



Educational Conference & Business Show  
**June 8-11, 2014** Indianapolis Convention Center, IN



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# Finding Financial Payback in Claims

Session 702

# Introduction



- Crawford & Company / Contractor Connection
  - Chris Riggs – Service Center Manager
- Florida Peninsula
  - Chris Chandler



# Agenda



- State of Florida – Claims Environment
  - Industry Overview
  - Statutes
  - Case Law
- Managed Repair Program
- Analytics
- Incentives
- Combating Fraud
- Subrogation

# Crawford & Company



Based in Atlanta, Georgia, Crawford & Company is the world's largest independent provider of claims management solutions to the risk management and insurance industry as well as self-insured entities, with an expansive global network serving clients in more than 70 countries.

- **U.S. Property & Casualty** – Backbone of Crawford since it's founding in 1941. Currently positioned as the front line service provider for field services for domestic operations
- **Contractor Connection** - The largest, fully-independent network of managed contractor repair for insurance companies and consumers
  - Contractors are sorted into several categories of Provider Types (Roofing, Residential, Water Mitigation, etc.)
  - Analytics are constantly monitored independently from referral (adjuster, consumer, insurance company)

# Florida Peninsula Insurance



*fast / fair / friendly*

- Founded by a team of veteran insurance professionals, Florida Peninsula Insurance Company is one of Florida's top 10 largest companies offering multi-peril homeowners insurance. The company insures more than 150,000 homes, condo and apartment units located throughout the state. Florida Peninsula markets through a network of 2,500 independent insurance agents. Our aim is to combine the latest technology with old-fashioned courtesy and customer service, providing efficient, cost-effective, peace-of-mind protection for our policyholders. Florida Peninsula was first issued a Certificate of Authority to do business in April 2005 by the Florida Office of Insurance Regulation.

\* = As of Sept 2013, based on policy count

 #IASA2014

# Industry Overview



Citizens formed in 2002 by Florida Legislature

Big Four of 04" & 05 wasn't much better

Major carriers reduce business in Florida due to risk

Citizens assumes more risk than ever

Public Adjuster levels jump over 300% between 03/04 and 08/09

Take-Outs

# Industry Overview



## “Report 10-06 – Office of Program Policy Analysis & Government Accountability (January 2010)

- Citizens Data Only
- More Public Adjusters per Capita than any other state (2008 Data)
- Public Adjuster represented claims lead to increase in file closure
- Public Adjuster represented claims lead to higher payments

## Florida Statue 626.854 – regulation of P.A. definition & practice

- 72 hour Rule / Fee % Cap
- Attorney involvement increases
- “Loss Consultants” for Plaintiff Attorneys



## ■ 626.9744 Claim settlement practices relating to property insurance

- Unless otherwise provided by the policy, when a homeowner's insurance policy provides for the adjustment and settlement of first-party losses based on repair or replacement cost, the following requirements apply:
  - (2) When a loss requires replacement of items and the replaced items do not match in quality, color, or size, the insurer shall make reasonable repairs or replacement of items in adjoining areas...

- **627.70131 Insurer's duty to acknowledge communications regarding claims; investigation.—**
  - (5)(a) Within 90 days after an insurer receives notice of an initial, reopened, or supplemental property insurance claim from a policyholder, the insurer shall pay or deny such claim or a portion of the claim unless the failure to pay is caused by factors beyond the control of the insurer which reasonably prevent such payment. Any payment of an initial or supplemental claim or portion of such claim made 90 days after the insurer receives notice of the claim, or made more than 15 days after there are no longer factors beyond the control of the insurer which reasonably prevented such payment, whichever is later, bears interest at the rate set forth in s. 55.03. Interest begins to accrue from the date the insurer receives notice of the claim. The provisions of this subsection may not be waived, voided, or nullified by the terms of the insurance policy. If there is a right to prejudgment interest, the insured shall select whether to receive prejudgment interest or interest under this subsection. Interest is payable when the claim or portion of the claim is paid. Failure to comply with this subsection constitutes a violation of this code. However, failure to comply with this subsection does not form the sole basis for a private cause of action.

## ■ SECTION 611.1.1 of the 2007 Florida Building Code: Re-Roofing:

- 611.1.1 Not more than 25 percent of the total roof area or roof section of any existing building or structure shall be repaired, replaced or recovered in any 12 month period unless the entire roofing system or roof section conforms to requirements of this code.



***Raul Maestri v. Florida Peninsula Insurance Company (Florida, 2008)***

Definition of wear, tear, marring to a tile floor

***Trinidad v. Florida Peninsula Ins. Co., (Florida, July 2013)***

Florida Supreme Court held that an insurer making a replacement cost payment to a homeowner who had yet to repair the damaged property could not withhold payment of that component of replacement cost that represents a general contractor's overhead and profit until such time as the repairs had actually been made.

***Haynes v. Universal Property and Casualty Insurance Company, (Sept., 2013)***

Ruling – withholding of depreciation on a RC policy until repairs are completed is not necessary. Cited above case in decision and extended scope

# Financial Payback



Claims by definition are an expense, but the claims department cannot be viewed as an expense

Not just the payout to the insured

- Claims personnel
- Cost of litigation
- Customer Service Ratings

Analytics catered to the local environment allow companies to focus on specific areas to

A properly incentivized staff, even in the most difficult environment, can succeed

A thoroughly handled claim will provide plenty of opportunity for subrogation

# Managed Repair Program



- Florida Peninsula will work with Contractor Connection in the event of a qualified claim
- The contractor will work with your adjuster and our in-house examiner to reach an agreed scope and price for the covered damage repairs, and the contractor will repair the covered damages
- Florida Peninsula will pay the contractor directly once the repairs are completed.

# Managed Repair Program



- Origin is result of a narrow interpretation of option to repair wording of the standard Homeowner's ISO form
- Provides carrier more control over the expense
- Circumnavigates issues ACV Holdback and confirmation of repairs
- Helps to combat fraud
  - Carrier works directly with contractor
  - In storm situations, carriers can deal with claims issues while mitigation, tarping, and temporary repairs are normalized.

| Year | Avg Days to Inspected | Avg Days to Approved | *Avg Gross Loss |
|------|-----------------------|----------------------|-----------------|
| 2011 | 2.2                   | 9.1                  | \$15,675        |
| 2012 | 2.0                   | 5.7                  | \$15,661        |
| 2013 | 1.8                   | 5.0                  | \$14,682        |

\* = MRP Claims, Coverage A, & B claims only

- Average gross loss has decreased 6.33% since inception of MRP
- Time to reach agreed price has decreased 45%
- Net savings of almost \$1,000,000 on less than 1,100 claims



# Incenting the Staff



- What is the number one goal of your department
  - Customer Service Ratings?
  - Timelines?
  - Estimate Accuracy?
- Whatever behavior you drive may have unintended consequences?
  - Increased Loss Ratio
  - Decreased Estimate Accuracy
  - Increased Timelines
- Incentive Plans should be built around the core goals you wish to build upon

# Incenting the Staff



# Incenting the Staff

- Balanced Score Cards
- On-Demand access to job performance parameters
- Healthy competition
- Rewards for additional training
- South Florida Business Journal – one of the top 10 places to work in South Florida – based on employee surveys



# Incenting the Staff



- Staffing models
  - Full-Time Staff
  - Independent adjusters
  - TPA
- A mixture of any/all is ideal
  - Florida Peninsula - 100% IA Field Staff
    - Same Pricing Agreement in Place for all vendors
    - Pure Cost/Benefit Comparison Possible
    - Ability to judge individuals and entities

# Combating Fraud



- Florida Division of Insurance Fraud
  - 15,451 suspected referrals 7/12 – 7/13 across all lines
  - Insurance information institute states upwards of 10% of P&C losses are fraudulent
- Florida Peninsula - SIU
  - Aggressive involvement from day one
  - Internal referrals

# Fraud Facts



- Public Adjusters claim involvement increases the claim value by at least 20%.
- Unlicensed, unscrupulous contractors have the potential to inflate or invent the damage, perform repairs using substandard materials increasing an insurer exposure, are often “fly by night, sham companies” that demand large down payments and no guarantee for repairs if completed, are unregulated, charge professional rates and have the propensity to inflate the estimate.
- Home improvement scams ranked among the Better Business Bureau's top 10 consumer cons for 2011. (*Better Business Bureau, 2012*)
- About 11-30 cents — or more — of every claim dollar is lost to "soft" fraud (smalltime cheating by normally honest people) (*Coalition against Ins Fraud*)
- One of five U.S. adults — about 45 million people — say it's acceptable to defraud insurance companies under certain circumstances - (*Coalition against Ins Fraud*)
- One third of consumers say that people committing fraud want to make up for the deductible they would have to pay as part of a filed claim. (*Coalition against Ins Fraud*)

# The MRP Program and Fraud



- The program helps manage some of the known factors that directly effect claims settlements
  - Guarantees repairs by licensed and insured contractors
  - Eliminates or reduces the need for public adjuster involvement, which can:
    - ✓ Delay the claims settlement process,
    - ✓ Eliminate referral of business “payments”
    - ✓ Reduce unwarranted or unnecessary services or repairs.
    - ✓ Reduce claims overpayments
  - Removes any incentive for entitlement or expectation to profit from the loss
  - Thereby reducing the amount of fraudulent claims submissions.

# Subrogation



- Subrogation department receives copy of every FNOL
- Work with the adjusters from the beginning to identify any potential recovery





# Slide Bibliography



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