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GlobalPro Managing Risk to Recovery

Get Lower Premiums, Even After a Loss

Loss History Doesn't Necessarily Mean Increased Premium

By Daniel B. Odess, President of GlobalPro Recovery

Typically, during an initial conversation with a policyholder they will ask if there rates will go up or if they will get dropped for filing a claim. Its an obvious concern, but there is most certainly no easy answer. The truth is, even though the Carrier and sometimes, your Agent may lead you to believe this, it is simply not always the case.

In fact, over the last 3 years we have seen dramatic decrease in overall premiums for our clients following a loss. Associations with 5 or more claims over the last 10 years are receiving lower and lower premium rates. Just this past year GlobalPro Recovery represented two Associations with an average premium of more than $250,000. Both Associations had numerous losses that totaled more than $500,000. Both Associations received more than $30,000 in savings for their 2015 – 2016 policy renewal period.

The truth is, market conditions and politics have more to do with rate increase or the likelihood that you get dropped following a major disaster than whether or not your Association, business, or home suffer a loss. We don't have to look to far back to a time when there was a major shift in the number of Carrier's offering policies. Following Hurricane Wilma, insurance companies left "hurricane prone" areas for other parts of the state that were said to be less risky. At one point, insurance companies treated I-95 as an imaginary hurricane deterient; Insurance companies would offer more insurance to property owners west of I-95. Not because it made any sense, but because their actuaries believed in this nonsense.

The bottomline is, no one can tell you for sure what matters more. What does matter is that when you do have a claim that you properly recover. As we have recently seen in favorable economic times rates tend to drop and more insurance companies are writing policies in high-risk areas. Conversely, following a major disaster rates may increase the next policy period or an insurance company may stop writing policies in a particular area. Either factor, has little to do with a specific risk and more to do with the market and factors outside of a policyholder's control.

Industry Trends: From Buying Insurance to Recovery

Premium Hikes and Claims Handling Practices are Causing Concerns for Policyholders

By Travis Ozga, Claims Adjuster of GlobalPro Recovery

All too often, we find that some insurance companies do everything in their power to deny or minimize a property damage claim. From time to time, unethical insurers go beyond the boundaries of the law, such as illegally changing an inspector's report to reduce the size of the reported loss. When fraudulent actions are exposed, the insurers have been known to file lawsuits against the "whistle-blowers" who brought the problem.

It's an arrogant approach to doing business that harms the reputation of the entire insurance industry – a far more expensive price in the long run than settling a claim as quickly and fairly as possible.

As a public adjuster and insurance consultant, we spend much of our time helping property owners with their claims against property, windstorm and flood insurance companies. Because they are not experts in the complex and arcane language of insurance policies, most people face an uphill fight against the industry when filing a claim.

However, they don't expect to defrauded by the insurance company, which happened in New York, or have the integrity of the public adjuster who represents their interests be attacked in court, which occurred recently in Florida.

On March 1, CBS aired an important story on "60 Minutes." Called "The Storm after the Storm," the segment focused on the continuing impact of the hurricane that struck New Jersey, New York and other Northeastern states in October 2012, resulting in 117 deaths and more than $60 billion in damage. Today, many of those homeowners' claims are still unresolved. Others have been cheated out of the funds needed to rebuild their homes when the original damage reports were changed to make the losses seem less severe. So, it's not surprising that more than 2,000 victims of Hurricane Sandy have filed lawsuits in federal courts against their insurers.

Meanwhile, insurers go to great lengths to attack public adjusters who have an unbiased perspective on the industry and the knowledge to help their clients be compensated fully for their losses. In Florida last year, the State's Chief Financial officer unjustly accused an Orlando public adjuster of fraud. He was arrested for allegedly inflating a hotel's loss claim for fire damages. Insurers often underpay these types of claims because it takes time and expertise to determine how the smoke and heat of a fire affected the structure, the systems and the materials in a home.

Soon after his arrest, the Orlando adjuster filed a statement correcting numerous factual errors in the accusation, and included photographs of charred roof trusses that the insurer's inspector said were due to water damage. Needless to say, the adjuster was cleared of all charges in a recent jury trial – although he never received an apology from the state official for his initial inaccurate and unjust comments.

These unfortunate situations in New York and Florida show the extent to which the insurance industry has shifted priorities to saving money in any way possible rather than paying legitimate claims. Here's a quick timeline of recent issues plaguing the insurance industry:

- In 2011, Lloyds of London incorrectly applied the windstorm deductibles. They paid out nearly **$39mm** to policyholders.
- In 2013, UPIC engaged in post-loss underwriting and other practices resulting in a fine of **$1.26mm**. That same year, Farmers overcharged premiums to Texas Policyholders in excess of **$117.5mm**; State Farm overcharged premiums in excess of **$352.5mm**; Allstate Lloyds (Allstate) overcharged premiums of $**60mm.**
- In 2014, Florida Peninsula improperly exercised is option to repair agreed to pay 1/2 of the deductible charged back to the policyholders.
- In 2015, Citizens inspectors issued incorrect mitigation reports, which increased premiums of over **$212mm** statewide. Also, the cost of handling the fallout from the fraudulent reports for Superstorm Sandy claims and the eventual increased payments is still pending.

But the only reason people buy insurance is to protect against potential financial loss. They trust their insurer to treat them fairly and decently. Today, the insurance industry is in grave danger of losing that sense of trust due to its misplaced focus on minimizing claims. Unless that changes, there will be profound damage to the industry – with no one to blame but the carriers themselves.

Understand Depreciation

The Devil is in the Details

By Daniel B. Odess, President of GlobalPro Recovery

When it comes to insurance recovery, there is a lot of focus on several obvious factors contributing to underpayment of claims, such as, inexperienced adjusters and the bad-faith practices of some insurance companies. Far less attention is given to policy conditions, such as, deductibles, additional coverages, and depreciation that can often lead to far greater claim payment shortfalls. Unlike deductibles and additional coverages, depreciation is a concept that is most often not defined or even explained in a policy or law governing a State in which the risk was underwritten. Consequently, it is a policy condition that is given very little attention and is rarely understood by even the most experience Adjuster, let alone a lay policyholder.

Incorrectly applying depreciation can be used as yet another tool to holdback money or to underpay a claim, if it is not recoverable. Most policyholders don't even realize that depreciation can account for 20%, 30%, 50% or even higher deductions in the total value of their claim. The fact is, depreciation is a complex policy provision and a policyholder should consider its impact. Policyholders need to understand which method the adjuster used and how they applied it.

Under certain policies, property insurance companies have the right to arbitrarily depreciate the recovery for claims and pay the actual cash value (ACV) of the loss. Yes, arbitrary. As mentioned above, typical policy forms and laws do not stipulate and define how exactly a property loss should be depreciated. Most adjusters wrongfully use the straight-line or sum of years' digit depreciation methods and often apply them to every aspect of a claim. However, certain other methods may render a far more favorable result for the policyholder. If a policy term or condition is undefined, or ambiguous, it should be construed to the benefit of the insured. By not investigating and/or disputing the method of depreciation or how an Adjuster uses the method, the policyholder is leaving money on the table.

When it comes to commercial or industrial losses complex equipment, tooling, and building materials further compound these payment issues. Needless to say, it's a constant fight. First, an insurance company will hit you with a high out-of-pocket deductible and then over depreciate your recovery – two additional ways to holdback on the payments even when an Adjuster writes an estimate with a large replacement cost value, but the insurance company pays the depreciated value or ACV.

Keep in mind that commercial property owners and associations can buy replacement cost value policies that require the insurance company to pay the full amount of their loss without consideration for depreciation. However, most standard commercial policies allow for depreciation holdback or only the payment of the actual cash value of a loss.

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Depreciation is a function of wear, tear, age, use, and any number of other factors. Depreciation is calculated utilizing several different methods like, straight line, reducing balance, sum of the years' digits, and units of activity depreciation. Each of these methods has its own advantages and disadvantages, and may be subject to bias. Although, this article discusses depreciation, it will not discuss how-to calculate depreciation or which method is appropriate; the intent of this article is to simply highlight an important insurance concept and trend that is routinely overlooked.

Often the form of depreciation used by an adjuster may not be appropriate and may not actually consider all necessary factors required to properly calculate the correct amount to deduct or holdback, if a deduction or holdback is even warranted. Other times, an adjuster may ask a policyholder to produce estimates or invoices for work completed and list those amounts on a separate statement of loss. The tendency is to apply depreciation to the full amount of the incurred expense even though the loss was not itemized, labor was not broken out, and tax, overhead and profit were rolled into the final figure; most of which should not be included in the calculation for depreciation. A Contractor's estimate must be broken down into each of its components in order to properly calculate depreciation: labor, materials, general conditions, and so on. The Adjuster must accurately identify each component of the loss that should be depreciated using the appropriate method to the benefit of the insured.

Property insurance is intended to indemnify an insured. Arguably the policyholder shouldn't settle for the value of used materials or the actual cash value, but should demand the current replacement cost value for those materials damaged by a covered loss. A policyholder can't use a used 2x4 or collection of used nails to put damage property back together. However, an insurance company may argue that they only owe an insured for the value of those used materials pursuant to the policy terms. The key is to understand how these terms apply to real world examples, such as, a window damaged by a covered loss. The insurance company may owe you the full cost replacement for the glass and possibly the frame, but not the mechanical parts like the spring, because the glass and frame usefulness hadn't declined or their decline was de minimis. Unless you break down each material into its separate components and parts, there is no way to properly depreciate a loss and determine the correct amount of that loss.

It is important to understand that there are different methods of depreciation with various different applications that will render very different results. Knowing the right method of depreciation to apply with the correct set of factors is essential to adequately recovering from a loss. This is particularly important for a risk insured by an Actual Cash Value Policy or a policy that allows the insurance company to withhold payment.