

Introduction to Commercial Claims

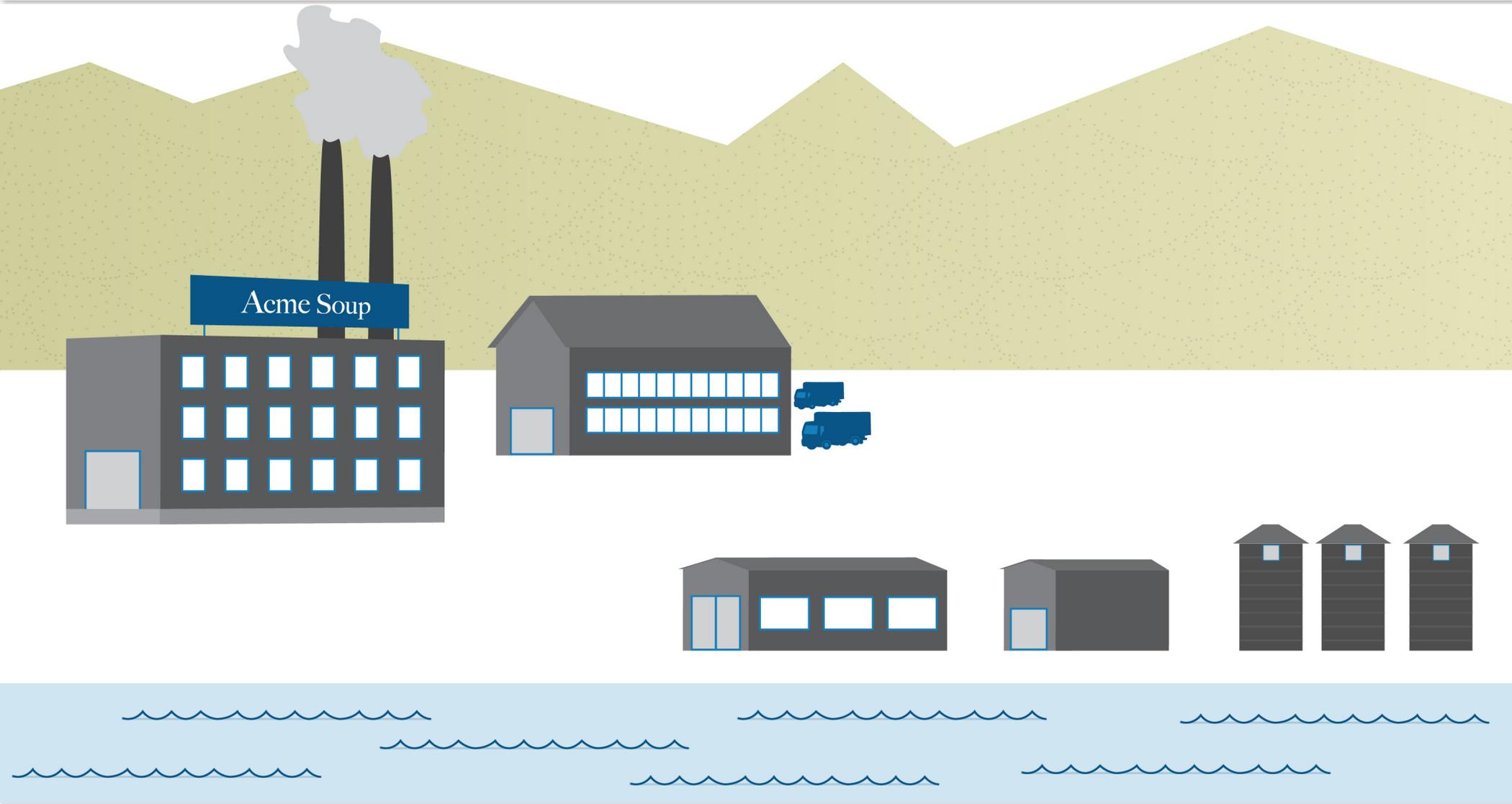
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



This case study will examine policy limits and estimating the reserve.

Introduction to Commercial Claims

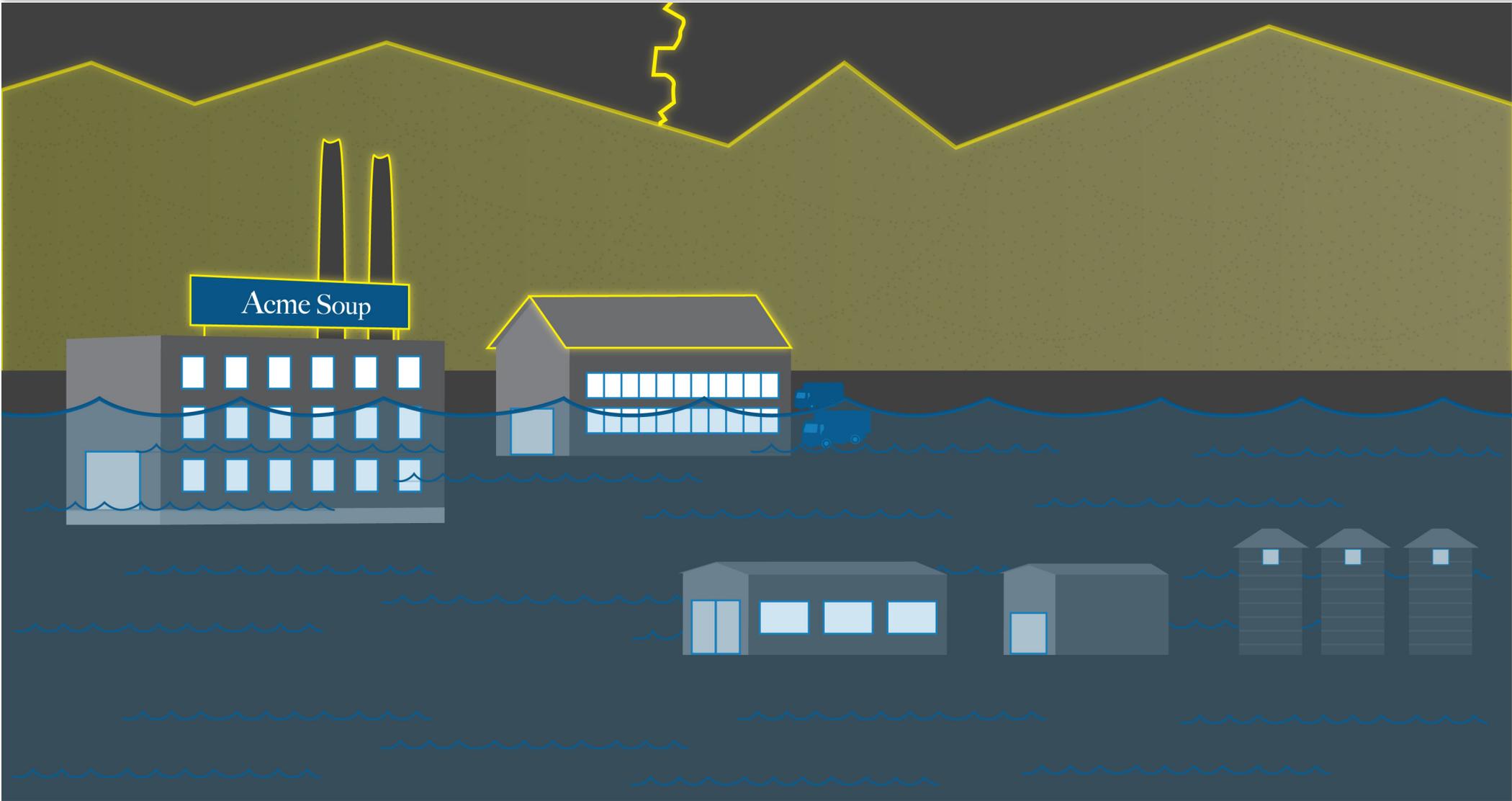
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The Acme Soup Company plant, which is made up of a cooking and canning building, warehouse and shipping building, prep building, can storage building, and three storage silos, is located near a river.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



After torrential rains for three days, the river overflowed its banks and flooded the plant. Fortunately, Acme purchased flood insurance.

Acme Soup Company has seven flood insurance policies; one for each structure. For this example, we will look at three of the structures and assume that one adjuster has been assigned all three policies to adjust.

Introduction to Commercial Claims

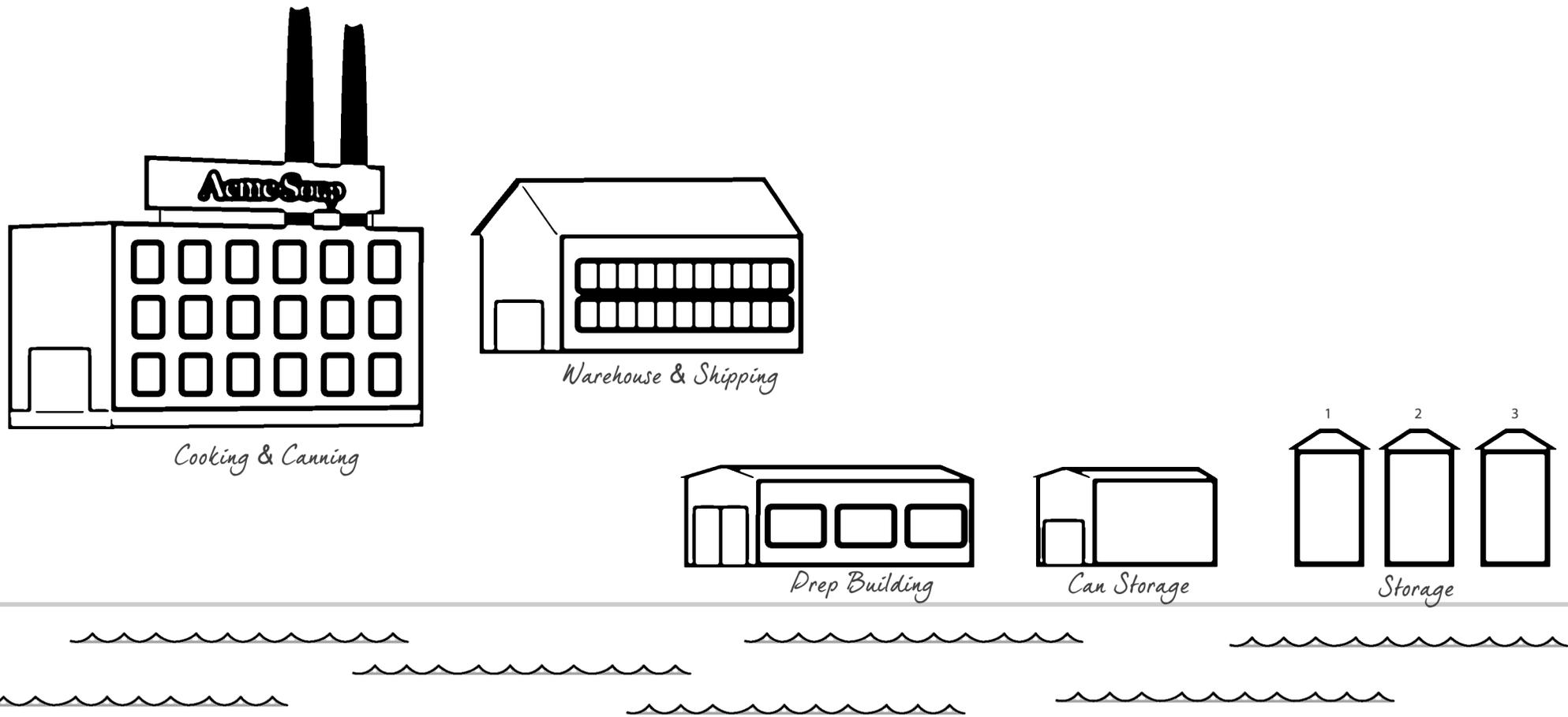
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Once the flooding occurred, all of the structures stood in water for two or more days.

Introduction to Commercial Claims

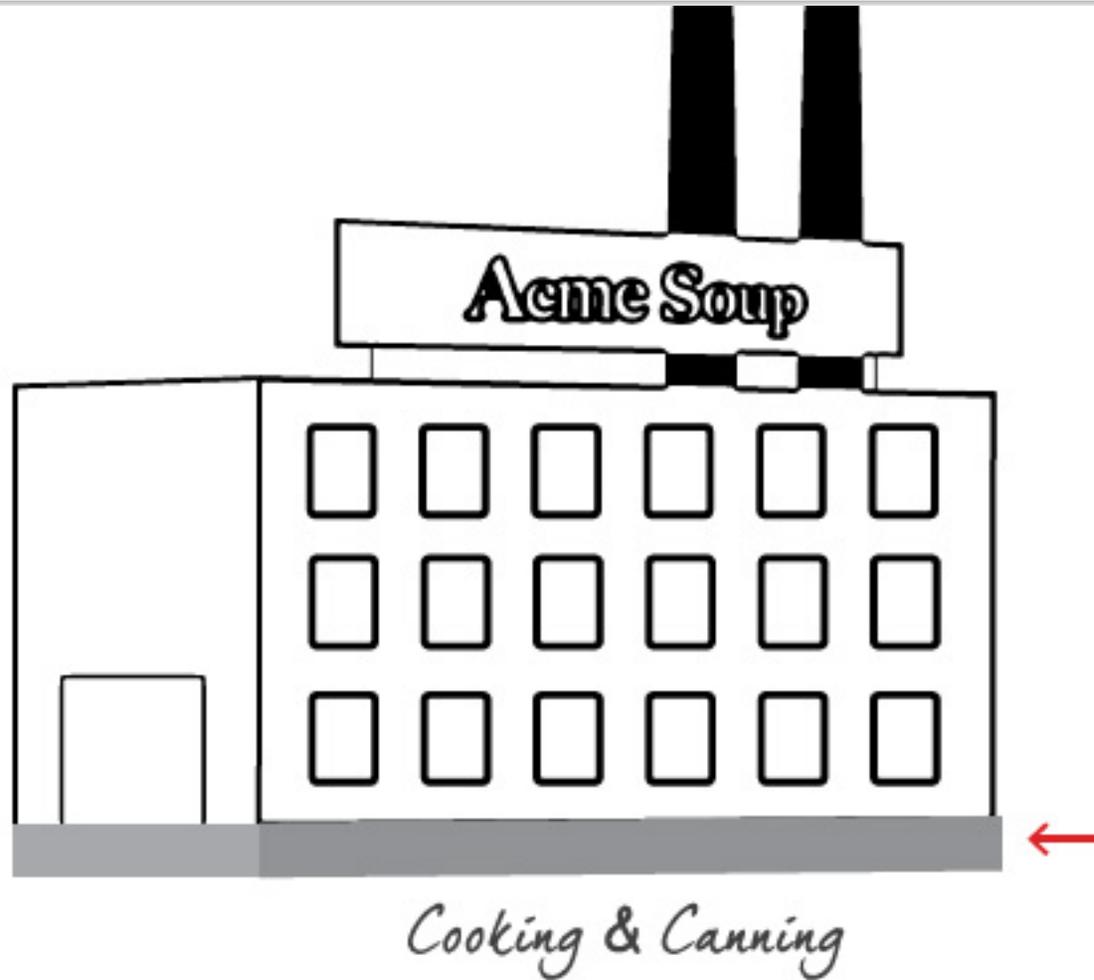
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The sketch diagram shows all of the buildings and their relative locations. Making a sketch can help organize your documentation by creating a standard name for each building for use when compiling your files.

Introduction to Commercial Claims

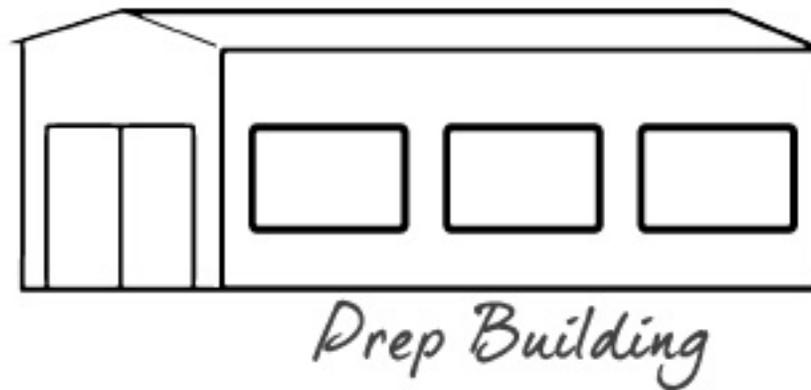
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The cooking and canning building is the most important building, and it is elevated on a slab.

Introduction to Commercial Claims

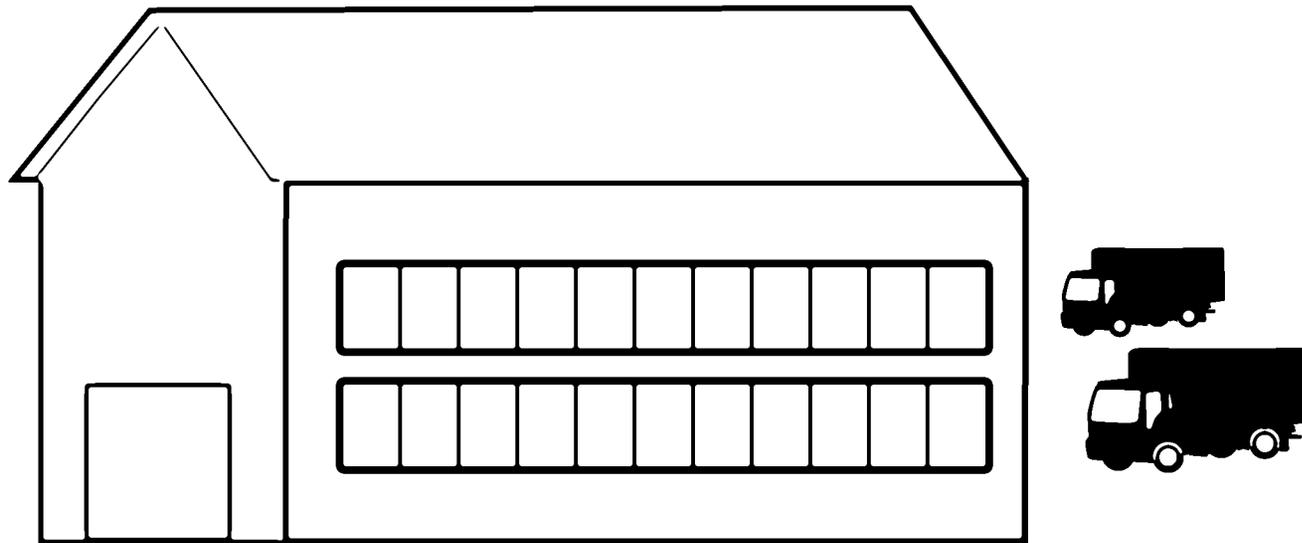
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The prep building is closer to the river and sustained the most building and contents damage.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

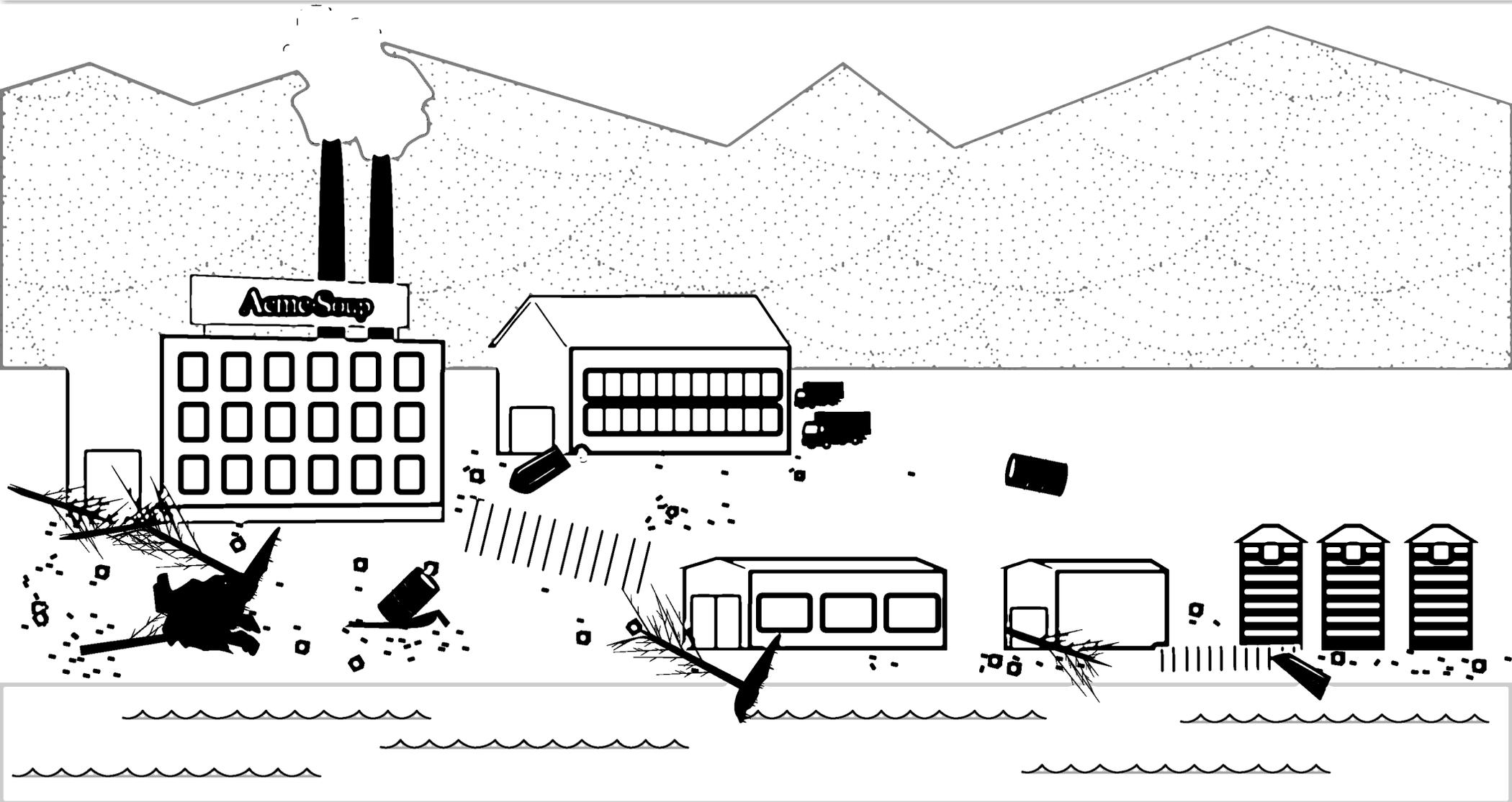


Warehouse & Shipping

The warehouse and shipping building had the least damage. It is higher due to natural grade, and the trailer loading ports in the building made for quick drainage.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



In addition to boxes and pallets of empty cans on the property, there is debris from the river blocking access to the building. The debris includes trees, some oil drums, a propane tank, parts of several boats, and parts of buildings from upriver.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



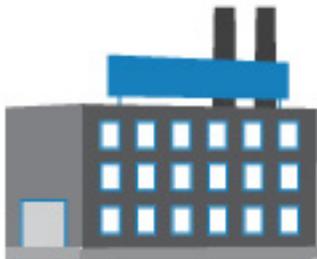
Cooking & Canning



Warehouse & Shipping



Prep Building



\$500,000



\$500,000



\$415,000



\$500,000



\$500,000



\$400,000

The Acme Soup Company has the maximum amount of coverage available on their two largest buildings for both building and contents. A third building, the prep building, has \$415,000 in building coverage and \$400,000 in contents coverage.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

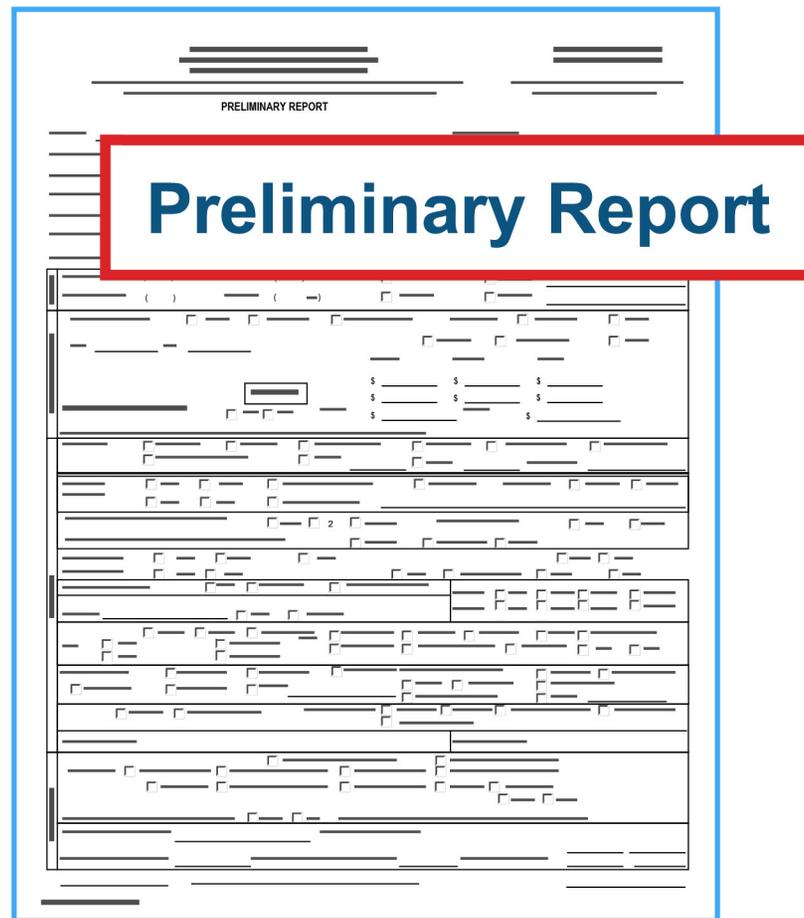
What do you do next?



Let us assume that as the adjuster, you have already made your initial site visit. You have been assigned all of the policies to adjust. You are back at your temporary office, and it is time to report.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The Preliminary Report may take some time to prepare. So you should begin to prepare it immediately after your first visit to the site. Your Preliminary Report should outline the scope of the losses and make recommendations for the next steps. The official Preliminary Report is due within 15 days of assignment, or sooner if required by the company for which you are handling claims.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



In a large loss, one of the most important duties of the adjuster is the loss reserve recommendation.

Before preparing the loss reserve recommendation, you must check a few basic things.

- Does the loss notice match the buildings you saw?
- Who owns the building and its contents?
- In your opinion, is this loss covered by these policies?
- Was the damage caused by a general condition of flooding?

The carrier needs to know your recommendation for the loss reserve as soon as possible. As you develop the loss estimate and provide more detail, the carrier will refine its reserve as needed. Let us use the Acme Soup Company example to review making a reserve estimate of the damage as it relates to the coverage under each policy.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage
1	Cooking & Canning	\$500,000	\$500,000
2	Warehouse & Shipping	\$500,000	\$500,000
3	Prep Building	\$415,000	\$400,000

Review the coverage amounts in the loss notice and consider the loss reserve amount for each.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Policy	Building	Building Coverage	Contents Coverage
1	Cooking & Canning	\$500,000	\$500,000
		\$	\$
		\$	\$

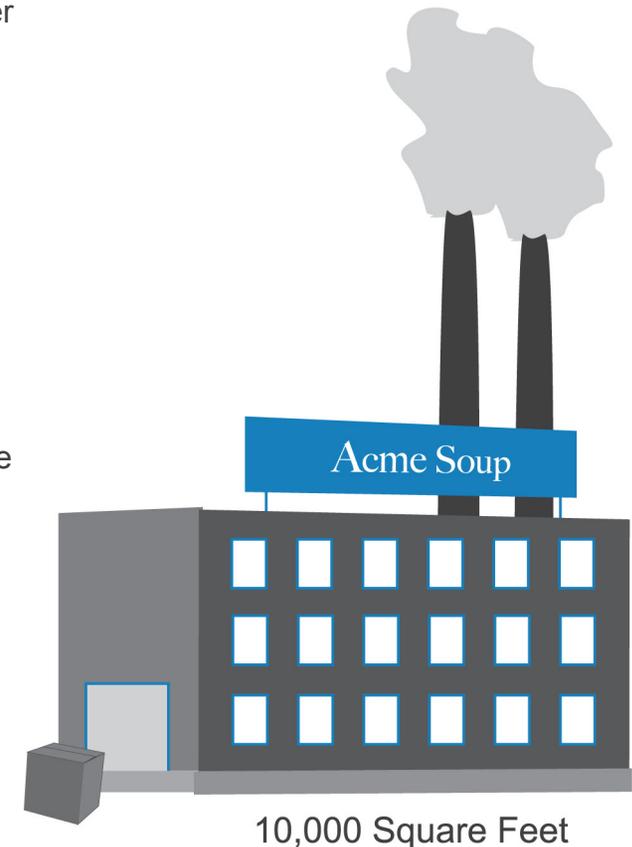
The cooking and canning building has \$500,000 in building coverage and \$500,000 in contents coverage.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Damages to the cooking and canning building contents

- All of the damaged wiring and transformers are industrial grade
- The boilers for cooking and pasteurization have damage to the gas-fired burner units
- The hydraulics supporting the can filling line, labeling line, and conveyor line were underwater
- The cooling units for the cooling conveyor line were underwater
- The ingredient storage vessels were moved from their support
- The mixing equipment was overturned and underwater
- The cooking vessel is intact and in place, but it along with everything else was covered in mud and river contaminants
- Portions of the pasteurization line have collapsed, leaving some of the equipment embedded in mud on the floor
- The can labeling line is in place, but there is heavy water damage to the end of the line where the cans flow into the labeling line
- The labeling machine is coated in slime
- The tiered cooling conveyor has damage to the lower conveyor units, but the upper levels remain undamaged
- The operations office and the plant manager's office are elevated above the plant. However, the restroom facility and break room are on the plant floor and are filled with mud
- The mud layer in the building ranges from 1 to 4 feet deep



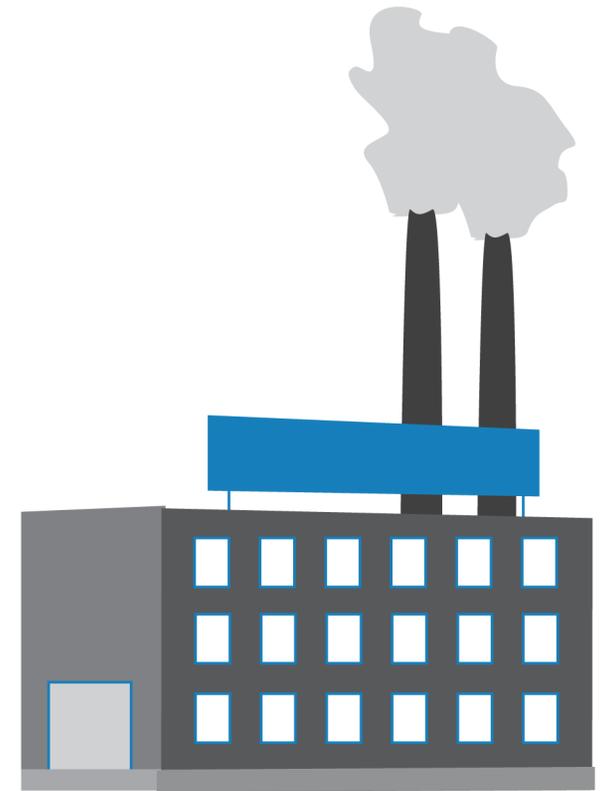
On your visit earlier today, you found significant damage to the equipment in the cooking and canning building, which measures 10,000 square feet. The cooking and canning building is elevated on a slab, so it had the lowest water level, with some exceptions. Water levels around the ingredient storage, mixing, and cooking equipment are higher due to a backup of the flow of water through the building. The equipment in the cooking and canning building represents the major part of the owner's investment in the soup factory. It is very likely that the equipment loss will exceed the \$500,000 policy limit.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

What about the cooking and canning building?

- Although the building is damaged, it was elevated on a slab and appears for now to have no structural issues, only damage to the metal clad walls
- The slab needs to be investigated
- The ground floor restroom facility and break room are damaged
- There is also unknown damage to the electrical system

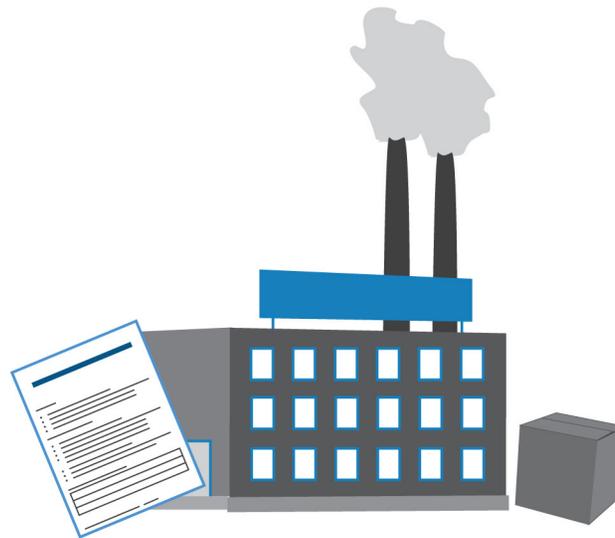


There may be additional building damage as yet undiscovered. Note that an engineer and other equipment experts may be needed.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage	Reserve
1	Cooking & Canning	\$500,000	\$500,000	\$250,000 / \$500,000



Only the adjuster who was there has any idea what the estimate should be. But let us say the building damage could be as much as \$250,000, which is half of the policy limit. The damage to contents in the building will likely far exceed the coverage available. So the reserve estimate would be \$250,000 for the building and \$500,000 for the contents.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Policy	Building	Building Coverage	Contents Coverage
		\$	\$
2	Warehouse & Shipping	\$500,000	\$500,000
		\$	\$

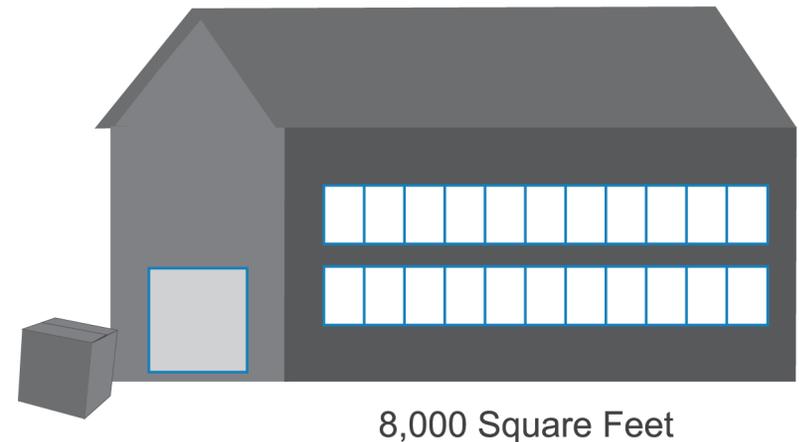
Now, let us take a look at the warehouse and shipping building, which also has \$500,000 coverage on the building and the same in contents coverage.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Damages to the warehouse and shipping building contents

- The machinery and power support units of the boxing line and the pallet and wrapping line were below the water line
- Both forklifts are damaged
- The inventory in the lower tiers of the storage racks were underwater
- The shipping dock doors are damaged on the lower panels
- The electrical units operating the doors are damaged
- The shipping operations office area has complete damage to computers, printers, and other office equipment



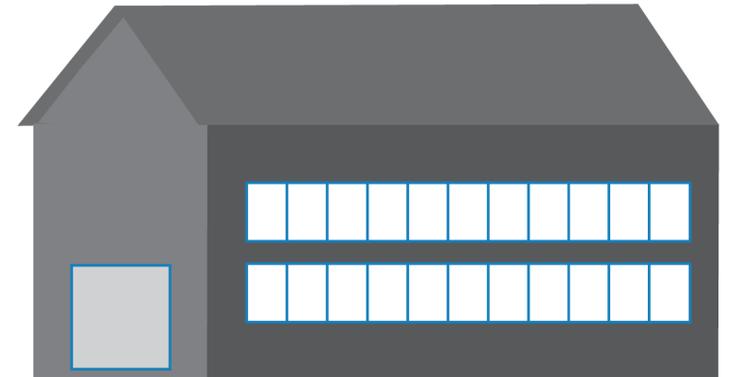
The warehouse and shipping building, which measures 8,000 square feet, had the least amount of floodwater. The biggest impact was to the contents. Valuable equipment is damaged.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

What about the warehouse and shipping building?

- There is limited damage to the warehouse and shipping structure
- The doors and electrical door openers are damaged
- The operations office is a total loss and might be considered a part of the building. But there is no structural damage and only minor damage to the metal clad walls
- The wiring may be damaged in some places

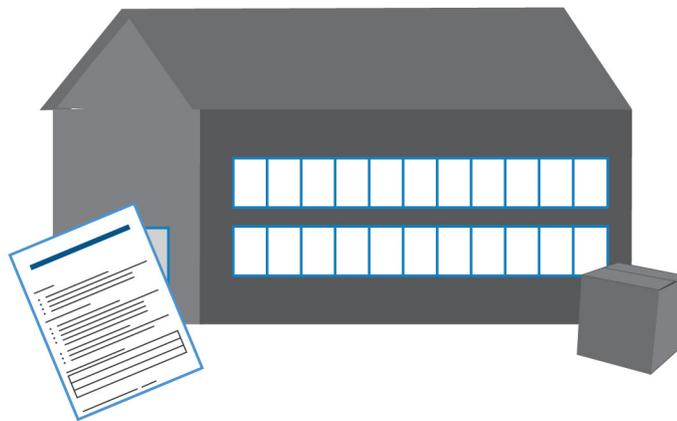


There may be additional building damage as yet undiscovered. Note that an engineer and other equipment experts may be needed.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage	Reserve
2	Warehouse & Shipping	\$500,000	\$500,000	\$200,000 / \$500,000



So what is the reserve estimate for the warehouse and shipping building?

The contents damage is more severe than the damage to the building itself, as much of the factory equipment is damaged and there is also a loss of some inventory. To be conservative, you should estimate a reserve of \$200,000 for the building and \$500,000 for the contents.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Policy	Building	Building Coverage	Contents Coverage
		\$	\$
		\$	\$
3	Prep Building	\$415,000	\$400,000

The prep building has \$415,000 in building coverage and \$400,000 in contents coverage.

Introduction to Commercial Claims

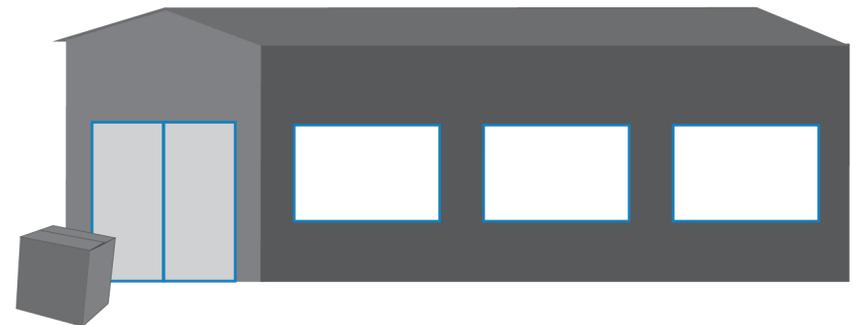
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Damages to the prep building contents

- All of the support machinery on the floor is covered in a thick coat of mud
- Some larger cooking equipment has been dislodged from its position

Damages to the building

- The prep building lost a significant amount of the exterior metal clad walls
- The foundation was subject to scouring and in some places the slab is broken off
- Where the foundation gave way, there is damage to the steel support columns
- The roof and roof support structure are damaged on one end of the building
- Electrical wiring for the entire building may be compromised



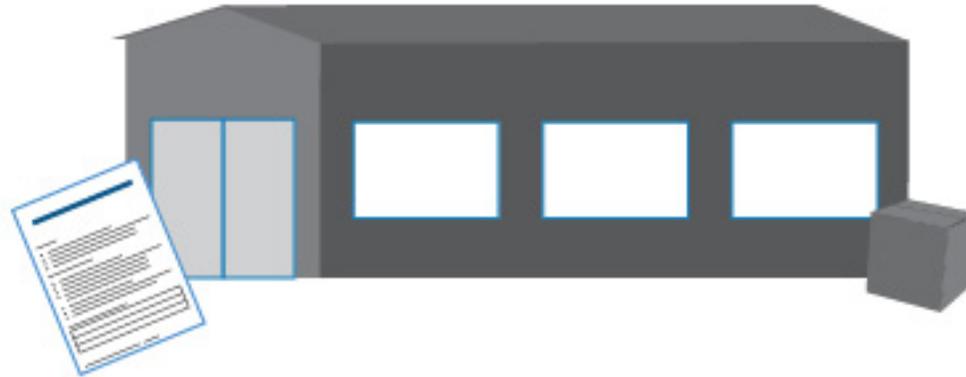
7,400 Square Feet

The prep building measures 7,400 square feet. It has major damage. The walls and support are damaged. The building has industrial-scale electrical and AC equipment that may be damaged. The prep building is full of equipment for cleaning the produce, chopping, and pre-steaming. Each prep area has supporting machinery and equipment with most of it buried in mud.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage	Reserve
3	Prep Building	\$415,000	\$400,000	\$415,000 / \$400,000



It might be prudent to reserve the full policy limits for both building and contents.

The reserve for the prep building will be \$415,000 for the building and \$400,000 for the contents.

Introduction to Commercial Claims

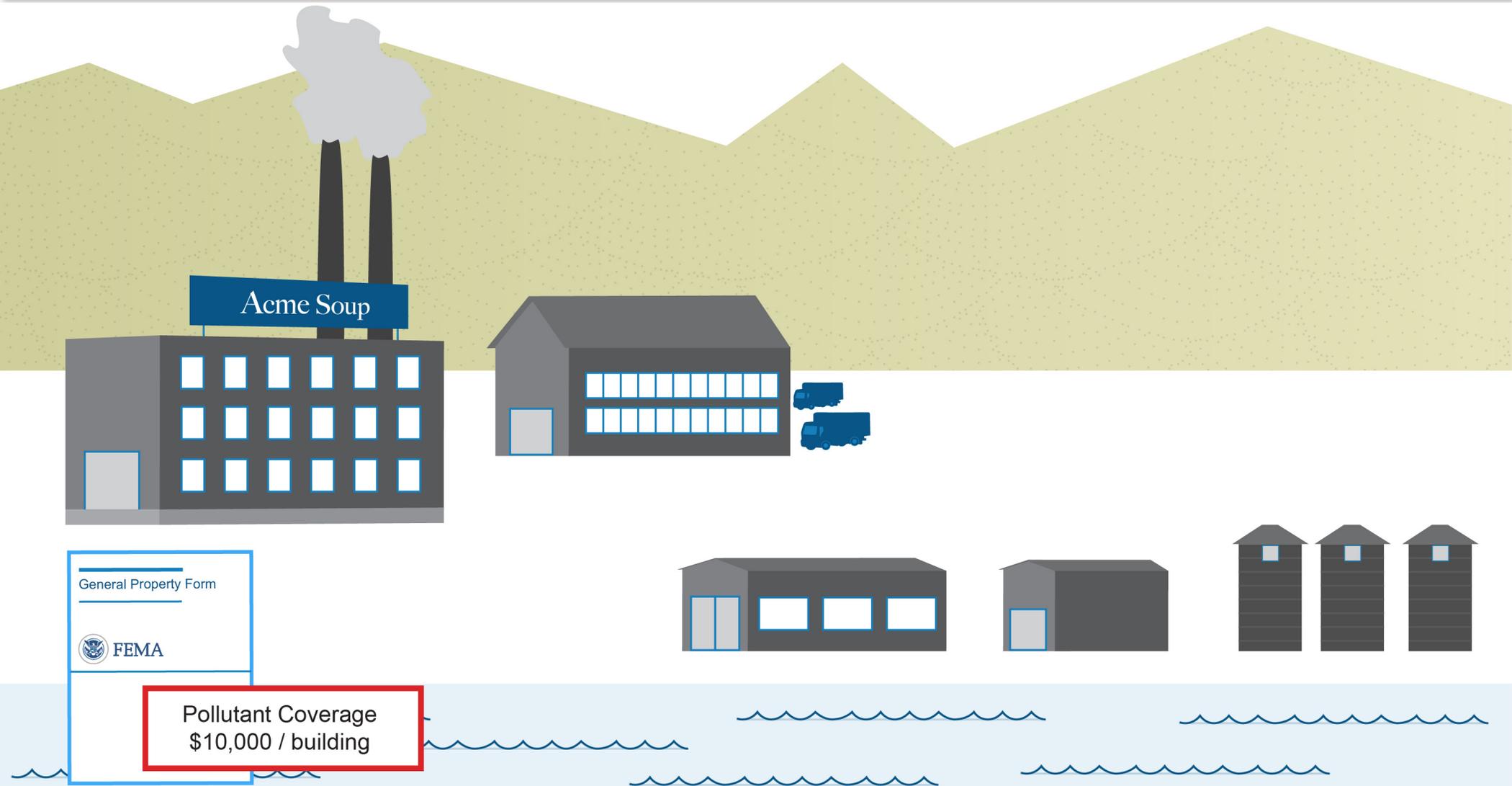
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage	Reserve
1	Cooking & Canning	\$500,000	\$500,000	\$250,000 / \$500,000
2	Warehouse & Shipping	\$500,000	\$500,000	\$200,000 / \$500,000
3	Prep Building	\$415,000	\$400,000	\$415,000 / \$400,000

However, before you contact the carrier or carrier representative, there are a few more important things to consider.

Introduction to Commercial Claims

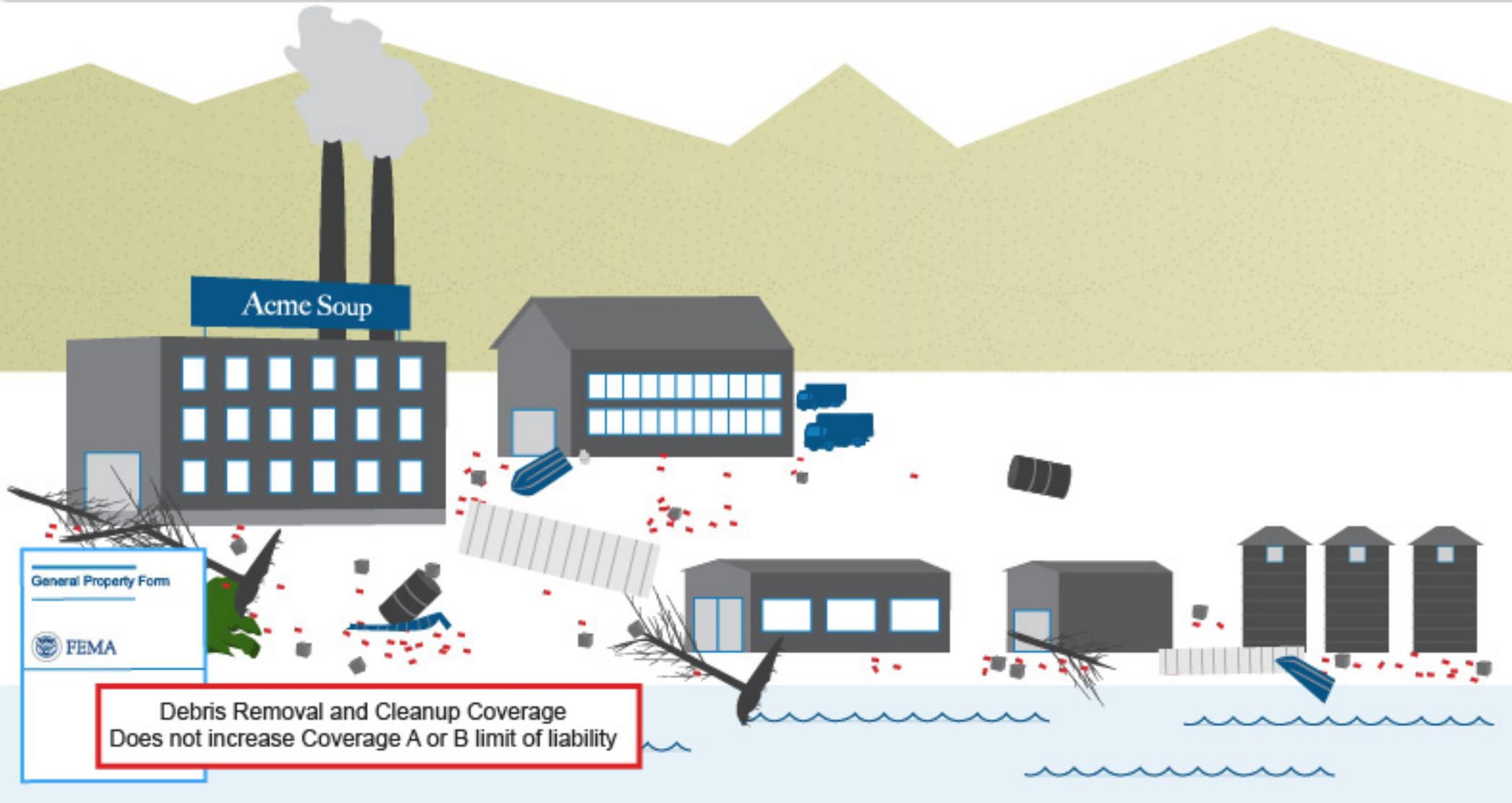
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The General Property Form has a limit of \$10,000 for damage caused by pollutants. This coverage does not increase the Coverage A or Coverage B limits of liability.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Although there is no specified limit of coverage for debris removal or cleanup in the General Property Form, it cannot exceed the policy limits and does not increase the Coverage A or B limit of liability. Filing a claim for debris removal or cleanup may assist Acme Soup Company in their recovery.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

Policy	Building	Building Coverage	Contents Coverage	Reserve
1	Cooking & Canning	\$500,000	\$500,000	\$250,000 / \$500,000
2	Warehouse & Shipping	\$500,000	\$500,000	\$200,000 / \$500,000
4	Prep Building	\$415,000	\$400,000	\$415,000 / \$400,000

There is a layer of mud in each of the buildings. If we look at the reserve amounts determined already, it is evident that some of the buildings have coverage still available for the cleanup.

- Policy 1 - the cooking and canning building may have as much as \$250,000 available for debris removal
- Policy 2 - the warehouse and shipping building may have \$300,000 in coverage available
- Policy 3 for the prep building is already at policy limits

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve

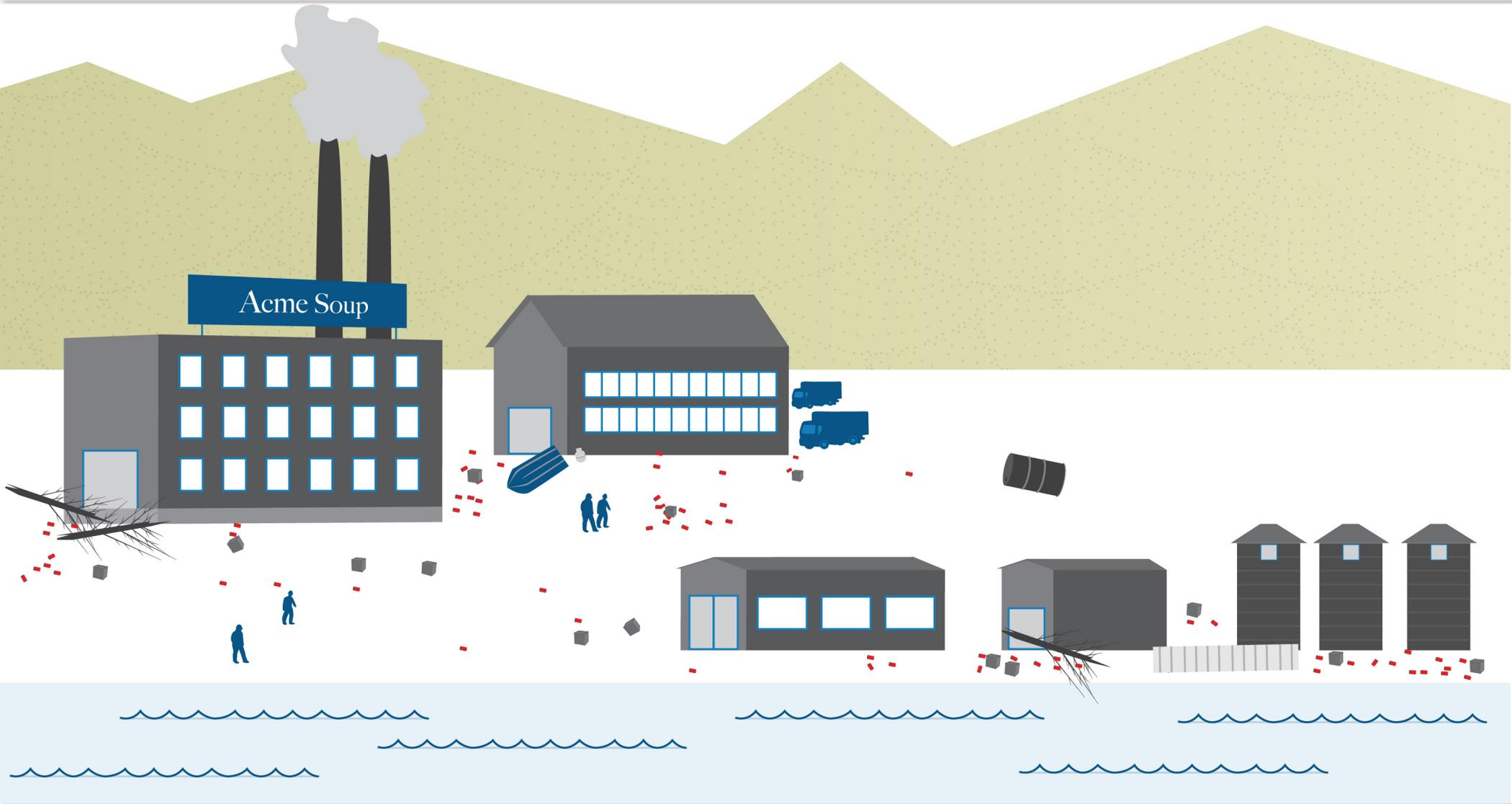


What are the rules for debris removal payment and cleanup?

The General Property Form covers only cleanup inside the insured buildings. Additionally, coverage can be paid for the expense to remove non-owned debris on or in the insured property and owned debris anywhere. However, this does not increase the Coverage A or Coverage B limit of liability.

Introduction to Commercial Claims

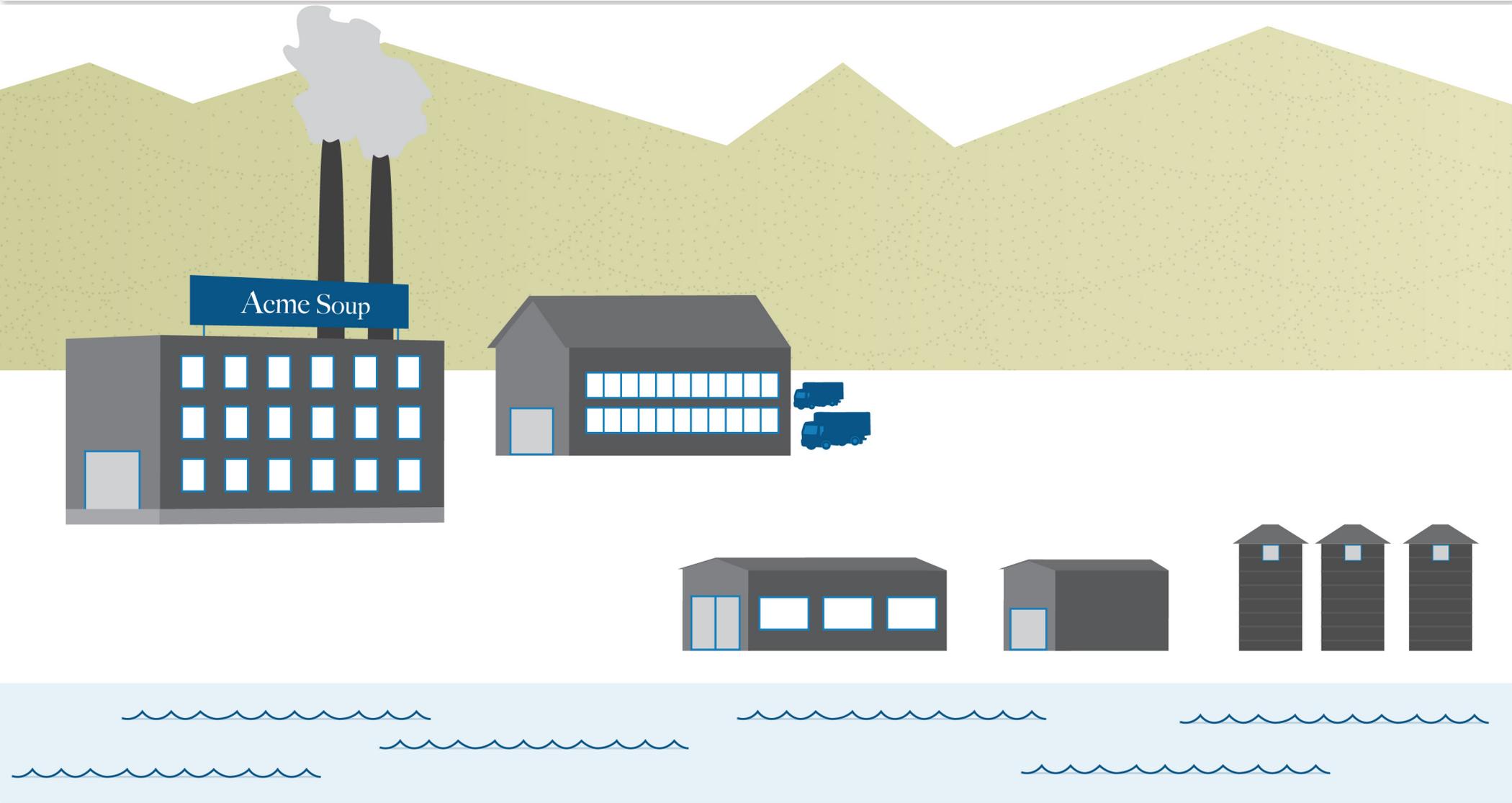
Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



Policyholders sometimes hire cleanup contractors. It is your responsibility to review contractors' estimates to determine if the charges are reasonable. During major events these prices escalate rapidly. You may need to ask for help in making this determination.

Introduction to Commercial Claims

Case Study #2 Acme Soup Factory: Policy Limits and Estimating the Reserve



The building owner is allowed to pay employees to do the cleanup. There are a few issues to consider in the cost per hour for employees to do the work. If an employee is an engineer or manager with a high salary, they should be paid at an hourly rate consistent with the labor they perform doing the cleanup. In other words, they should be paid the same rate as other employees doing cleanup work.