



RMG Consulting
 Claims and Risk Management Executives
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DATE

XXXXXX INSURANCE GROUP
 ADDRESS
 XXXXX, XX XXXXX

Attn. XXXXXXXXXXXXXXXXXXXXXXXX
 Vice President, Property and Subrogation Claims

And

XXXXXX INSURANCE GROUP
 P. O. Box XXXXX
 XXXXXXXX, XX XXXXX

Attn. XXXXX XXXX
 Branch Claims Manager

Dear XXXXXX and XXXXX:

During the week of March 7-11, PXXXX A. XXXXXXXXXXXXX, XXXXX P. XXXXXXXX and I conducted a review of property claim files in the XXXXXXXX Branch. This report formalizes the verbal summary on Friday, March 11, which was given to both of you, Branch Manager XXXXXXXX XXXXXX, and Supervisors XXXX XXXXX, XXX XXXXXXXX, XXXXX XXXXXXXXXXXXX, XXXXXXXX XXXXXXXX, XXXXXXXX XXXXX and XXXXXXX XXXXX. It will also provide additional details and analysis.

Introduction:

RMG's Property Loss Review form has been revised over the past few years specifically to consider the XXXX s property claim handling methodologies and expectations, to measure your adjusters' and supervisors' performance in key file attributes, and to identify the extent certain factors both positively and negatively influence the amounts paid on losses ("severity").

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The individual file attributes of Reserving, Diary Control, Coverage, File Documentation, Investigation, Adjustment, Supervision and Recovery activities are evaluated, and each claim is also given an “Overall” grade reflecting the final evaluation for the closed file. This general grade considers the various individual attributes and their importance as they contributed to that file’s resolution. The file components and the Overall file quality are rated on the following scale, per the legend at the bottom of the review form: “Excellent” (A), “Good” (B), “Satisfactory, With Room For Improvement” (C), “Poor” (D), or “Failing” (F). We then converted these letter grades to numeric values so that comparisons readily could be made, and trends easily recognized by attribute, adjuster, claim unit and type of loss. This evaluation also provides us with the ability to do unique analysis, which may identify opportunities for improvement. The first page(s) of each Exhibit provide a list of claims in that group in order by claim number, as well as their grades within the group; this list is followed by the review sheets in the same order.

In addition, to better determine loss severity, we consider the affects of Service/Timing, File Documentation/Photographs, Coverage Analysis, Investigation, Control (of the adjustment process by the adjuster and supervisor), Scoping, Pricing, Adjuster Performance, Supervision, Recovery and Fraud. If one or more of these factors were present in a file, we identified their impact as either positive or negative. Exhibit 4 contains the results of that analysis both graphically and numerically.

File selection was from a run of claims closed August 2004 through January 31, 2005; they were provided to RMG in February. There were 1,043 claims handled by your adjusters representing \$3,560,212 in indemnity payments, and 38 claims closed by the Property Specialists totaling \$3,416,470 in paid indemnity. We sorted them to identify three categories: adjuster activity, cause of loss frequency, and severity (Exhibit 12). We then selected over 70 claims to review, and they reflected the work of 31 adjusters and the three Property Specialists. The loss run for the adjusters consisted of claims with payments under \$20,000 (by line), and we emphasized the largest and the most recently closed. The loss run for the Property Specialists included all claims closed for that period.

We ultimately reviewed and graded 69 files, which are included in the analysis. There were a few other files that were looked at but did not grade. They included Home Office Conversions of mold claims, an Auto Physical Damage building loss handled by a Property Specialist, and one claim where the adjuster did not do the bulk of the work because he/she just finished it up for another adjuster. We did review and grade files that were handled by adjusters who left the company for one reason or another, and ones where the settlement was concluded by supervisors who are still on your staff. In those instances, the “Adjustment” grade may reflect the work done both by the adjuster and the supervisor in the final claim payment.

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Exhibit 2 is another copy of the 3/11 summary notes, now with specific claim numbers listed to illustrate the observations we offered at that time. The listing is not all-inclusive, and in order to get an overall sense of our findings, we strongly recommend you review all the actual review sheets, and in some cases even the CMS notes and file materials that accompany them. I have color flagged many of the review sheets in Section 6 that demonstrate our findings (pink for Diary, yellow for Coverage, green for File Documentation, blue for Investigation, red for Adjustment and orange for Supervision). Again, this is not meant to be all-inclusive, and we recommend you read and review all information to better understand these findings.

Analysis by cause of loss follows in Sections 7 through 10. While Commercial claims were treated as a cause of loss since they were code "CU", individual or groups of Commercial claims (e.g. caused by theft or lightning) have also been included in the various COL analyses in claim number order with the HP losses, so that all claims by the identified causes of loss are included in the analysis.

Overall, commercial claims and theft along with other personal property losses were handled the best. Fire, wind and lightning losses were poorest. Following is a summary of grades by cause of loss and file component. The table clearly illustrates the relative strengths and weaknesses for each group:

<u>File Component</u>	<u>Commercial</u>	<u>Water</u>	<u>Fire</u>	<u>Lightning</u>	<u>Wind.</u>	<u>Pers Prop</u>	<u>All</u>
Reserving	2.57	2.39	2.33	2.00	2.26	2.30	2.31
Diary Control	2.43	2.43	2.88	1.67	2.22	2.17	2.33
Coverage	2.67	2.50	2.38	2.50	2.26	2.80	2.49
File Documentation	1.93	1.74	1.92	1.61	1.63	2.27	1.79
Investigation	2.46	2.25	2.33	2.17	1.81	2.57	2.22
Adjustment	2.28	1.89	1.46	1.56	1.67	2.37	1.84
Supervision	2.17	1.90	1.63	1.61	1.89	2.23	1.86
Recovery	1.91	1.73	2.33	2.28	3.00	2.10	2.01
Overall	2.17	1.86	1.63	1.78	1.70	2.17	1.82

Please note the grades for all claims are slightly different than the analysis provided at the summary meeting because one claim had not been included in the calculations at that time. In some cases the grades changed a hundredth of a point one way or another, but the descriptive designations are unchanged. Following is a more detailed analysis of each component, explaining what factors impacted its grade. This analysis follows the same order of the wrap-up, and the example claims are identified in Exhibit 2. Included are some additional comments based on analysis of the review sheets completed in the time since the wrap-up. Any claims demonstrating those comments will be mentioned in the body of the report.

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Reserving:

Reserving scored (2.31), or *Satisfactory, With Room for Some Improvement*. Reserving's best grade was in commercial losses, and its weakest was for lightning losses. We found initial reserves were set reasonably quickly, with a few exceptions. However, sometimes the adjusters were slow in revising reserves. They often raised or lowered the reserves when the claim was ready to be paid. The adjusters either were not recognizing the increased exposure, or recognizing it and not adjusting the reserve. There were several instances where the reserve was increased, but not enough for the eventual payments.

We found some losses reserved using the wrong cause of loss codes, and some where damage existed warranting an additional cause of loss code (i.e. building or contents), and it was not set up. Building damages were paid under a contents cause of loss, and vice versa. There were also instances where multiple line payments (building and contents) were paid within one COL line.

We noted one claim (410227367 "SB") coded as CAT 33; however, it was the only one that we noted coded as such. There were many other losses that were either wind or water damage for the same date of loss, but were not coded as a CAT loss (see 410227533, 410227136, 410228663, 410227329, 410231711, 410227257, 410227805, 410228478, 410227683 and 410227250). I am unaware of any catastrophe reinsurance you might have, or what form it would take. However, there are a number of good reasons for capturing that information, and your system is capable of doing so.

Diary Control:

Overall, diary control was *Satisfactory, With Room for Improvement* (2.32). When we consider diary control, we look at how aggressively the adjuster tries to move the claim to closure. Consistent with the XXXX's claims practices, claims are generally assigned to the handling adjuster quickly, contact with the policyholder is prompt, and inspections are also usually (but not always) done quickly. Diary control was good for fire losses, but barely satisfactory for lightning claims.

While many claims were settled on a timely basis, some normal claims dragged on, remaining open longer than they should. In many cases the adjusters were not completing their own estimates of damage, and as such, are not using them affirmatively to adjust the loss (i.e. settling the claim on that basis). There were also some delays in adjusting the loss even when the adjuster did do an estimate, or after they received one from the insured's contractor.

As shown later in the discussion of Severity Factors and in Exhibit 4, analysis showed the "Control" factor to have a negative impact on severity in almost a third of the claims reviewed. The "Control" factor considers how the adjuster (with the help and guidance of his/her supervisor) directs and controls the settlement process. For physical damage losses, in addition to prompt contacts and inspections, one of the most important tools for doing this is preparing a timely estimate of the damages. This allows the adjuster to either settle the claim based on his/her scope and pricing, or to set parameters and expectations for the insured and their contractor.

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We noted some supervisory follow-up on early diary, requesting the adjuster to enter their CMS notes on the results of their inspection. However, in general this follow-up was inconsistent. We also noted instances in which the supervisor granted settlement authority, and then closed their diary when they should have continued it until the claim actually closed.

Coverage:

The verification, interpretation and application of your policies' terms and conditions scored (2.52), which is considered to be between *Satisfactory, With Room for Improvement* and *Good*. Coverage was handled the best in personal property (mostly theft) and commercial losses, and the weakest in wind losses – although still satisfactory. Coverage is quickly addressed in CMS notes, and we saw some very good coverage analysis occurring between the adjusters and supervisors.

We did note some claims, however, where we concluded coverage application was incorrect. These included two cases where the deductible application was considered, but applied incorrectly. There were instances in which depreciation should have been withheld consistent with the terms of the policies, but it was not. In one instance property that was not the insured's, nor on the insured's residence premises, and for which there was no liability, was paid for. On one claim the adjuster knew the insured suffered substantial water damage to contents items, including a computer, and reported the insured could not stay in the home. He/She then closed the file without paying these items or commenting further on them. On another loss the adjuster paid for food that spoiled when the insured intentionally turned the refrigerator down to thaw out an allegedly frozen water line. The rationale used was the extension of coverage within the power interruption exclusion, but there was no power or mechanical failure; therefore, the adjuster could have considered the acts or decisions exclusion. On one commercial loss where coinsurance was a factor, the adjuster coinsured Extension of Coverage items as well as the extra expense claim; he/she did not consider the insured's option to make an ACV claim, nor did he/she calculate the penalty on that basis to see if the insured could recover more.

There were also instances when an inadequate investigation impacted coverage. In such claims the peril causing the loss was not thoroughly developed, or the nature of the property (household and personal vs. business – employee's tools as "household and personal") was not investigated. In two cases involving condominium losses, the lease or association agreements should have been obtained, but were not.

We also noted several instances where deductibles were waived in part or in whole without good justification. While this may be a valid adjustment consideration under some circumstances, the adjuster should provide some analysis of the value of the insureds' work performed (i.e. the number of hours spent, doing what, at what value).

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File Documentation:

File documentation was *Barely Satisfactory, With Room for Substantial Improvement (1.78)*. Of the 69 files graded, in this category 49 were "C" or below, 6 were between "C" and "B," and only 14 were "B" or better. File documentation was the best for personal property losses (mostly theft), and it needs the most improvement in lightning, wind and water damage losses.

Scopes of damage in many cases were incomplete or missing, and often good diagrams did not support them. We recommend the adjusters' original field scope notes be part of the claim file documentation so that they can be used as part of the adjustment/supervision process. This way, anyone who needs to review the file can see their quality. If the scopes in the CMS notes were consistently good, detailed and useful in the adjustment of the loss, that might be sufficient without the original notes; however, that substantially is not the case. In one case (410225285) there were good scope notes in CMS, none in the file, but the file documentation indicated the insured supplied the measurements for at least one of the rooms. Furthermore, scope of loss discrepancies with contractors' estimates were rarely addressed or resolved.

As mentioned, claim diagrams often do not support the scope of damage. To improve diagram effectiveness, in damage that involves multiple rooms, the diagram should show their relationship to each other and the origin point of the loss. At present, photographs sometimes are not printed, not labeled or poorly done. Moreover, there are too few photographs of large losses, and they do not depict the risk, all the damages, and/or important aspects relating to the cause of the loss.

While documentation was satisfactory on personal property losses, very little documentation relating to the damaged or destroyed property (as opposed to the replacement property) was present in the form of receipts, manuals, or photographs.

Often, the amounts paid were not readily apparent from the file notes or documents. We noted some misfiled mail where the source of the problem was that the adjuster put the wrong claim number on it.

Finally, in reviewing the audit sheets, we noted that CMS documentation of inspections sometimes is vague, too brief, or not timely (410227533, 410227805, 410227900, 410232257, and 410227182). Additionally, CMS notes are sometimes of poor quality (410228859, 410227329, 410224216, 410228663, 410222591, 410222591, 410229262).

We recommended you review the "File Documentation" portions of the review sheets (as well as other portions) for the various causes of loss to see trends or common strengths and weaknesses.

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Investigation:

Investigations were *Satisfactory, With Room for Improvement (2.21)*. The best results were in the personal property and commercial areas, while the most improvement is needed in wind, lightning and water damage losses.

While we noted many good quality recorded statements were taken, we also found a number of water damage losses in which recorded interviews should have been conducted. For the most part, losses that should have been inspected were. The exceptions were lightning and theft losses.

We did note some investigations for subrogation that should have been better, and we suggest you look at those review sheets with a grade of “C” or worse. Also refer to the sheets with blue tags and those noted on Exhibit 2 for examples.

Adjustments:

The measurement of this file component considers the adjusters’ activities in providing XXXX’s expected level of claim service, scoping the damages, quantifying the losses, applying coverage correctly, and negotiating settlements fair and equitable to all (i.e. the policyholder and the insurer). The “Adjustment” component of the files reviewed was *Barely Satisfactory, With Room for Substantial Improvement (1.85)*. The following table shows the breakdown of how the 69 claims scored in this category:

<i>Excellent (A- through A+):</i>	2	3%
<i>Good (B- through B+):</i>	21	30%
<i>Satisfactory, with room for improvement (C- through C+):</i>	18	26%
<i>Poor (D- through D+):</i>	20	29%
<i>Failed (F):</i>	8	12%
Total:	69	100%

While the adjustments on personal property and commercial losses were satisfactory, the adjustment of fire and lightning losses were considered poor, and wind and water damage losses were just barely satisfactory. Overall, the severity factor of “Adjuster Performance” had a far more negative than positive impact on the amounts paid on losses (Exhibit 4).

On the positive side, replacement services were used on contents and jewelry losses on a regular basis (with a few exceptions), and in a few instances payment was made on an actual cash value basis.

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The areas with the most opportunity for improvement by the adjusters are scoping and estimating physical damage losses (see “Scoping” and “Pricing” severity factors in Exhibit 4). Adjustors could use that work to either settle the loss based on their estimate, or to adjust contractors estimates (see “Control” Exhibit 4). We found few losses adjusted based on the adjuster’s estimate, and many losses where the contractors’ estimates were not adjusted using the adjusters’ scopes. In many instances the adjusters’ scopes were not accurate, not complete, and/or inconsistent with the contractors’. As a result, payments often were made based on the contractors’ estimates, which sometimes were excessive.

Another improvement opportunity is the area of withholding depreciation on structure and contents losses; this currently is not done consistently, even where permitted by the circumstances and your policy language. Your adjusters also accept the insureds’ or contractors word that the repair work to buildings has been completed, instead of confirming it by reinspecting it and/or obtaining the actual signed contract for the job. Cleaning contractors and your electronics expert provided certificates of satisfaction, but the actual contracts for construction repairs were not obtained. Often, there is no verification in the file of what costs the insured actually incurred in making repairs.

Supervision:

Supervision was considered to be *Barely Satisfactory, With Room for Substantial Improvement* (1.87). Understandably, this category often (but not always) paralleled the jobs the adjusters did on the files. The following chart shows the supervision grades of the 69 files:

<i>Excellent (A- through A+):</i>	2	3%
<i>Good (B- through B+):</i>	22	32%
<i>Satisfactory, with room for improvement (C- through C+):</i>	18	26%
<i>Poor (D- through D+):</i>	19	28%
<i>Failed (F):</i>	8	12%
Total:	69	101%

While supervision was considered to be good or excellent in over a third of the files, the analysis shows it did not have a positive effect on severity to any great degree. In fact, by not requiring the adjusters to do good file documentation (scopes, diagrams, photographs, and estimates), and by not requiring the adjusters to actually adjust the losses, supervision is having a substantial negative impact on how much is being paid on these claims.

The comments regarding supervision indicate that on the positive side, the supervisors had some files on diary and were following up on them, provided some good direction on coverage questions and some other technical issues, and approved settlements in excess of \$3,500.

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However, analysis showed supervision failed, or was poor and needed improvement on the following issues:

- Not requiring compliance with supervisors' instructions for approval of adjustments.
- Allowing adjustments with complete lack, or very poor, file documentation concerning scopes of damage, diagrams, photographs and/or adjusters' estimates.
- Failure to review the adjusters' fieldwork, when it presumably would have had a positive impact.
- Not requiring depreciation where warranted; not requiring reinspections or other verification that the work was done.
- Approving unexplained, unknown, unsupported, or poor adjustments.
- Making poor adjustments in cases where the assigned adjuster had departed. When an adjuster leaves, his or her pending should be reviewed and those that cannot be concluded based on the file content should be reassigned to another adjuster.
- Not providing up-front direction to adjustors, or failure to get the claim under control/ on good diary.
- Missing recovery opportunities.
- Supervision not evident in the file; no, or inadequate, direction when adjustor needed it.
- Incorrect guidance.

In claims of any size and complexity, the supervisors should require that as part of the requests for authority, adjusters must outline and explain what he or she wants to pay, either in specific amounts, or in ranges with explained contingencies. If the adjuster has not verified the claimed amounts as being correct (scope, price), or is not correctly applying the policy's terms (depreciation, deductibles), or if the proposed settlement is not easily understandable, then the supervisors should reject the authority request, with appropriate reasons given.

Exhibit 5 shows results by supervisors' unit. I note substantial differences in the "Supervision" grades, ranging from 1.30 to 2.57, as well as the "Overall" grades (ranging from 1.37 and 1.60 to 2.72). It may be that the supervisory deficiency trends of the lower graded files could be an input source for any future action plan.

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Recovery:

Salvage and subrogation efforts were considered to be *Satisfactory, With Room for Improvement (2.03)*. The best areas in this category were fire, lightning and wind losses; the area needing the most improvement was water damage claims.

We felt the adjusters and supervisors need to improve recognition of recovery potential, as well as investigations and documentation (including preserving evidence). We felt subrogation potential was dismissed early on in some cases. We saw very little consideration for salvage, and the one case where it was taken, the file was closed with no indication of the disposition (410225789). Files are referred to the recovery unit late, if at all. Police recovery letters are being sent out inconsistently, and in one case the thief has been apprehended but the file not referred to recovery (410229980).

Overall:

The “Overall” file rating was *Barely Satisfactory, With Room for Substantial Improvement (1.83)*. Not surprisingly, this grade is consistent for those for “File Documentation” (1.78), “Adjustment” (1.85) and “Supervision” (1.87). A “back to basics” approach with regard to defining the adjusters’ and supervisors’ responsibilities should be the basis for any action plan.

Severity Factor Analysis:

Exhibit 4 includes a graphic representation of the positive and negative effects of the various factors that impacted how much was paid on each claim. It also contains a listing of the files in claim number order, indicating the impact within each file. The percentages expressed in the graph are the number of times each factor was present in the files compared to the number of all files reviewed and graded (69). In many cases, a particular factor had no impact for one reason or another. Files that were reviewed and graded, but in which none of the factors appeared to have impacted the results, are shown with “x”s; they were included in the total. It is significant that every factor had a higher percentage of negative impact than positive. In general, the impacts for each factor were:

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- **Service and Timing:** With the XXXX's goals for contact and prompt inspections, this factor is usually more positive than negative - it was very unusual for this factor to be the other way around. It is also normally a positive factor in a much larger percentage of losses. Where it was felt to have had a negative impact seems to be the result of delayed inspections or face-to face contact, late adjusters' estimate preparation, and/or delayed settlements.
- **File Documentation/Photographs:** A significant problem related to the quantity and quality of photos, receipts/contracts building repairs, diagram and estimate quality, cause of loss documentation, and justification for waiving deductibles.
- **Coverage Analysis:** Negative impacts were the result of questionable or incorrect coverage, interpretation and application, rather than verification. Other negative influences included waiving deductibles without calculating the actual value of the insureds' contribution, and failure to consider whether the property was covered (personal/business, condo unit owner/association, improvements and betterments).
- **Investigation:** This factor negatively contributed severity in almost 25% of the cases. It impacts coverage analysis, scope of damage, pricing and potential recovery.
- **Control:** This factor was more negative than positive, and related to the failure or delay in adjusters writing their estimates. Also influential was the adjusters' lack of good scopes and photographs, which would have assisted them in adjusting the losses.
- **Scoping and Pricing:** Both are clearly significant problems. Again, this factor is related to the adjusters not properly scoping the damages and writing their own estimates, accepting lump sum estimates, including work not related to the loss or otherwise excessive estimates, and/or not adjusting contractors' estimates.
- **Adjuster Performance:** Again, this factor clearly is a significant problem that needs to be addressed through re-emphasizing expectations and more active supervision. We recommend that expectations clearly be outlined and explained to your adjusters in their job descriptions and performance goals, and then highlighted in the evaluation and performance review process.
- **Supervision:** This factor should become a vehicle for adjusters' on-the-job training, focusing on those issues that impact severity as noted here.
- **Recoveries:** Again, this factor was more negative than positive. We recommend improvements in recognition, investigation, documentation, and referral to the recovery unit.
- **Fraud:** Although this aspect is rarely a frequent problem, it is significant that where it was identified as having an impact, it was always negative. This is related to recognition, documentation and investigation; currently, if there is any evidence of potential fraud in the file, nothing is done with it.

Reinspections:

Seven losses were reinspected during our visit. The reports are included with the review sheets for the claims reinspected, and the overall results are shown on the table in Exhibit 11. We concluded that two claims had significant overpayments. While those losses initially were handled by an adjuster no longer with the company, supervisors ultimately made the overpayments.

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Conclusion:

As mentioned in the wrap-up, the XXXXXXXX Branch needs to pay more attention to the basics of good property loss adjusting. These include good documentation of the cause and amounts of loss, conducting thorough investigations, applying coverage correctly, and properly reporting all these activities to the claim file. The supervisors will play a critical role in any improvements. They must accept only high work standards, as defined by considering the adjusters' thought process, utilizing common sense, and respecting thoroughness in file documentation and investigations. The supervisors will need to review representative samples of the adjusters' work product, especially where the CMS notes indicate it is needed to properly evaluate the adjusters' work. Such reviews should include recorded statements, photographs, diagrams, estimates, inventories, receipts, invoices, and contracts.

Your supervisors should demand that requests for settlement authority be outlined clearly and in sufficient detail. Anything less should not be accepted or approved. Such incomplete work then could be used as an opportunity for training. If the adjusters do not respond, that should be made a part of the performance review process.

Thank you for the opportunity to perform this review. I understand the XXXXXXXX Branch has recently committed to specialization, which should improve the management and supervisory opportunities considerably. If there are any questions or clarifications regarding the information in this report, please do not hesitate to call.

Sincerely,

NAME
Principal

Cc. XXXX XXXXX (full copy)
XXXX XXXXXXX (full copy)
XXXX XXXXXXXXXXXX (text only, electronically)
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