Module 4

Investigation of Losses

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Chapter 4

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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

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Fire, Smoke, Lightning, and Explosion

Objective I

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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Windstorm, Hail, and Water Damage

Objective II

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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Property Claims Involving Mold

Objective III

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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Theft

Objective IV

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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.

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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.

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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.

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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.

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Catastrophes: Physical Environment

Objective V

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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.

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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.

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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.

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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.

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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.

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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.

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Catastrophes: Adjustment Procedures

Objective VI

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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