

Not Fully Paid:

Property Claim Experts Speak Out

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Very little information about the process of settling large property insurance claims is captured or disseminated. While this is partly due to the infrequent nature of large losses, it is primarily the result of a claim settlement process that is highly confidential and is limited to a small cadre of experts who are directly involved in the claim process.

For most risk managers, resolving a large property insurance claim is often a first time experience where lessons are learned the hard way. A better understanding of property claim practices would help improve risk management practices.

To gain insight into the claim settlement process, we surveyed sixteen claim experts about their experiences working on behalf of insureds and insurers to settle large property claims. For the purposes of our investigation, we defined large property claims as those where the paid claim amount was more than ten million dollars and included a business interruption component.

We surveyed independent adjusters, accountants, claim experts at insurance brokerages, attorneys who specialize in property insurance claims, former insurance company claims adjusters, and several insurance company executives. Collectively, these claim experts had more than four hundred years of experience and had resolved more than two thousand large property claims.¹

Key Findings

- Resolving large property claims has become more difficult over the last 20 years.
- Large property claims involve many people and a lengthy process.
- There are many reasons for claim disputes, even after all the facts are known.
- Insureds often experience expenses and lost earnings that are not covered by property insurance.
- Insureds often believe their insurance covers more than it does.
- Property insurance usually pays 76% to 87% of the amount claimed.

¹ We are very appreciative of the time these professionals spent answering our questions and their willingness to share their experiences and knowledge with us. In return for their help, we pledged that we would not release their individual responses or any information that would enable third parties to determine who the respondents were or for which companies they worked.

Survey Results by Question

	Average Response
Settling claims has become ... ?	More Difficult
How many of the physical damage claims are fully settled:	
Before Property is repaired or replaced?	34%
1 - 6 months after property is repaired or replaced?	37%
7 - 12 months after property is repaired or replaced?	21%
More than 1 year after property is repaired or replaced?	8%
How many of the time/element claims are fully settled:	
Before the end of the period of liability?	17%
1 - 6 months after the period of liability?	43%
7 - 12 months after the period of liability?	25%
More than 1 year after the period of liability?	14%
The insured experienced losses that were not covered by insurance. The insured thought they had more coverage than they really had.	Often Often
Insurers disputed physical damage claims because:	
There were upgrades to improve functionality.	Sometimes
The insured used internal labor to make repairs.	Sometimes
Internal overhead was applied to labor.	Sometimes
The insured overpaid for repairs.	Sometimes
There were gaps in coverage.	Sometimes
There were differences in judgment about coverage.	Often
Insurers disputed business interruption claims because:	
It was unclear if there was a loss of earnings.	Sometimes
The length of the interruption period was unclear.	Sometimes
They disagreed about the quantification of the loss.	Often
Insurers disputed extra expense claims because:	
Of interest expense on borrowed money.	Sometimes
They disagreed about the quantification of the loss.	Sometimes
They disagreed about what was covered.	Sometimes
What percentage of the physical damage claimed amount was paid?	87%
What percentage of the business interruption claimed amount was paid?	76%
What percentage of the extra expense claimed amount was paid?	82%
What types of the insured's employees were actively involved in the claim?	
Risk management	Always
Operational management	Often
Accounting/financial management	Often
In-house counsel	Sometimes
Executive management	Sometimes
What types of outside professionals were hired by the insured?	
Accounting experts	Often
Investigators, engineers, forensics experts	Often
Outside counsel	Sometimes
Environmental monitoring/ consulting experts	Sometimes

Difficulty of Claim Settlement

Most survey participants said that the difficulty level of settling large property claims had increased. Some participants said that claim settlement had stayed more or less the same. Only one said that it had gotten easier. The respondents who said they felt claim settlement had become more difficult offered the following reasons.

- Insurance companies do not offer as much training to claims adjusters as they used to, and compensation has not kept pace with other functional areas leading to fewer employees who stay long enough to gain extensive experience and judgment.
- Claims adjusters within insurers do not have as much settlement authority as they used to have.
- Insurance companies rely more heavily on statistics, computer models, and settlement committees than on individual judgment and experience.
- Competitive pressures and lower interest rates have forced insurers to be more hard-nosed about paying large claims.
- More insurance companies participate on large property programs now, and each has a seat at the settlement table.
- With more insurance companies and more outside experts being relied upon by insurers and insureds, there are more parties involved in resolving large claims than ever before.

Time to Settle

Although most claims settle within a reasonable amount of time, the claim experts we surveyed indicated that it is not infrequent for property claims to take significantly longer. 29% of physical damage claims were not fully settled within six months of the property being repaired or replaced, and approximately one in ten physical damage claims took more than a year after the property was repaired or replaced to settle.

Time/element claims were even more difficult to resolve. According to the survey respondents, 39% of these claims had not been resolved within six months of the end of the period of liability and 14% of these claims were still unresolved one year after the end of the period of liability.

Insured Expectations/Uninsured Damages

Survey respondents explained that there are all sorts of reasons why some portion of damages from property losses are not covered at all or are only partially covered by property insurance and that this is a routine occurrence. They said that insureds often think they have more insurance coverage than they actually have. If insureds think their policies “cover everything” then they are bound to be disappointed by the extent of their actual coverage after they have experienced a large property loss.

The claim experts surveyed also noted that the insureds’ expectations about the extent of their insurance coverage diminished significantly during the course of claim settlement.

They said that in addition to using their expertise and judgment to resolve claims, their roles also involved managing the insured's expectations.

What to Leave In, What to Leave Out

Survey participants said that the amount claimed depended on who filed the claim and how much expertise they had. Unassisted, insureds tended to claim many items that were not covered by insurance, while those with more experience were quick to filter out those expense items and whittle the claim down to amounts where there was a reasonable basis of insurance coverage.

Even after the insured and the insurer(s) were in agreement about all of the facts pertaining to the damages sustained, a significant amount of knowledge and expertise was required to determine what damages were covered and the extent of that coverage. This observation was as pertinent for the physical damage portion of claims, as it was for business interruption, and extra expense components.

With physical damage, judgments must be made about the extent of the damage, necessary repairs, and functional upgrades as well as the meaning of the coverage terms in the policy. With extra expense, judgment was required to understand "normal" expenses as well as the meaning of the policy wording. The business interruption component of large property claims was said to require greater experience and knowledge given that one can never substantiate actual damages. Assuming that there is agreement that there was a period of business interruption, companies often disagree over how the business would have performed if there had been no loss event.

Although this survey pertained to large claims, a number of the survey participants pointed out that similar amounts of judgment were required to settle smaller claims, too.

Extent of Human Resources Involved

Although survey respondents said it was common for many people working inside and outside of the insured company to assist in claim settlement, they indicated that this had as much to do with the size and complexity of the claim as it did the size of the insured company. Smaller insureds would be unlikely to have experienced risk managers, and ten million dollars might be large enough to warrant the active involvement of executive management. For the largest companies, the loss would need to be much greater to warrant that level of executive management attention.

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According to the claim experts we surveyed, the average amount paid in relation to the final amount claimed was 87% for physical damage, 76% for business interruption and 82% for extra expense coverage. However, many of them said that these percentages were substantially lower if one used the initial claimed amount rather than the final claimed amount. The consensus was that the total economic damages from a large

property loss go well beyond what is covered by traditional property insurance and that the difference between the final amount claimed and the amount paid was just the tip of the iceberg.

In addition to the amounts retained by the insured in the form of deductibles, amounts in excess of sublimits and policy limits, and co-insurance penalties, there were many other damages that insureds documented but did not ultimately claim. Organizations also sustained economic damages that could not be documented but which show up over time in the form of lost revenues or higher expenses. The use of management time or outside experts to remediate damages and settle claims is an obvious example of this type of damage.

Implications for Risk Management

The survey responses indicate that property insurance typically pays for 76% to 87% of the final amounts claimed and that there are large damages sustained by the insured in addition to this differential that are not covered. Given the significant amounts of damage that are not claimed, it is reasonable to infer that property insurance usually covers only 65% to 75% of the total economic damages associated with these events. This implies that most insureds will sustain significant financial damages for which they are not prepared.

If the objective of risk management is to plan for unusual events that may cause substantial harm, then the results of this survey indicate that it is no longer enough to buy property insurance and hope for the best. Evaluating the claim assistance that insurance brokers can provide to resolve large property claims is a good start, but risk managers should also consider if other experts may be needed.

Most importantly, risk managers would be remiss in their duties if they did not ensure that they have the financial resources necessary to remediate damages in full. Risk managers must consider how they will finance all the collateral damages that are not covered by traditional property insurance.

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