40

Overlapping Coverages

- ❑ When taking statements, a claims rep can ask claimants if they have other insurance that might cover the claim.
 - ❑ If overlapping coverage occurs inadvertently, the Other Insurance provision prevents the insured from being overcompensated.
- ❑ Overlapping coverage may be part of a fraudulent claim.
 - ❑ Claim should be investigated like other suspicious property claims.

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Other-Insurance Provisions

- ❑ Other-insurance provisions in a policy address overlapping coverage.
 - ❑ Pro rata share method – each insurer pays based on pro rata limit of liability.
 - ❑ Primary/Excess method – one coverage is primary.
- ❑ These methods are used in the ISO Commercial Property Conditions Form.

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Proportional (Pro Rata) Share

- Under the pro rata share method, each insurer pays based on pro rata limit of liability.
 - Payment by policy limits.
- Example – Cov. A = \$75,000; Cov. B = \$25,000.
 - If loss = \$40,000, amounts that would be paid separately would be:
 - $A = (\$75,000 / \$100,000) \times \$40,000 = \$30,000$
 - $B = (\$25,000 / \$100,000) \times \$40,000 = \$10,000$

43

Primary/Excess

- Insurance policies might indicate that one coverage is primary.
 - Claim is paid from primary policy first until limits are exhausted.
 - Excess coverage pays the amount over the primary coverage.
- Without an Other Insurance condition indicating coverage is excess, the adjuster should treat existing coverage as primary.

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Resolving Disagreements

- It is preferable for insurers to resolve coverage disagreements through compromise.
 - Resolution in court can be expensive.
- First step in formal resolution is usually arbitration.
 - Binding – insurers are bound by decision.
 - Non-binding – if one or more insurers do not accept the result, litigation will proceed toward a court resolution.

45

Practice

- Kyle and Tom have a building they insure under two separate insurance policies. Policy A has a limit of \$200,000 and Policy B has a limit of \$400,000. If the insurers use the proportional-share method and a covered loss worth \$120,000 occurs, Policy B will pay:
 - A. \$0.
 - B. \$60,000.
 - C. \$80,000.
 - D. \$120,000.

46

Appraisal Provision

Objective VI

47

Appraisal

- Appraisal provision provides a means to resolve disputes regarding value.
 - Provision is not used to resolve issues relating to coverage or policy language.
- Appraisal provision uses the word “demand.”
 - If either party makes a demand, the other has no choice but to submit to the appraisal.

48

Selecting an Appraiser

- Appraisal provision states each party will choose a competent appraiser within a specific time frame.
 - Either party could question an appraisal award if incompetent appraiser is chosen.
- An appraiser with a strong conflict of interest should never be selected.
 - In some policies, the appraisal provision states the appraisers must be disinterested.
- Appraisers then choose an umpire.

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Appraisals

- Policies stipulate that each appraiser separately set the amount of loss.
 - Most policies require the appraisers to submit any differences to an umpire.
 - Any agreement between two of the three parties sets the amount of loss.
- Once an appraisal has been set, it is binding on all parties.

50

Appraisals

- The final consideration in the appraisal relates to costs and expenses.
 - Each of the parties to the appraisal must bear their own appraiser's costs.
 - Parties equally share the umpire's cost and expenses.

51

Practice

- ☐ Which one of the following statements is correct regarding the role of the umpire in an appraisal?
- ☐ A. The umpire is chosen by the two appraisers to resolve disputes regarding the amount of the loss.
 - ☐ B. The umpire is chosen by the two appraisers to resolve coverage disputes.
 - ☐ C. The umpire is chosen by the insurer to resolve disputes regarding the amount of the loss.
 - ☐ D. The umpire is chosen by the insured to resolve coverage disputes.

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Module 7

Handling Merchandise Claims

MERCHANDISE**COVERAGE**

- MERCHANDISE DEFINITION
- COMMON PERILS
- COVERAGE FORMS:
 - BPP
 - BOP
- COVERAGE REVIEW
- INSURABLE INTEREST

VALUATION

- REPLACEMENT COST:
 - COSTS TO PURCHASE
 - TRADE DISCOUNTS
 - FREIGHT AND HANDLING COSTS
- ACTUAL CASH VALUE
 - REPLACEMENT COST - DEPR
 - RETAIL METHOD OF ACCOUNTING
- SELLING PRICE

VALUE**BOOK VALUE**

- FORMULA:
 - AMOUNT IN LAST PHYSICAL INVENTORY (BEGINNING INV)
 - + AMOUNT ADDED TO INVENTORY
 - = AMOUNT THAT COULD HAVE BEEN SOLD
 - AMOUNT THAT WAS SOLD (COST OF GOODS SOLD)
 - = AMOUNT IN INVENTORY ON DATE OF LOSS

COST OF GOODS SOLD

- FORMULA:
 - BEGINNING INVENTORY
 - + AMOUNT ADDED TO INVENTORY
 - = AMOUNT THAT COULD HAVE BEEN SOLD
 - ENDING INVENTORY
 - = COST OF GOODS SOLD

SALVAGE**SALVOR**

- ROLE
- SALE OF SALVAGE
- SALVAGE CONTRACTS
- OWNERSHIP OF PROPERTY

ACCOUNTING FOR SALVAGE

- SALE ON ACCOUNT OF INSURER
- SALE ON ACCOUNT OF INSURED
- SALE ON ACCOUNT OF WHOM IT MAY CONCERN
- SALE IN WHICH INSURED COINSURES

LOSS ADJUSTMENT**REPORTING FORM POLICIES**

- APPLICATION
- REPORTING VALUES
- SPECIFIC INSURANCE

PROCESS

- SITE VISIT
- LARGE LOSSES
 - WAIVING POLICY CONDITIONS
- SMALL LOSSES

Handling Merchandise Claims

Module 7 Chapter 7

1

Learning Objectives

- ☐ Obj I – Claims Procedures for Merchandise Losses
- ☐ Obj II – Valuation of Merchandise
- ☐ Obj III – Determining the Value of Out-of-Sight Merchandise
- ☐ Obj IV – Handling Salvage in Merchandise Losses
- ☐ Obj V – Peak Season Endorsement and Value Reporting Form

2

Claims Procedures for Merchandise Losses

Objective I

3

Loss Adjustment

- ❑ Adjusters should handle every merchandise loss with at least one visit to the insured's premises.
 - ❑ Should not leave loss determination to insured.
- ❑ To build an acceptable and reliable file, the adjuster must prepare to do everything in an orderly and complete manner.
 - ❑ Adjuster should use a checklist beginning with the first visit to the insured's premises.

4

Large Losses

- ❑ When damage to merchandise is severe and widespread but not total, the first visit by the adjuster involves:
 - ❑ Inspecting the premises.
 - ❑ Taking photos.
 - ❑ Guiding the insured.
- ❑ The adjuster's inspection of the premises should reveal whether a complete physical inventory is practical or even possible.

5

Large Losses

- ❑ During the first visit with the insured, the adjuster should:
 - ❑ Establish procedures that will be followed.
 - ❑ Notify the insured of the insured's duties.
 - ❑ Determine the insured's attitude about a fire sale after the adjustment is complete.
 - ❑ Exercise the insurer's right of access to all books and records of the insured's business.

6

Large Losses

- ❑ The adjuster should be cautious not to make any commitments that waive policy conditions:
 - ❑ Giving permission to move merchandise before it has been inventoried.
 - ❑ Approving expenses that later prove not to be covered under the policy.
 - ❑ Approving expenses that might not be justified by the circumstances.
 - ❑ Making a decision on the property adjustment that might be prejudicial to adjusting the business income claim.

7

Large Losses

- ❑ Merchandise damaged but still salable is almost certainly worth more to the insured than to anyone else.
 - ❑ Salvor can assign a possible damage allowance percentage.
- ❑ A brands and labels clause requires the manufacturer's label to be removed from all merchandise taken in salvage by the insurer.

8

Large Losses

- ❑ The adjuster's negotiating ability determines whether a satisfactory adjustment is possible.
 - ❑ Adjuster should maintain a confident but flexible attitude, depending on the insured's attitude.
- ❑ In negotiating a settlement for partial damage to merchandise, the adjuster is dealing in an area in which the insured is much more knowledgeable.

9

Small Losses

- ❑ Most merchandise claims are relatively small and uncomplicated.
 - ❑ Following all of the preceding procedures can be contrary to the insured's and the insurer's interests.
- ❑ The adjuster should establish to the best of his or her ability the accurate measure of the insured's actual loss.
 - ❑ Without bringing in outside salvors or accountants.

10

Practice

- ❑ All of the following represent commitments that could waive policy conditions, EXCEPT:
 - ❑ A. Making a decision on the property adjustment that might be prejudicial to adjusting the business income claim.
 - ❑ B. Giving permission to inventory merchandise before it has been moved.
 - ❑ C. Approving expenses that, although possibly covered, might not be justified by the circumstances.
 - ❑ D. Approving expenses that later prove not to be covered under the policy.

11

Valuation of Merchandise

Objective II

12

Replacement Cost

- ❑ Policies normally insure merchandise for either replacement cost or actual cash value.
 - ❑ Could also base value on sales price.
- ❑ Replacement cost is:
 - ❑ Insured's cost to buy stock from suppliers.
 - ❑ Less any trade discounts or allowances.
 - ❑ Plus incoming freight.
 - ❑ Plus cost of receiving, tagging, marking, and arranging goods in the insured's premises.

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Freight

- ❑ Elements of replacement cost:
 - ❑ Incoming freight charges – amounts insureds pay to have goods shipped to their premises.
 - ❑ Trade discounts and allowances – stated purchase price reductions suppliers grant the insured for purchasing in volume.
 - ❑ Internal handling costs – costs of insured's own employees handling the items.
 - ❑ External handling costs – costs of a third party handling the item for the insured.

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Actual Cash Value

- ❑ Calculating ACV is more difficult than calculating replacement cost.
 - ❑ No policy defines ACV.
- ❑ ACV can be calculated as replacement cost less depreciation.
 - ❑ Principal causes of depreciation are physical damage and obsolescence.

15

Actual Cash Value

- ❑ In some jurisdictions, ACV equals market value.
 - ❑ The market is where the insured merchant obtains its stocks of merchandise.
 - ❑ Insured's costs reflect the value of goods in the wholesale market.
- ❑ Adjusters should use the accounting method for determining value that mirrors the insured's accounting system of valuation.
 - ❑ Retail method of accounting assumes a consistent profit percentage.

16

Selling Price

- ❑ Adjusters sometimes encounter policies that give merchants selling price coverage.
 - ❑ Selling price is the tagged price on the merchandise at the time of the loss.
- ❑ A layaway should be valued at the selling price, whether it has been completely paid for or not.
 - ❑ Assumption that once the item has been put aside for a customer, the sale has been made.
- ❑ The universal pricing code (UPC) is the small box of bars of various widths appearing on an item of merchandise.

17

Practice

- ❑ All of the following statements are correct regarding the determination of replacement cost of merchandise, EXCEPT:
 - ❑ A. Replacement cost would be reduced for the cost of insurance on the merchandise.
 - ❑ B. Replacement cost would be increased by any incoming freight costs associated with the merchandise.
 - ❑ C. Replacement cost would be reduced by any trade discounts on the merchandise.
 - ❑ D. Replacement cost would be increased by the cost of arranging the merchandise in the insured's premises.

18

**Determining the Value of
Out-of-Sight Merchandise**

Objective III

19

Book Value

- ❑ Merchandise losses require the adjuster to use the insured's books to determine value.
 - ❑ Merchandise should be inventoried after loss.
 - ❑ Out-of-sight merch. cannot be inventoried because it is damaged beyond recognition.
- ❑ Fundamental financial records of any business are the income statement and balance sheet.

20

Book Value

- ❑ Method for determining book value:
 - ❑ Amount in last physical inventory
 - ❑ + Amount added to inventory
 - ❑ = Amount that could have been sold
 - ❑ – Amount that was sold
 - ❑ = Amount in inventory on date of loss
- ❑ To determine inventory's true book value, dollar amounts must be used in the formula.

21

Cost of Goods Sold

- ❑ To determine inventory's book value accurately, the cost of goods sold must be used.
 - ❑ Appears on income statement to determine gross profit.
- ❑ Method for determining cost of goods sold:

❑ Beginning inventory	\$5,000
❑ + Additions to inventory	<u>14,000</u>
❑ = Amount that could have been sold	19,000
❑ – Ending inventory	<u>9,000</u>
❑ = Cost of goods sold	10,000

22

Cost-to-Sales Ratio

- ❑ The cost-to-sales ratio is the ratio of cost of goods sold to sales.
 - ❑ Historical cost-to-sales ratio can be used to determine approximate inventory value with out-of-sight merchandise.
 - ❑ Company should know its sales for the year, and this can be used to project cost of goods sold using cost-to-sales ratio.

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Practice

- ❑ ABC Suit Company had the following transactions with respect to their suit inventory:
 - ❑ Beginning inventory – 200 suits purchased for \$200 each
 - ❑ Purchases of suits in February – 100 suits purchased for \$300 each
 - ❑ Purchases of suits in March – 200 suits purchased for \$250 each
 - ❑ Sales of suits in April – 250 suits
- ❑ Assuming they sold the oldest suits first, what is the current value of their inventory?
 - ❑ A. \$40,000.
 - ❑ B. \$55,000.
 - ❑ C. \$65,000.
 - ❑ D. \$80,000.

24

Practice

- Flores Floral Boutique had an inventory of \$50,000 at the beginning of the year. Throughout the year, \$25,000 worth of floral arrangement materials were added. The inventory at the end of the year was \$28,000. Flores Floral Boutique's cost of goods sold was:
 - A. \$22,000.
 - B. \$47,000.
 - C. \$48,000.
 - D. \$53,000.

25

Handling Salvage in Merchandise Losses

Objective IV

26

Role of Salvor

- A salvor is an expert in preserving and realizing the value remaining in damaged merchandise.
 - Role is to protect inventory and also to sell damaged merchandise if necessary.
 - Salvor does not determine coverage.
- If one is needed, the salvor should be contacted at the beginning of the adjustment process.
 - Salvor can offer adjuster professional advice on merchandise's degree of damage.

27

Sale of Salvage

- ❑ If the decision is made that the merchandise is salable, salvor arranges a sale.
 - ❑ Salvor does not take ownership of property.
 - ❑ When necessary, salvor must communicate with a health and food inspector.
- ❑ Salvor knows the best people to contact if a sale is held.
 - ❑ Salvor can ensure best possible price is obtained for the merchandise taken over by the insured.

28

Salvage Contracts

- ❑ Salvor's fees and commissions come out of the sale proceeds.
 - ❑ Become part of the loss indemnified by the insurer.
 - ❑ Settlement with insured is based on net proceeds.
- ❑ Insured is not directly liable for salvor's fees.
 - ❑ Unless insured hires salvor to separate, inventory, and protect the merchandise.

29

Salvage Contracts

- ❑ Insured retains ownership of property.
 - ❑ Can contract directly with salvor.
- ❑ Salvor's advice should be sought to resolve adjuster-insured disputes over whether property should be removed.
 - ❑ If salvor believes property is safe on insured's premises, insurer bears the risk of the salvor's being wrong.

30

Accounting for Salvage Proceeds

- Several methods are available in accounting for salvage proceeds:
 - Sale on account of insurer – insurer receives salvage proceeds.
 - Sale on account of insured – insured receives salvage proceeds.
 - Sale on account of whom it may concern – salvage sale is completed before value of stock is determined.
 - Sale in which insured coinsures – insured shares in loss with insurer.

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Sale on Account of Insurer

- Insurer pays the insured full amount.
 - Insurer takes salvage for its own account.
- Example:

□ Agreed full value of stock	\$200,000
□ Insurer pays insured	\$200,000
□ Net proceeds from salvage sale paid to insurer	\$70,000
□ Insurer's net payment	\$130,000

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Sale on Account of Insured

- Insured receives salvage proceeds.
- Example:

□ Agreed full value of stock	\$200,000
□ Net proceeds from salvage sale paid to insured	\$70,000
□ Therefore, insurer pays insured	\$130,000
□ Total payments to insured from salvage and insurance	\$200,000

33

Sale on Account of Whom It May Concern

- Salvage sale is made before agreement on the value of stock.
- Example:
 - Net proceeds from salvage sale held by salvor pending agreement \$70,000
 - Agreed full value of stock \$200,000
 - Net proceeds paid to insured \$70,000
 - Insurer pays insured \$130,000

34

Sale in Which Insured Coinsures

- Insurer and insured share in the loss.
- Example:
 - Coinsurance penalty 25%
 - Agreed full value of stock \$200,000
 - Insurer will pay no more than \$150,000
 - Net proceeds of salvage sale \$70,000
 - Shared 75% with insurer \$52,500
 - Shared 25% with insured \$17,500
 - Insurer's net payment \$97,500
 - Insured's net loss \$32,500

35

Practice

- After a fire loss, an adjuster and insured agreed the damaged merchandise's full value is \$500,000. Under the "sale on the account of the insurer" method of handling salvage proceeds, if the salvage proceeds to the insurer are \$220,000, the insurer's net payment is:
 - A. \$0.
 - B. \$220,000.
 - C. \$280,000.
 - D. \$500,000.

36

Practice

- ❑ Which one of the following statements is correct regarding the salvor's role in the merchandise loss settlement process?
 - ❑ A. The salvor takes title to the merchandise prior to the sale.
 - ❑ B. The salvor knows the best people to contact if a sale is held and can ensure that the best possible price is obtained.
 - ❑ C. The insured is directly liable for the salvor's fees.
 - ❑ D. If the salvor thinks the merchandise is safe on the insured's premises, the insured bears the risk if the salvor is incorrect.

37

**Peak Season
Endorsement and Value
Reporting Form**

Objective V

38

Fluctuating Values

- ❑ Certain property values may fluctuate over time.
 - ❑ Poses an insurance problem.
 - ❑ A single, fixed amount of insurance is not appropriate for inventory that fluctuates in value.
- ❑ Approaches to deal with fluctuating values:
 - ❑ Peak Season Limit of Insurance Endorsement.
 - ❑ Value Reporting Form.

39

Peak Season Endorsement

- ❑ Peak Season Limit of Insurance endorsement provides differing amounts of insurance for selected time periods.
 - ❑ Eliminates the need for extra transactions to change value based on fluctuating inventory.
 - ❑ Avoids risk the insured may overlook the need to increase its insurance.
- ❑ Endorsement may be added mid-term.
 - ❑ Pro-rata increased premium is charged.

40

Value Reporting Form

- ❑ Value Reporting Form avoids costs of over or under insuring business personal property.
 - ❑ Limit of insurance is set high enough to cover the insured's maximum expected values.
- ❑ Insured reports values to the insurer at periodic intervals specified in the form.
 - ❑ As long as insured reports values accurately, insurer will pay the full amount of any loss.
 - ❑ Final premium is based on the values reported by the insured as exposed to loss.

41

Value Reporting Form

- ❑ Usually, a specific limit of insurance applies to property at each location.
 - ❑ If coverage is written on a blanket basis, the blanket limit can apply at any one location.
- ❑ Insured is required to report the value of all property on hand as of each report date.
 - ❑ Insured must pay a premium based on the full value even if it exceeds the limit of insurance.

42

Value Reporting Form

- ❑ Insured must file required report within 30 days after the end of each reporting period (60 days for initial report).
 - ❑ Initial report not filed – insurer pays no more than 75% of amount due.
 - ❑ Subsequent reports not filed – insurer will pay no more than last report values.
 - ❑ Inaccurate report – insurer uses formula:
 - ❑ $[(\text{Reported}/\text{Actual}) \times \text{Loss}] - \text{Deductible}$

43

Value Reporting Form

- ❑ Value Reporting Form carries a limit of insurance that is the most insurer will pay.
 - ❑ Limit of insurance is usually set higher than the maximum value expected.
- ❑ Initial provisional premium is typically 75% of annual premium required to purchase nonreporting coverage with the same limit.
 - ❑ Typically paid at beginning of policy period.
 - ❑ Premium adjusted at end of policy period.

44

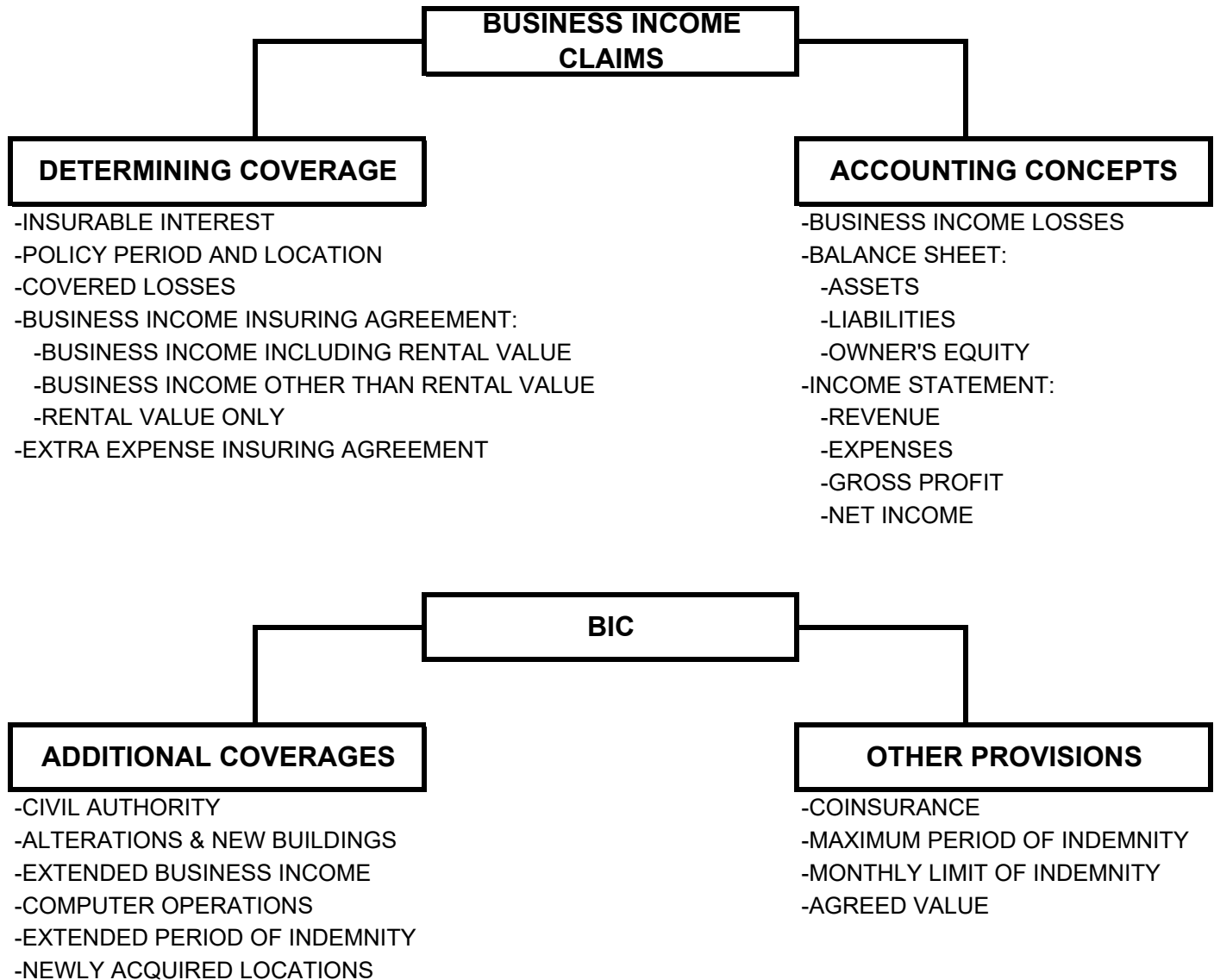
Practice

- ❑ Power's Flowers, a small chain of stores selling floral arrangements, has an extremely busy period during the two weeks before Valentine's Day, requiring it to significantly increase its inventory during this period. To adequately cover its fluctuating inventory values and keep premiums to a minimum, Power's Flowers should purchase a Building and Personal Property Coverage Form (BPP) with a(n):
 - ❑ A. Spoilage Coverage endorsement.
 - ❑ B. Value Reporting Form.
 - ❑ C. Agreed Value coverage extension.
 - ❑ D. Peak Season Limit of Insurance endorsement.

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Module 8

Business Income and Extra Expense Claims



Business Income and Extra Expense Claims

Module 8 Chapter 8

1

Learning Objectives

- ☐ Obj I – Determining Coverage
- ☐ Obj II – Accounting Concepts
- ☐ Obj III – How Property Losses Affect the Balance Sheet and Income Statement
- ☐ Obj IV – Determining the Amount of Business Income Lost
- ☐ Obj V – Continuing, Noncontinuing, and Extra Expenses
- ☐ Obj VI – Homeowners Loss of Use Claims

2

Determining Coverage

Objective I

3

Coverage Review Process

- ❑ Questions to ask during the process:
 - ❑ Is the claimant covered?
 - ❑ Does the claimant have an insurable interest?
 - ❑ Did loss occur within policy period/location?
 - ❑ Is the property covered?
 - ❑ Is the cause of loss covered?
 - ❑ Which financial consequences are covered?
 - ❑ Do any additional coverages apply?
 - ❑ Have policy conditions been met?
 - ❑ Do laws affect coverage?

4

Insurable Interest

- ❑ The claims rep. first determines if person/entity making the claim is the named insured.
 - ❑ Sometimes the documents of organization will need to be referenced.
- ❑ A claimant must have an insurable interest.
 - ❑ A condition that would cause the individual to suffer a loss if an insured event occurred.
 - ❑ For business income and extra expense losses, the financial loss suffered reduces the claimant's net income.

5

Policy Period and Location

- ❑ To collect under a business income policy, losses will be covered under the policy in effect when the direct physical loss occurred.
 - ❑ Even if suspension of operations continues into a subsequent policy period.
- ❑ Period of restoration is the period during which business income losses are covered.
 - ❑ Begins 72 hours after the physical loss.
 - ❑ Ends when property is restored to use.

6

Covered Losses

- ❑ The insurer will pay for the actual loss of business income.
 - ❑ Claims rep must establish that the insured did sustain the claimed amount of income lost.
- ❑ Books and records must be reviewed.
 - ❑ Insured must provide records to the insurer as often as may be reasonably required.
- ❑ The business income loss must occur because of the necessary suspension of operations during the period of restoration.

7

Insuring Agreement

- ❑ Business income coverage options:
 - ❑ Business income including rental value – pays for both loss of rental income from tenants and insured's own loss of income.
 - ❑ Business income other than rental value.
 - ❑ Rental value only.

8

Insuring Agreement

- ❑ The Extra Expense insuring agreement covers expenses the insured incurs to avoid suspension of operations.
 - ❑ Moving to a temporary location.
 - ❑ Increased rent at a temporary location.
 - ❑ Rental of substitute equipment.
 - ❑ Cost of substitute services.

9

Additional Coverages

- Additional coverages include:
 - Civil Authority – insures loss of business income that results when damage is to property other than the insured’s property.
 - Alterations and New Buildings – provides coverage for loss of income resulting from a delay in starting operations.
 - Extended Business Income – extends regular coverage to include losses that continue after the period of restoration ends.
 - Interruption of Computer Operations.

10

Policy Conditions

- Policy conditions include:
 - Appraisal – similar to property form.
 - Duties in the Event of Loss – similar to property form.
 - Loss Determination – explains the factors that can be considered to determine the loss.
 - Coinsurance – based on a projection of income and expenses for 12 months beginning with policy inception.

11

Optional Provisions

- Optional provisions include:
 - Maximum Period of Indemnity – alternative for organizations unlikely to sustain a business interruption of more than four months.
 - Monthly Limit of Indemnity – limits the amount recoverable during any month of business interruption.
 - Business Income Agreed Value – suspends the Coinsurance condition.

12

Practice

- ❑ Under a Business Income Coverage Form, the period of restoration ends:
 - ❑ A. 72 hours after the direct physical loss.
 - ❑ B. When the policy expires.
 - ❑ C. When the property is restored to use with reasonable speed.
 - ❑ D. 90 days after the direct physical loss.

13

Accounting Concepts

Objective II

14

Basic Accounting

- ❑ Adjusters must understand basic accounting principles to evaluate business income losses.
 - ❑ Must be comfortable analyzing revenue and expense amounts.
 - ❑ Complex losses may require the use of a forensic accountant.
- ❑ Basic elements of accounting are the same for all organizations.
 - ❑ Balance sheet and income statement.

15

Balance Sheet

- ❑ The balance sheet reflects a company's owners' equity for a specific point in time.
 - ❑ Lists everything the company owns (assets) and the company owes (liabilities).
 - ❑ Owners' equity is shown on the liabilities side of the balance sheet because a business does not own its net worth.
- ❑ Accounting equation:
 - ❑ $\text{Assets} - \text{Liabilities} = \text{Owners' Equity}$

16

Income Statement

- ❑ The net income (or loss) for a company is calculated on the income statement.
 - ❑ Reflects profitability over a period of time.
 - ❑ Income statement reflects revenues and expenses.
- ❑ Almost all organizations prepare an annual income statement.

17

Revenue

- ❑ Revenue represents the gross income generated from the organization's operations.
 - ❑ Includes sales of merchandise and amounts received for the performance of services.
- ❑ Revenue does not include:
 - ❑ Purchase or sale of major assets.
 - ❑ Gains from investment activities.
 - ❑ Other unrelated receipts and expenditures.

18

Expenses

- ❑ Expenses represent certain cash outflows and non-cash costs, such as depreciation.
 - ❑ Expenses can be related to sales directly, such as cost of goods sold or commissions.
 - ❑ In manufacturing, the cost of goods sold includes the cost of materials to make the product, labor, and overhead.
 - ❑ Expenses may be general in nature, such as rent and electricity.

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Expenses

- ❑ Capital investments and expenditures are not operations.
 - ❑ Appear on income statement gradually over time, normally as a depreciation expense.
- ❑ Depreciation expense spreads out the expense of a large purchase over time.
 - ❑ May be calculated based on useful life.

20

Net Income

- ❑ Gross profit represents the net income from sales of products.
 - ❑ Sales less cost of goods sold.
 - ❑ Gross profit margin is the percentage of sales remaining after deducting cost of goods sold.
- ❑ Net income represents gross profit, less general operating expenses.
 - ❑ Includes office expenses and depreciation.
 - ❑ Net income can be negative whenever expenses exceed revenue.

21

Business Income Loss

- ❑ Insurance for business income covers loss of net income and continuing expenses during an interruption of operations.
 - ❑ Normal operating expenses may stop completely after a loss.
 - ❑ Alternatively, they may continue at the same, increased, or decreased rate.
- ❑ Adjuster must understand insured's business to determine if an expense will continue or not.

22

Practice

- ❑ Which one of the following would be considered revenue for a manufacturing business?
 - ❑ A. Income received from an insurance claim.
 - ❑ B. Income from sale of investments.
 - ❑ C. Income from sale of real estate.
 - ❑ D. Income from operations.

23

**How Property Losses
Affect the Balance Sheet
and Income Statement****Objective III**

24

Balance Sheet

- ❑ The subject of most property claims is direct physical loss to property.
 - ❑ Affects assets on the balance sheet.
 - ❑ Assets include inventory, equipment, and real estate.
- ❑ After a loss, the balance sheet may show an Insurance Claim Receivable account.

25

Income Statement

- ❑ Net income can decrease due to either decreased revenue or increased expenses.
 - ❑ Loss of business income can threaten organization's survival.
- ❑ Business income insurance is meant to keep the organization in nearly the same financial position as it would have been had no loss occurred.

26

Revenue

- ❑ Many types of direct physical loss can cause a reduction in sales.
 - ❑ Duration of sales reduction depends upon amount of time required to repair property.
 - ❑ Customers may not return after a shutdown.
- ❑ Sales volume can fluctuate.
 - ❑ Some businesses have seasonal income.
 - ❑ An accountant may be needed to assist in the evaluation of sales.

27

Expenses

- ❑ After a direct physical loss, normal business expenses can stop completely.
 - ❑ Could also continue at a decreased rate, higher rate, or the same rate.
 - ❑ Normal expenses are covered as continuing expenses during the period of restoration.
- ❑ The business may incur extra expenses.

28

Expenses

- ❑ Even if a business completely shuts down for a period of time, some expenses will continue.
 - ❑ Workers may continue to be paid if business expects a short shutdown.
- ❑ Some expenses are related to sales and will decrease when sales decline.
 - ❑ Cost of goods sold.

29

Calculating Losses

- ❑ There are several methods used to calculate net income losses.
- ❑ Common method used in insurance:
 - ❑ Reduction = Net income a business could reasonably have been expected to earn -less-
 - ❑ Net income a business actually earned in a period of interruption.

30

Calculating Losses

	Expected	Actual
Revenue	\$100,000	\$0
Expenses	\$60,000	\$50,000
Net Income (Loss)	\$40,000	(\$50,000)

31

Practice

- Which one of the following is an example of an extra expense that an organization might incur to mitigate the effects of a business interruption?
- A. Overtime labor.
 - B. Payroll of key employees.
 - C. Income taxes.
 - D. Advertising in the local newspaper.

32

Determining the Amount of Business Income Lost

Objective IV

33

Loss of Business Income

- ❑ Loss of business income is the net income that would have been earned plus the continuing normal operating expenses.
 - ❑ Many factors can be considered in determining a business income loss.
- ❑ To determine if an extra expense has occurred:
 - ❑ Expense must exceed normal operating expenses.
 - ❑ Expense must reduce the business income loss that would have been incurred.

34

Evaluation of Trends

- ❑ Trend sheets are spreadsheets that show historical gross revenue data.
 - ❑ Series of days, weeks, months, quarters, or years.
- ❑ To estimate the expense for the loss, trend sheets should be created for various expenses.
 - ❑ After the expenses have been projected, the adjuster can begin the loss adjustment.

35

Business Income Losses

- ❑ Two methods are common to determine amounts owed under the BIC form:
 - ❑ Net income plus continuing expense method.
 - ❑ Gross profit less noncontinuing expense method.
- ❑ The best method to use is a function of the size and complexity of the loss.

36

Business Income Losses

- ❑ Net income plus continuing expense method most closely matches the policy language.
 - ❑ Arguably the easiest method to reconcile with actual incurred expense figures.
- ❑ Reconciliation is the process of matching the net income and continuing expense projections with the actual sales and expenses.
 - ❑ Must be done on a case-by-case basis with careful attention to a fair evaluation of the insured's loss.

37

Negotiating Claims

- ❑ Adjusters should be comfortable developing a range of reasonable settlement possibilities.
 - ❑ Business income evaluations are a combination of interpretations and projections from available preloss data.
 - ❑ A business income loss could be considered a specialty loss because not all property loss adjusters handle this type of claim.

38

Practice

- ❑ Darnall Glass Company had net income last calendar year in the amount of \$1,200,000, which was earned equally throughout the year. They have the same net income in the current calendar year. A fire in their building caused them to have to shut down operations for 5 months and 3 days. During the shutdown, they incurred total continuing expenses in the amount of \$400,000 (which included payroll costs of \$125,000). Darnall is insured under a Business Income Coverage (BIC) form. How much will Darnall receive from the BIC?
 - ❑ A. \$500,000.
 - ❑ B. \$775,000.
 - ❑ C. \$900,000.
 - ❑ D. \$1,600,000.

39

**Continuing,
Noncontinuing, and Extra
Expenses**

Objective V

40

Continuing and Noncontinuing

- ❑ Some expenses will continue during a period of shutdown.
 - ❑ Continuing expenses decrease net income.
 - ❑ Included in the amount of business income loss covered.
 - ❑ Noncontinuing expenses increase net income during a shutdown.
 - ❑ Not included in the amount of business income loss covered.

41

Continuing and Noncontinuing

- ❑ Claims representatives often must estimate the covered amount of business income loss until it can be reconciled with the insured's records.
 - ❑ May be difficult to estimate which expenses will continue.
- ❑ Expenses that may continue:
 - ❑ Payroll and rent.
 - ❑ Utilities and taxes.
 - ❑ Advertising and professional fees.
 - ❑ Depreciation.

42

Extra Expenses

- ❑ Extra expenses are necessary expenses incurred during the period of restoration.
 - ❑ Not considered continuing expenses.
 - ❑ Arise only after an event.
- ❑ Extra expenses can help reduce a business income loss.
 - ❑ Some organizations are willing to incur extra expenses even if they do not reduce losses.
- ❑ A claims rep may need to estimate the amount of extra expenses.

43

Extra Expenses

- ❑ Extra expenses include:
 - ❑ Renting temporary space or equipment.
 - ❑ Moving to a temporary location.
 - ❑ Utilities at a temporary location.
 - ❑ Costs of overtime labor.
 - ❑ Costs of temporary labor.
 - ❑ Costs of materials from a temporary supplier.

44

Insuring Agreement

- ❑ Extra expenses are covered under the following ISO Coverage Forms:
 - ❑ Extra Expense Coverage Form – covers extra expenses in full, subject to the policy limit.
 - ❑ Business Income (and Extra Expense) Coverage Form – covers extra expenses in full, subject to the policy limit.
 - ❑ Business Income (Without Extra Expense) Coverage Form – covers extra expenses only if they reduce the business loss.

45

Insuring Agreement

- ❑ The Expenses to Reduce Loss coverage provides coverage for extra expenses only if the expenses reduce the business income loss.
 - ❑ Only applies to Business Income (Without Extra Expense) Coverage Form.
 - ❑ Cost of extinguishing a fire is not covered.
- ❑ Rate for the BIC (and Extra Expense) form is not much greater than the rate for the BIC (Without Extra Expense) form.

46

Loss Determination Condition

- ❑ The Loss Determination condition indicates that the amount of extra expense consists of all expenses in excess of normal expenses.
 - ❑ Also includes necessary expenses that reduce the amount of income that would have been otherwise lost.
- ❑ The insurer deducts from the total expenses the salvage value of any temporary property used by the insured.

47

Practice

- ❑ Which one of the following would be covered as an extra expense under the Business Income (and Extra Expense) Coverage Form?
 - ❑ A. Continued payroll.
 - ❑ B. Normal operating expenses.
 - ❑ C. Real estate taxes.
 - ❑ D. Rental of substitute equipment.

48

**Homeowners Loss of Use
Claims**

Objective VI

49

Loss of Use Expenses

- ❑ Homeowners can experience an increase in expenses due to property damage to a home.
 - ❑ May also lose rental income.
- ❑ Coverage D under ISO homeowners forms covers the following Loss of Use expenses:
 - ❑ Additional living expenses.
 - ❑ Fair rental value.
 - ❑ Loss of use due to civil authority.

50

Additional Living Expenses

- ❑ Additional Living Expenses coverage applies only when a loss that would otherwise be covered by the policy has occurred.
 - ❑ Living expenses resulting from flood damage to a home are not covered.
- ❑ The home must be “not fit to live in.”
- ❑ Payment will be made for the shortest time required to repair or replace the damage.
 - ❑ If homeowner moves, payment will be made for shortest time required to settle elsewhere.

51

Additional Living Expenses

- Additional living expenses must:
 - Be necessary to minimize loss.
 - Represent increases above normal living expenses.
 - Have been incurred – insured should retain all receipts.
 - Advance payments can still be made.
 - Be necessary to maintain insured's standard of living.

52

Fair Rental Value

- Coverage D applies to lost rental income of the residence premises.
 - A homeowner may rent a portion of their home to a tenant.
 - Provides coverage even if the portion of the home was not rented at the time of the loss, provided premises was "held for rental."
- Claims representative would need to analyze rental prices in the local market.

53

Fair Rental Value

- Many insurers are modifying their policies to exclude various home-sharing loss exposures.
 - Home-Sharing Host Activities Endorsement is added to exclude coverage for home-sharing.
 - Broad Home-Sharing Host Activities Coverage Endorsement can be added to provide coverage for home sharing activities.

54

Fair Rental Value

- ❑ Fair Rental Value loss settlements don't require claims reps to review numerous expenses.
 - ❑ Also don't require verifying that the insured actually incurred a loss.
 - ❑ Insured is deemed to have suffered a loss if property held for rental is "unfit to live in."
- ❑ Claims reps can use rental websites to estimate the rental value of a property.

55

Civil Authority

- ❑ Coverage applies when loss of use results from a declaration by a civil authority.
 - ❑ Police, fire, or civil defense department.
- ❑ Civil authority may prohibit homeowner from occupying their home.
 - ❑ May occur if neighbor's property is damaged.

56

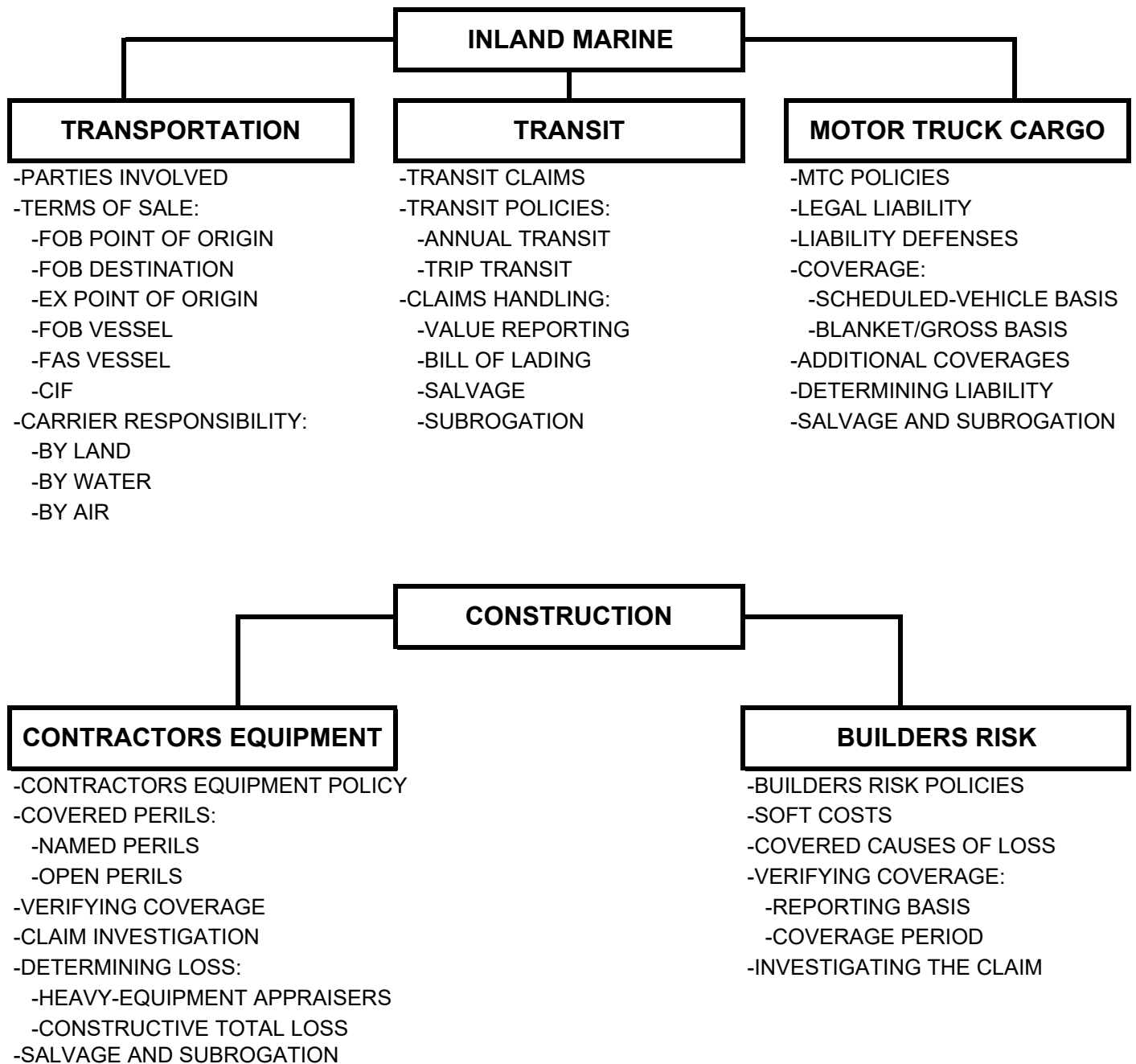
Practice

- ❑ Miguel is claims rep assigned to a case involving Additional Living Expenses & Fair Rental Value. Which of the following methods should he use to determine the Fair Rental Value?
 - ❑ A. Add together the amount of extra and necessary expenses the homeowner incurs during the period of restoration.
 - ❑ B. Determine the amount for Additional Living Expenses and add 25%.
 - ❑ C. Use online rental calculators and rental listings to determine a fair price.
 - ❑ D. Ask the homeowner for previous lease agreements from the past 24 months.

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Module 9

Fundamentals of Inland Marine Claims



Fundamentals of Inland Marine Claims

Module 9 Chapter 9

1

Learning Objectives

- ☐ Obj I – Transportation Loss Exposures
- ☐ Obj II – Handling Transit Insurance Claims
- ☐ Obj III – Handling Motor Truck Cargo Liability Insurance Claims
- ☐ Obj IV – Handling Contractors Equipment Insurance Claims
- ☐ Obj V – Handling Builders Risk Insurance Claims

2

Transportation Loss Exposures

Objective I

3

Transportation Loss Exposures

- ❑ Almost all organizations have transportation loss exposures.
 - ❑ Even a service organization may be exposed to loss of property during a move.
- ❑ Issues to consider when analyzing transportation loss exposures:
 - ❑ Parties involved in transportation.
 - ❑ Ownership of goods.
 - ❑ Carrier responsibility for loss.

4

Parties Involved in Transportation

- ❑ Loss exposures involving property in transit can be uncomplicated or complex.
 - ❑ Depends on how many parties are involved.
 - ❑ Shipment of goods transported by two or more carriers using two or more modes of transportation can raise complex issues.
- ❑ Generally, the party that owns the goods at the time they are damaged bears the loss.
 - ❑ If title has passed from seller to buyer, the buyer would bear the loss.

5

Parties Involved in Transportation

- ❑ Parties in transportation losses:
 - ❑ Consignor (shipper/seller) – party with whom transportation of property begins.
 - ❑ Consignee (buyer) – party to whom goods are to be delivered.
 - ❑ Carriers – party that transports goods; are usually legally liable for loss or damage to goods in its custody.

6

Ownership of Goods

- Terms of sale for domestic shipments:
 - FOB (Free on Board) Point of Origin – buyer responsible for loss that occurs when goods are accepted by the carrier for transit.
 - FOB (Free on Board) Destination – buyer responsible for loss that occurs when goods are delivered to the buyer's premises.

7

Ownership of Goods

- Terms of sale in international commerce:
 - Ex Point of Origin – buyer responsible for loss that occurs after taking delivery of goods.
 - Free on Board (FOB) Vessel – buyer responsible for loss as soon as goods are placed aboard the transportation vessel.
 - Free Along Side (FAS) Vessel – responsible when goods placed alongside vessel.
 - Cost, Insurance, Freight (CIF) – buyer responsible when goods are placed in custody of the carrier.

8

Carrier Responsibility for Loss

- Common carriers offer transportation services to the general public.
 - A bill of lading is the contract for carriage between the carrier and the shipper.
- Common carriers of goods by land – usually liable to shipper for any cargo losses except:
 - Acts of God or of a public enemy.
 - Exercise of public authority.
 - Shipper's fault or neglect.
 - Inherent vice.

9

Carrier Responsibility for Loss

- ❑ Contract carriers carry goods of certain customers only.
- ❑ Contract carriers of goods by land – liability depends on the contract terms.
 - ❑ Typically, a contract carrier's liability for cargo loss is not as strict as a common carrier's liability.
 - ❑ Common approach is for carrier to be liable for loss resulting from their negligence.

10

Carrier Responsibility for Loss

- ❑ Waterborne carriers – common or contract.
 - ❑ Common carrier – liability for foreign sea shipments is specified under U.S. Carriage of Goods by Sea Act (COGSA).
 - ❑ Contains exceptions to relieve liability.
 - ❑ Carrier generally not liable for cargo loss arising from unseaworthiness of vessel.
 - ❑ Contract carrier – liability determined by contract of carriage.
 - ❑ Arranging for contract carrier is “chartering.”

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Carrier Responsibility for Loss

- ❑ Air carriers – foreign or domestic.
 - ❑ Foreign – liability is governed by rules of the international Warsaw Convention.
 - ❑ Not liable if carrier can prove it took all steps necessary to avoid loss.
 - ❑ Domestic – carriers have latitude in choosing liability rules under which they operate.
 - ❑ Might be subject to a negligence standard.
 - ❑ Might also limit their liability to a certain amount per pound.

12

Practice

- ❑ Which one of the following statements is correct regarding transportation loss exposures?
 - ❑ A. Common carriers are usually only responsible for losses if they are negligent.
 - ❑ B. Contract carriers have a higher degree of responsibility for losses than common carriers.
 - ❑ C. Generally, the party that owns the goods at the time of the loss bears the responsibility of the loss.
 - ❑ D. Arranging for a common carrier over water is called chartering.

13

Handling Transit Insurance Claims**Objective II**

14

Transit Claims

- ❑ Transit claims present unique challenges in:
 - ❑ Coverage verification.
 - ❑ Fact-checking and documentation.
 - ❑ Inspection.
 - ❑ Salvage.
 - ❑ Subrogation.

15

Transit Policies

- ❑ Transit insurance is designed to cover property:
 - ❑ Transported by carriers, or
 - ❑ On the insured's own trucks.
- ❑ Transit policies can be written on a special-form or on a named-perils basis.
 - ❑ Both usually contain exclusions for war, governmental action, and nuclear hazard.
 - ❑ Some theft losses are covered.

16

Transit Policies

- ❑ Transit policies typically use the invoice price as the basis for valuing shipments.
 - ❑ If the shipment is not between a buyer and seller, ACV may be used.
- ❑ Types of policies:
 - ❑ Annual transit insurance – designed for organizations that frequently ship or receive property.
 - ❑ Trip transit insurance – designed for occasional shippers.

17

Annual Transit Policies

- ❑ Annual transit policies cover all shipments during policy period.
 - ❑ Primary purpose is to cover property transported by carriers.
- ❑ Many policies cover property shipped by any land vehicle owned or operated by the insured.
 - ❑ Insured should make sure the Declarations page indicates all possible modes of transportation that might be used are covered.

18

Annual Transit Policies

- ❑ Types of property typically excluded:
 - ❑ Contraband.
 - ❑ Precious metals, furs, jewelry, money, and securities.
- ❑ Policy may contain an exclusion for overseas shipments or imports.
 - ❑ Usually covered by ocean marine policy.

19

Annual Transit Policies

- ❑ Most annual transit policies provide coverage on an open-perils basis.
 - ❑ Flood/earthquake are usually covered.
 - ❑ Policies contain various coverage extensions.
- ❑ Many policies cover only within continental U.S. and Canada, including airborne shipments between these places.
- ❑ Property is usually valued at amount of invoice if being transported between buyer and seller.

20

Claims Handling Challenges

- ❑ Transit insurance claims handling presents unique challenges.
 - ❑ Claims reps must check for unique coverages that can be added by endorsement.
- ❑ Transit policies can be written using a value reporting form.
 - ❑ In this case, claims rep must verify that the insured's reporting is up to date.

21

Claims Handling Challenges

- ❑ A claims rep typically begins an investigation by verifying the facts.
 - ❑ Must be done quickly after a loss.
- ❑ A key part of adjusting transit losses is obtaining and verifying key shipping documents.
 - ❑ Bill of lading is the primary document used to evaluate the liability of the carrier.
 - ❑ Other documents include the shipping invoice, purchase document, inspection records, and master contracts.

22

Claims Handling Challenges

- ❑ Salvage is an important part of handling transit losses.
 - ❑ Insurer may be able to recover a significant part of its loss through salvage receipts.
 - ❑ Important to promptly inspect and sell items that have value.
- ❑ Subrogation is possible in a transit loss.

23

Practice

- ❑ Which one of the following statements is correct regarding annual transit insurance?
 - ❑ A. Annual transit policies value covered property at replacement cost.
 - ❑ B. Most annual transit policies cover property on a named-perils basis.
 - ❑ C. Annual transit policies only cover cargo on a specific trip.
 - ❑ D. Annual transit policies typically exclude precious metals and jewelry.

24

**Handling Motor Truck
Cargo Liability Insurance
Claims**

Objective III

25

Motor Truck Cargo Liability

- ❑ Motor truck cargo (MTC) liability policies cover a trucker's liability for damage to cargo of others.
 - ❑ Purchased by carriers to protect themselves if they are held liable for damage to cargo.
- ❑ The types of property covered vary by policy.
 - ❑ Some policies only covered specified perils.
- ❑ Even though it is a liability policy, it is usually handled by property loss adjuster.

26

Motor Truck Cargo Liability

- ❑ In order for coverage to apply, the carrier must be legally liable.
 - ❑ Not direct property insurance that benefits the cargo owner.
- ❑ Policies generally cover most property that the insured accepts for transportation.
 - ❑ However, valuable property that is often targeted by thieves is usually excluded.
 - ❑ Valuable property can be covered for an added premium.

27

Motor Truck Cargo Liability

- ❑ A motor carrier's liability is strict liability, subject to these defenses:
 - ❑ Act of God.
 - ❑ Public enemy.
 - ❑ Acts of public authorities.
 - ❑ Shipper's fault or negligence.
 - ❑ Inherent vice.

28

Determining Coverage

- ❑ MTC liability insurance presents unique challenges for the claims rep.
 - ❑ The handling of a claim begins with a review of the coverage.
- ❑ If the policy is written on a scheduled-vehicle basis, the claims rep must verify vehicle in the accident is scheduled.
 - ❑ Some policies are written on a blanket/gross receipts basis.
- ❑ Identity of the named insured can be an issue.

29

Determining Coverage

- ❑ MTC liability insurance may contain additional coverages, such as debris removal and reloading expenses.
 - ❑ Endorsements can be used to add coverages such as refrigeration breakdown.
- ❑ Claims rep needs to determine if carrier deviated from the customary route.

30

Determining Liability

- ❑ After confirming coverage, the claims rep must determine if insured was legally liable.
 - ❑ Claims rep should obtain bill of lading as well as any master contracts.
- ❑ A released value bill of lading may apply.
 - ❑ Carrier charges a lower freight rate in return for the shipper's allowing the carrier to limit their liability loss.

31

Inspecting Damaged Property

- ❑ The damaged property should be inspected as soon as possible after a loss.
 - ❑ Must determine amount of damage and aid in mitigation of damage.
 - ❑ Claims rep should try to determine the cause of loss.

32

Salvage and Subrogation

- ❑ MTC liability claims present the possibility of salvage and subrogation.
 - ❑ Addressing salvage can be difficult for claims rep, especially with perishable goods.
 - ❑ The chance for subrogation is maximized through the claim rep's timely and thorough investigation.

33

Practice

- ❑ A manufacturing company ships its cargo with a trucking company that is insured under a Motor Truck Cargo (MTC) Liability policy. In which one of the following circumstances would the policy provide coverage?
 - ❑ A. A tornado destroys both the truck and the cargo.
 - ❑ B. A public authority seizes all the cargo on the truck due to suspicion of drug trafficking.
 - ❑ C. The cargo is damaged because it was not packaged properly by the manufacturer.
 - ❑ D. The cargo is destroyed when the truck gets into a traffic accident.

34

**Handling Contractors
Equipment Insurance
Claims**

Objective IV

35

Contractors Equipment Floater

- ❑ Contractors Equipment policy covers mobile equipment or tools located anywhere in the coverage territory.
 - ❑ Largest class of commercial inland marine insurance.
 - ❑ Covers cranes, earth-movers, tractors, etc.
- ❑ Policy typically contains a schedule listing each piece of equipment and its limit of insurance.
 - ❑ Policy may also provide blanket coverage.

36

Contractors Equipment Floater

- ❑ Common covered perils under a named-perils form:
 - ❑ Fire, lightning, explosion.
 - ❑ Windstorm, hail.
 - ❑ Vandalism, theft.
 - ❑ Earthquake, flood.
 - ❑ Collision, overturn.
 - ❑ Collapse of bridges.
- ❑ Open-perils coverage is also available.

37

Contractors Equipment Floater

- ❑ Policies can be designed for equipment used in specialized situations.
 - ❑ Policies may also include usual perils.
- ❑ Policies often include rental reimbursement coverage.
 - ❑ Pays the cost of renting substitute equipment.

38

Verifying Coverage

- ❑ Claims rep usually begins by verifying coverage.
 - ❑ Policies may consist of manuscript forms, endorsements, or both.
- ❑ Claims rep must consider if property is scheduled or unscheduled.
 - ❑ If coverage is on a scheduled basis, must confirm damaged property is on the list.

39

Verifying Coverage

- ❑ Common policy exclusions:
 - ❑ Employee dishonesty.
 - ❑ Failure to use safety equipment.
- ❑ Coverage can be written for actual cash value, replacement cost, or agreed value.
- ❑ Loss payable provisions are often included.

40

Investigating the Claim

- ❑ The investigation should begin by taking statements from the insured and the equipment operator.
 - ❑ Statements can be written or recorded.
- ❑ Experts may need to be consulted to determine cause of loss.
 - ❑ If applicable, a copy of the police or fire report should be obtained.
- ❑ If fraud is suspected, SIU investigation may be necessary.

41

Determining Amount of Loss

- ❑ Most claims involve equipment that can be repaired.
- ❑ Claims rep often relies on experts to determine amount of loss.
 - ❑ Heavy-equipment appraisers (HEAs) meet minimum levels of experience and training in determining heavy-equipment loss values.
 - ❑ Engineers, manufacturers, or dealers' representatives can also help in the case of specialized equipment.

42

Determining Amount of Loss

- ❑ Constructive total loss – cost to repair property plus salvage value exceeds pre-loss value.
 - ❑ Insurer will pay the claims as if it is an actual total loss.
 - ❑ Insurer will sell the damaged property for salvage.

43

Salvage and Subrogation

- ❑ Subrogation recovery is often possible.
 - ❑ Can be pursued through courts or intercompany arbitration.
- ❑ Salvage also offers significant potential for recovery.
 - ❑ Alternative markets, such as online salvage pools, can help maximize recovery.

44

Practice

- ❑ William is a claims representative who has been assigned a loss involving the damage to several bulldozers owned by Rogers & Associates. Which one of the following experts is most likely to be needed by William in this situation?
 - ❑ A. A salvor.
 - ❑ B. A fraud investigator.
 - ❑ C. An accountant.
 - ❑ D. A heavy-equipment appraiser.

45

Handling Builders Risk Insurance Claims

Objective V

46

Builders Risk Policies

- ❑ Builders risk is one of the largest classes of commercial inland marine insurance.
 - ❑ Policies respond to parties with interests in construction projects.
- ❑ A Builders Risk policy typically covers:
 - ❑ Building under construction.
 - ❑ Temporary structures at the building site.
 - ❑ Uninstalled building materials.

47

Builders Risk Policies

- ❑ Most policies include an endorsement for soft costs.
 - ❑ Loss of rental income from project delays.
 - ❑ Interest on loans used to reconstruct building.
 - ❑ Additional real estate taxes.
 - ❑ Additional advertising expenses.
 - ❑ Additional legal and professional fees.
 - ❑ Additional insurance premiums.

48

Covered Causes of Loss

- ❑ BR policies usually apply on an open perils basis.
 - ❑ Includes coverage for flood and earthquake.
- ❑ Coverage usually excluded for loss resulting from faulty design or work.
 - ❑ Many policies also exclude coverage for hidden defect and mechanical breakdown.
- ❑ Some policies cover loss resulting from operational testing.

49

Verifying Coverage

- ❑ When a policy is written on a reporting basis, the claims rep determines whether the property values have been reported.
 - ❑ Also must determine accuracy of reports.
- ❑ Must pay attention to exclusions relating to defects or faulty work.
 - ❑ Must also consider when coverage ends and if policy offers coverage for soft costs.

50

Coverage Period

- ❑ Coverage terminates when one of the following first occurs:
 - ❑ Policy expires or is cancelled.
 - ❑ Property is accepted by the purchaser.
 - ❑ Builders interest in the property ceases.
 - ❑ Builder abandons the construction with no intention of completing it.
 - ❑ 90 days after the construction is complete or 60 days after the building is put to its intended use.

51

Investigating the Claim

- ❑ Receipts, subcontracts, and other records can help determine the amount of work completed at the site prior to the loss.
 - ❑ Charts, minutes of site meetings, and other documents can help with claims that include soft costs.
- ❑ Experts may need to be consulted when determining the amount payable.
 - ❑ If the loss is large, claims rep may need to manage the experts and integrate opinions.

52

Practice

- ❑ Which one of the following is a scenario in which a builders risk policy will terminate?
 - ❑ A. When there is a labor strike, but the builder hopes to start work again soon.
 - ❑ B. Immediately after the first tenant occupies the property.
 - ❑ C. When the builder has no more financial interest in property.
 - ❑ D. 30 days after construction is complete.

53
