

Clarifying Claims

Independent, public and staff—do insurers really need all these adjusters?

by Barbara Bowers

Claims adjusters working in the insurance industry these days fall into one of three main categories: staff, independent or public. Many insurers keep a battery of claims adjusters in-house, but when need arises they can supplement those numbers with independent adjusters who work for vendors but act on the carriers' behalf.

Separate from these two are public adjusters who are hired by policyholders to represent their interests in a claims dispute.

In effect, public adjusters "tend to be the last refuge for the insured in terms of hoping that their interests are safeguarded," said Michael Costonis, a partner in the Insurance Group at Accenture Ltd., the global management consulting firm. For sheer num-

bers, these adjusters occupy a small place in the industry, but their use increases in proportion to policyholders' dissatisfaction with carrier service, he said.

"It's almost akin to hiring a lawyer to protect your interests when you have an injury claim," Costonis said. A homeowner with a claim might hire a public adjuster who would assemble all the elements of that claim to effectively present it to the insurance company for payment, he said. "People do that because they feel that the insurance company isn't necessarily going to give them a full or complete settlement, or do it on speedy enough terms," he said. For example, it's common for homeowners facing a severe water damage claim to enlist the aid of public adjusters early on in

the process, Costonis noted.

Insurers that make it their practice to respond rapidly to these types of claims, and to provide immediate resolution, are less likely to deal with public adjusters, he said. "As soon as a company hears about a loss and can get a handle on it, then can manage customer expectations and begin to put some of the loss mitigation pieces in place, the public adjusters begin to get frozen out of the process," Costonis said.

At Hartford Financial Services, for example, losses are triaged as they come in, with every effort made to put the right adjuster "in front of the insured to bring about a proper resolution of a claim," said Nick Ciabattoni, vice president, property claims. Once a loss is reported, the company has a policy of contacting the insured within the same business day, he said.

This attention to customer service has grown even more focused in recent years, Ciabattoni said. "We consistently survey our customers on the experience they've had with Hartford, and we are consistently raising the bar around the type of service we deliver," he said.

Calculating the Cost: Larry Yannuzzi, a general adjuster with independent adjusting firm GAB Robins, Parsippany, N.J., prepares a claim estimate.



Ashman Walcott for Best's Review

Alternative Resources

But many insurers have yet to approach the claims process as proactively as they could, Costonis said.

By its very nature, the relationship between insurance companies and public adjusters can be adversarial, since the mission of public adjusters is to enhance the benefits of the policyholders they represent. Policyholders of America, a nonprofit consumer group for homeowners, asserts on its Web site that most policyholders do not receive a proper settlement without professional assistance. The group says that public adjusters "will almost always obtain

much greater settlements than individuals representing themselves or depending on the representative sent by the insurance company."

When a policyholder enlists the assistance of a public adjuster, insurers are put in the position of having to scrutinize and validate the public adjuster's work, looking at all the different elements of damage, the valuation for the contents and estimates for repair, Costonis said. Staff adjusters "look at it almost as if they are getting a medical report and a demand from a lawyer on an injury case," he said. "They need to scrutinize every ele-

ment of the damage and really understand what the true value is. The converse is sometimes they just look at it and pay it, so that's where the real opportunity comes from."

That opportunity is more apt to arise after a catastrophe such as a hurricane, earthquake or tornado strikes, and insurers are deluged with claims. In that situation, it's usually an all-hands-on-deck approach with the insurance company moving swiftly to get its own people on the scene and using an independent vendor or two to get its adjusters out as well. At the same time, large numbers of public

Independent Adjusters—A Little Help From Your Friends

As Hurricane Isabel bore down on coastal Virginia and North Carolina in September 2003, Travelers Property Casualty deployed its 100-member national catastrophe team, as well as 300 local Travelers adjusters, to surrounding areas. Once the storm had passed and conditions were deemed safe, team members moved into the hardest-hit neighborhoods to assess the losses. They were joined by a number of independent adjusters under contract with Travelers to bolster its adjuster force when just such an emergency arose. In all, Travelers handled 33,000 claims from Isabel and paid \$75 million for insured losses.

"Because of the nature of the volume of claims that can be faced with homeowners insurance, independent adjusters are a tremendous resource for insurance companies," said Peter McMurtrie, vice president, Travelers Claims Services.

This is the kind of assistance that GAB Robins, employer of more than 600 independent adjusters nationwide, is prepared to provide, said Robert K. Meyers, executive vice president, North American operations. "We can serve a carrier's daily business as well as augment their needs on a weather-related event," he said. "But the vast majority of our business is daily claim handling with our client base."

On a day-to-day basis, independent adjusters may be assigned a subset of claims based on geographic coverage, their ability to handle overflow in high-volume areas or their expertise in a specialty line. "Particular fire losses or fine art losses could go to certain loss adjustment firms," said Michael Costonis, a partner in management consultant Accenture Ltd.'s Insurance Group.

When and where insurers decide to use independent adjusters depends on carriers' staffing and caseloads. "Caseload is a big issue because some companies may be staffed more aggressively than others," Meyers said. "Some companies have decided to have the majority of their claims handled by their own people, while others have decided to have the majority of their business handled by independent adjusters."



Robert Meyers

Delivering the kind of service that a particular client expects is very important to GAB Robins, Meyers said. "Many times, each client has a different point of view on what a quality adjustment looks like, so there are nuances to our various client expectations," he said. In this transactional business, it's also important for his firm to make sure that staff levels at any given location meet the expected claim volume, he said.

A Numbers Game

Typically, Hartford Financial Services uses independent adjusters in places where the volume of business doesn't merit stationing staff. In addition to its claims center adjusters, Hartford has more than 200 outside claim representatives, who are also staffers but operate out of their homes in service territories throughout the country, said Nick Ciabattini, vice president, property claims. When one or more of these outside adjusters is unavailable, the company will turn to vendors that can supply independent adjusters to fill the service gap.

"We have vendors who focus on our normal, day-to-day business, and we have independent adjusting companies that focus on our catastrophic business," he said.

adjusters would be getting involved. "It wouldn't be atypical to see the ambulance-chasing scenario where the public adjuster is literally walking up and down the block asking people if they have a claim, and if he can provide a report for them," Costonis said. "It's absolutely happened."

After the Northridge, Calif., earthquake in 1994, for example, public adjusters were criticized for showing up in force and combing stricken areas for likely claimants.

Image Is Everything

But many public adjusters want to distance themselves from that ambulance-chasing image. The 52-year-old National Association of Public Insur-

ance Adjusters, for one, prides itself on its strong code of ethics and rules of professional conduct that it expects its members to follow. The association has a membership of about 120 public adjuster companies, representing 460 individuals. Other members include state associations, accountants and attorneys—basically those who work with public adjusters and work within the insurance industry, said David Barrack, executive director.

The association's certification program allows member and nonmember adjusters to sit for exams. If they pass, they can achieve one of two designations depending upon their experience. Adjusters must maintain 15 hours of continuing education

credit every two years in order to keep that designation, Barrack said. While a public adjuster can work without certification, this designation distinguishes the adjuster "as someone who has achieved a certain amount of experience, a level of expertise that others may not have," Barrack said.

While many states have licensing laws for public adjusters, a few do not. The association is campaigning for these laws for all 50 states. "We feel it's in the best interest of everyone to have state licensing laws for public adjusters," Barrack said. As such, his group is working with the National Association of Insurance Commissioners to prepare a model licensing bill.

"That way, we're able to bring the right resource to bear at the right time."

Catastrophic adjusting is a specialty, Ciabattone noted. Independent adjusters in that line of work are accustomed to traveling to any part of the country hit by a major natural disaster, "and they realize that they may be spending the next three months of their lives there," he said.

Depending upon the carrier's preference, the decision-making authority of independent adjusting firms can vary from playing simply an advisory role to issuing payments to policyholders.

Insurers that consider themselves adept at managing independent adjusters give them a series of guidelines, then require them to report their findings to the carrier before making a decision, Costonis said. "We're starting to see that more and more because companies do realize that improperly managed independent adjusting services can cost them a lot of money on both the expense and the indemnity side," he said.

Hartford maintains oversight over independent adjusters by assigning staff adjusters to monitor the same loss, Ciabattone said. "In that case, we not only have the independent adjuster looking at the damage and helping us write an estimate for damage done to structures and contents, but one of our own staff adjusters oversees the application of coverage, payment of benefits under the policy, recovery of any subrogation that may take place and just the overall service impact," he said.

At Travelers, a designated group of adjuster-inspectors monitors the work of independents, McMurtrie said. The matter of timeliness is judged very important, both in initial response to the claim and then in getting the pay-

ment out to the policyholder, he said. "Also, we review the work product and make sure that we have paid the right amount," McMurtrie said. This oversight duty becomes more difficult after a high severity event such as a major hurricane, he added.

Before Travelers hires a firm to supply it with independent adjusters, the carrier makes sure that the firm shares its priorities, McMurtrie said. And in the course of their business relationship, Travelers will look to see that the adjusters' work remains consistent, he said.

Technology Boost

For their parts, independent adjusters say their work has benefited from recent improvements in technology. In the past two years alone, technology has helped these adjusters make giant strides in assignment, work flow management, file management and quality measurement, Meyers said.

"It's having the file notes accessible to the insurance company on a real-time basis by using Web technology," he explained. "And Web technology is also being used to assign the claim and monitor the claim activity. It makes the process more transparent and more accountable between the carrier and ourselves."

Insurers also are looking for information from independent adjusters, Costonis said. In years past, an insurer would fax instructions to an independent adjuster, then receive a fax back with the adjuster's report. "But as insurance companies have been reinventing their internal technology, they have been seeking a better way to instruct adjusters on the basis of workload," he said. They also want the adjuster's report, including data elements and photos, transmitted directly into the claim file electronically, he said.

Cooperation Is Important

Barrack said there have been cases when attorneys or insurance companies have been opposed to the practice of public adjusting, and have tried to limit it in their states. But having a nationwide approach to licensing “would also help to eliminate some of the issues with other public adjusters that are out there,” he said.

Although their roles mean that they approach a claim from opposite sides of the fence, the interaction



“It’s almost akin to hiring a lawyer to protect your interests when you have an injury claim.”

—*Michael Costonis,*
Accenture’s Insurance Group

between insurer and public adjuster doesn’t have to be confrontational, Barrack maintains. “It should be a cooperative relationship with insur-

ance companies,” he said. “And there’s certainly respect between the insurance company adjusters and public adjusters—they both have a job to do

Constructing a Case—How a Public Adjuster Works

Franklin S. Horowitz has 20 years of experience as a public adjuster. He started out at the family business, Young Adjustment Company Inc., then left to form his own competing company, Claims International Inc. Currently, he is chief executive officer of Claims International and is attempting to launch a global public adjuster network to handle major catastrophes. He also serves as a consultant to Commerce Insurance Services in the managing of their complex claims.

As a public adjuster, Horowitz prepares the customer’s physical damages claim, or any business interruption claim, and submits it to the insurance company. “You interact with their professionals; ultimately, you arrive at some negotiated settlement; the consumer gets the settlement and pays you your percentage of the recovery,” he said.

Nearly all of his business—about 80%—is devoted to commercial claims, with the rest residential. On the commercial side, his bigger referrals have come from attorneys who recognize that their clients need a specialist, he said.

Following Sept. 11

Horowitz’s expertise has come into play on claims involving the World Trade Center. In one case, he represented a telecommunications company that had been hired by the Port Authority of New York and New Jersey, owner of the trade center site, to install new wiring in four of the seven buildings, including Tower One and Tower Two, that would collapse after being struck by terrorist-hijacked airliners on Sept. 11, 2001.

“This client had just gotten its equipment into World Trade Center One and was starting to wire it up when this happened,” Horowitz said. “So their physical damage was not that much—they maybe lost a couple hundred thousand dollars’ worth of equipment.”

But the core issue was business interruption leading to

a revenue loss, he said. “They had projected tens of millions of dollars of revenue,” he said. “That, in fact, was included in their proposal to the Port Authority, of how they saw the business ramping up and how long it would take for all the tenants to start wiring into their system. The complicated lease with the Port Authority included having the Port Authority share in some of that revenue.”

Initially, the carrier had refused to pay the claim, insisting that the claimant had not sustained property damage, which is often what triggers coverage for business interruption. “In this case it was borderline—this company hadn’t even wired the buildings up yet,” Horowitz said. “So that was one of many obstacles I had to deal with.”

And it didn’t help that there was no sales history—the telecommunications firm was only starting the job when the Trade Center was destroyed. Most business interruption claims use

historical data to develop the measure of loss. So Horowitz put together a theoretical construction schematic, estimating a 10-year period. This was necessary to establish a period of indemnity for business interruption recovery, he said.

“What I did was submit how much revenue the company had vs. what it would have had if there had not been a fire and collapse,” he said. “The whole claim was settled in 100 days.”

Stalled by Anthrax

Horowitz took about the same amount of time to achieve another settlement in a property and business interruption claim, this one involving the well-publicized anthrax poisoning case in October 2001 that claimed the life of a photo editor at American Media publishing in Boca Raton, Fla.

Six months later, American Media, publisher of the *National Enquirer*, called Horowitz in to take over its claim from a large law firm and a large public accounting



**Franklin S.
Horowitz**

and they both have a place within the process. The public adjuster works for the insured and is there to make sure that the insured receives everything that is due to them under the policy.”

The unfavorable image that some public adjusters have fostered is a matter of concern for his industry, Barrack said. But members of many professions engage in ethically questionable activities, he noted. “I read a number of stories about adjusters that work for insurance companies who run into issues and problems,” he said. “I read about attorneys that overstep their bounds. It’s an issue that permeates society.”

Even advocates for public adjusters will acknowledge that they do not need to be called in for certain losses.

firm that had failed to make any headway, he said.

The Palm Beach County Health Department was refusing access to the building, and the insurers’ experts had been on hold, insisting that there was no way to work the claim unless they could get inside the place and receive reports on what could or could not be decontaminated, and how long the process would take. Horowitz said he didn’t think it was necessary to enter the building. “I told them that would be nice, that’s generally what you want to do, but a good adjuster is resilient and creative,” he said.

Anything can work, as long as the insured feels it is going to get a reasonable settlement and the method is acceptable to the insurance company, Horowitz noted. “There’s no right way to do it. It’s not an exact science; it’s trying to figure out a way to measure indemnity,” he said.

Early on, Horowitz managed to persuade the insurance company’s adjuster to buy into his approach. “The success of my method depended on that,” he said.

He started by compiling drawings, schematics and photographs of the building’s layout and its contents. He interviewed all the journalists from the different newspapers that shared quarters in the building to gain an understanding of how their work had been compromised by the shutdown, depriving them of use of their data and their extensive media library. He analyzed how much of that could be made up by using the Internet for images and information. He was able to get answers from environmental experts on the probable cost and time it would take to remove all the documents from the building and clean them to render them safe by federal standards.

“I probably had 20 experts who worked on my team—environmental lawyers, environmental cleaning people, media experts on the value of the media library, construction people,” Horowitz said. “Ultimately, I gave the insurance company a claim that illustrated, on a theoretical basis, a method to demolish, discard, clean, repair and restore the premises to preloss condition.”

The claim included an estimated timeline, which was

For example, if a loss is minimal and fairly straightforward, then usually the services of a public adjuster are not required, Barrack said. “But in many instances where, after a fire, a storm, whatever the loss may be, including the loss of a life, the insured may not be in the best frame of mind to handle all of the things that come with filing the claim and doing the inventory,” he said. “A public adjuster can certainly help in those cases.”

Franklin S. Horowitz, chief executive officer of Claims International Inc., a public adjusters firm, said that when policyholders contact him about a small homeowners claim, he generally tells them they don’t need his help. Often, a roofer summoned to fix a leak or a plumber

critical for measuring loss of current and future revenues, he said. The time period was important because that would have an impact on the business interruption claim, he said. “Until you’re restored to sanity, or restored to where you were before the event happened, technically you’re still potentially losing money and you’re entitled to that revenue loss,” Horowitz said.

Horowitz credits his late father with teaching him the technique of projecting out losses, arriving at a global settlement, and doing all of this on a quick timeline. But his biggest challenge, he said, is countering the prejudice and ignorance he continues to meet as a public adjuster.

“The funny thing is, the public adjuster who is often labeled the least trustworthy is the most honorable,” he said. “A public adjuster says this is who I am. I’m an advocate. You pay me a percentage. And you don’t have to worry that I’m conflicted because I won’t turn around next week and represent the carrier when I’m wearing the broker hat.”

There are thousands of risk managers in decision-making positions for Fortune 500 companies who would assume public adjusters are guilty until proven innocent, Horowitz said. These risk managers often receive recommendations on managing a property loss from major insurance brokerages and large public accounting firms, he said. “These firms also have subsidiaries that offer variations of claims advocacy as separate profit centers, and in many instances play dual roles with the insured and insurer,” Horowitz said. “I’ve actually had the experience of a risk manager of a major institution be equally concerned with the reaction of the broker to the hiring of a public adjuster, as to the outcome of the claim.”

As a result, he added, public adjusters are generally last man in when it comes to managing a property loss. “Everybody else gets an invitation in the front door, and not only am I not allowed in the front door, it’s hard just to get in the back door,” he said. But whenever he does manage to get inside, he usually can put his client in the winner’s circle, Horowitz said.

called to fix broken pipes will advise the homeowner to call a public adjuster. "Sometimes they do so because they think they're helping the customer and sometimes it's because they're going to get a kick-back and it's another way of getting revenue," Horowitz said. "The public adjusting industry is a very valuable industry to consumers, but it also attracts a lot of wrongdoers."

Policyholders can guard against this by calling their state insurance department to find out if any complaints have been filed against individual adjusters, he noted.

Also, if a public adjuster wants to charge 25% to 30%, there's probably something wrong, Horowitz said. It's one thing if a lawyer is charging that much on a personal injury case dealing with pain and suffering money, he said. But in dealing with recovery of a property loss, "how can there possibly be that much fat in the claim where the insured is still going to come out whole? In other words, how much of

a gray area is there?" Horowitz asked. "Generally, if a public adjuster is charging 3% to 15%, there's almost always enough of a gray area on the claim where the public adjuster will pay for himself," he said.

Quick and Efficient

Costonis thinks that public adjusters will continue to fill an important niche in the insurance industry as long as insurers fail to handle claims quickly and efficiently. "From the insurance company's perspective, we highly advocate being proactive, and doing as much of the settlements in-house or under the appropriate arrangements, because it can drive settlement costs down," he said.

That is reinforced by Accenture's study, "Unlocking the Value in Claims," which showed that the rapid handling of routine losses—such as automobile physical damage claims under \$2,500—could save insurers 13% or more in claims payments covering loss adjusters or actual indemnity pay-

ments. But the study also noted that when principals outside the insurance company are involved in driving the settlement, the results can be striking. "When a public adjuster or independent adjuster is used to adjust the claim, there's typically twice as much opportunity as when it's settled in-house," Costonis said.

Ultimately, it's the carriers that have the greatest control over how all these players—public adjusters, independent adjusters and even lawyers who litigate—participate in the claims process, Costonis said.

"The insurance company's ability to effectively manage customer expectations and deliver on the service promises will radically impact the degree to which these other parties are involved in the process," he said. "When customers feel confident that the insurance companies are there for them and will do what they are supposed to do, then customers won't seek defensive measures to be able to protect against that." **BR**