

ACORD XML for P&C Case Study

JCRS Inland Marine Solutions, Inc.
AAA-Missouri

Process Redesign: Applying ACORD Standards to
Jewelry Claims Processing at the Company Level

May 2002

Quote/Synopsis: “The ACORD standards provide what has been missing in the jewelry claims settlement process.” – James Strike, Claims Director, AAA-Missouri

PROFILE

JCRS has been solving inland marine underwriting and claims problems through the application of technology, standards, information, and education since 1987. Moreover, JCRS is the developer of ACORD XML Inland Marine standards, jewelry standards and Forms 18, 78, 79, 154, and the new 805 form. JCRS has created a complete end-to-end series of products and services that benefit everyone involved in the jewelry purchase, insurance, and claims settlement process — consumers, jewelers, agencies, and insurance companies.

AAA-Missouri, an affiliate of the nationally-known auto club, is also a P&C insurance provider — collectively, the second largest insurer in the U.S.

CHALLENGE

Insurance companies write annual premiums in excess of \$1.5 billion in personal jewelry coverage. This class of insurance represents the single largest percentage of Inland Marine insurance, about 10%. In addition, according to U.S. Department of Justice statistics, insurance companies process well over \$1 billion in jewelry losses annually, which averages \$5,000 per claim. The magnitude of the problem is likely understated due to inconsistent or misleading reporting practices. For example, jewelry losses are often reported as “contents” or “endorsement” losses under a homeowner’s policy instead of a jewelry or scheduled Inland Marine loss.

Moreover, as a class of insurance business, jewelry presents several serious and more hazardous issues, as also pointed out by Department of Justice reporting. First, each item has a disproportionately high value relative to its size. Second, the opportunity for inflated valuation and misrepresentation of the jewelry item at time of purchase (which is often based on an emotional or sentimental reason) is great. Third, because jewelry is small and easy to conceal, the potential for fraudulent reporting of nonexistent loss is also great. And fourth, the majority of jewelry claims are regarded as a total loss with respect to the item claimed.

Jewelry coverage is further complicated by a lack of awareness, information, and know-how that consequently puts the insurance industry (and their jewelry insurance customers) at the mercy of the jewelry industry itself. That’s because the insurance industry relies on jewelry information and appraisals supplied by jewelers. The typical insurance agent simply passes along whatever information is provided by the customer at the time of policy application and submission. For the most part, company underwriters take at face value the information that is supplied to them, which is often incomplete and inaccurate. If and when a claim is filed, the claims department has only sketchy information upon which to base a settlement. The net result is that the insurance industry may be overpaying jewelry claims by more than \$400 million annually.

In an effort to reduce the losses associated with jewelry claims settlement, AAA-Missouri participated with JCRS in testing JEMs® for Claims, a Web-based jewelry claims processing solution that is based in ACORD XML standards.



REQUIREMENTS

The following scenario typifies the problems faced by insurers like AAA-Missouri:

An agent's insurance customer loses a diamond ring. Her jeweler says it was worth \$20,000. The adjuster says \$6,000. The customer paid insurance for the \$20,000 amount and now feels "cheated" that only \$6,000 is being offered as a settlement. Feeling frustrated and angry, the customer takes her insurance elsewhere, and both the agent and company lose the business, which often includes a commercial account.

Now, let's break this common scenario down step-by-step:

1. A consumer purchases jewelry.
2. The selling jeweler provides an inflated appraisal and an incomplete description of the piece to the consumer.
3. The consumer seeks insurance coverage under a homeowners or Inland Marine policy.
4. The agent gets the appraisal and description from the insured and/or from an independent source, but in either case they are inaccurate and incomplete.
5. Because of its over-appraisal by the selling jeweler (\$20,000), the piece is then unknowingly over-insured and the customer pays higher than necessary premiums.
6. The company underwriter uses the appraisal and description provided by the agent, so the company really doesn't know either the true worth of what it is insuring, or whether the appraisal and information are complete or accurate to begin with.
7. Then, the insured suffers a loss and files a claim.
8. Using the information available from the underwriter — which is most likely what was initially provided at the time the insurance was purchased — the adjuster proposes both cash and replacement settlement options.
9. The cash settlement is significantly lower than what the selling jeweler led the insured to expect.
10. The replacement settlement is unnecessarily expensive because the mitigation process does not involve an informed valuation process.
11. Because the carrier does not adequately code jewelry claims, it does not collect the statistical information it needs to modify underwriting policy, premium, or rates.
12. At each stage in the process, data is transferred via FAX, scraps of paper, telephone calls, or conversations, leading to redundant handling as well as missing and inaccurate information. In this scenario, which is the current and common method of resolving jewelry insurance losses, everyone loses:
 - The consumer can't decide whether the jeweler, agent, or carrier is the bigger "crook."
 - The jeweler loses face and reputation.
 - The agent loses the confidence of the insured and likely her business.
 - The carrier angers the insured or pays too much for settlement.

To remedy the problems associated with the common scenario outlined above, the JCRS process redesign accomplishes several key goals:

- Fixes the problem by including claims mitigation solutions that resolve claims dilemmas.
- Reduces the problem by providing appraisal and underwriting solutions to shortcut future problems.
- Changes the system through a comprehensive end-to-end solution that reforms the jewelry purchase, appraisal, underwriting, and claims processes.

APPROACH

AAA-Missouri participated with JCRS by implementing and testing JEMs® for Claims. By instituting this Web-based jewelry claims processing solution, they hoped to reduce losses by increasing accuracy and response times.

The JCRS solution addresses the problems associated with the typical scenario above through implementation of the following processes; by

1. The consumer buys (or receives an independent opinion) from a trained gemologist who has taken the Certified Insurance Appraisers™ course and who uses the ACORD Jewelry Appraisal form.
2. The consumer informs the agent of the purchase and the jeweler transmits the ACORD standard appraisal (ACORD Multipart MIME XML stream) through the JCRS Inland Marine Insurance eXchange (IMIX) to the agency.
3. The agency scores the appraisal on the piece through JCRS's software for completeness and insurance-to-value, reports the results to the consumer, stores the electronic ACORD standard description and appraisal locally (ASP site), and then uses IMIX to forward the description and appraisal to the company underwriter (ACORD



Multipart MIME XML stream). **Note:** At this point, everyone, from consumer to carrier, has accurate and complete information about the piece of jewelry and its value.

4. Then the insured suffers a loss and files a claim.
5. The agent electronically files an ACORD Loss Notice (ACORD Multipart MIME XML stream) and then the carrier uses it to provide an immediate and accurate claims loss valuation.
6. The carrier proposes an accurate cash settlement almost immediately to the insured that, though lower than retail (because of the carrier's buying power), is perceived as reasonable. The claim is resolved in minutes rather than the typical days or weeks.
7. Alternatively, the carrier may offer a replacement option as well as a cash settlement and acquire the replacement piece through a competitive jewelers market-place, with complete and accurate specifications transmitted to the market through IMIX ((ACORD Multipart MIME XML stream) using the specifications captured at the beginning of the process.
8. Because the insurance and claims transactions are carried through IMIX, statistical information has been captured that the carrier can use to modify underwriting policy or adjust rates.
9. Almost all of the data is collected at the point of sale and transmitted electronically through the rest of the process in complete and accurate form, without redundant effort — and puts the insurance adjuster in control of the process because he/she has accurate and complete data upon which to base the settlement.

In this solution, with carrier claims processing implemented, everyone wins:

- The consumer is supplied accurate information from the beginning, has no unrealistic expectations, and is not taken advantage of by an unscrupulous or ill-trained jeweler.
- The jeweler appears professional and competent — with increased business from the insurance community, including requests for appraisals, repairs, and replacement sales.
- The agent is perceived as protecting the interests of the insured and the carrier.
- The carrier retains the insured's other insurance (often a commercial account) that otherwise could have been jeopardized by an unsatisfactory claims experience. The carrier also enjoys economical replacement costs.

Note: Steps 1-3 were implemented as a Proof of Concept and presented live at the IIAA in 2000 and featured as an IIAA-ACT XML solution (see IIAA video). These features were to be deployed by AMS' TowerStreet project. Due to TowerStreet's demise, the agency-company underwriting application (JEMs® for Underwriting) has been placed on hold while seeking strategic trading partners.

RESULTS

JEMs® for Claims was subjected to alpha and beta testing for more than two years and later implemented in October 2001. JEMs® for Claims is now being successfully used by the carrier as part of its routine jewelry claims processing procedures, resulting in nearly 40% savings in paid out settlements.

AAA-Missouri claims director, James Strike, is pleased with the initial results in the claims department. However, he expects even greater results as the underwriting department gravitates toward and adopts the product as well. Strike has over 20 years of insurance industry experience both in the independent and captive company level, and is well-versed in claims issues. In an interview conducted by a third-party, Strike commented, "The JEMs® for Claims product is really the correct way for getting it done — for accurately getting the information you need to offer a fair settlement. The ACORD standards provide what has been missing in the jewelry claims settlement process."

Strike also believes that industry awareness through education is essential for understanding the potential savings made possible by adopting claims processing standards, and added, "The current hard market environment might be the right time and reason to look further into something like this [JEMs® for Claims]." He also believes that the success of implementing standards and procedures will hinge upon the involvement of the underwriting department.

According to Strike, jewelry standards and automated processing can create improved customer service. He reported that one of his principal claims adjusters "sells the process" to her claimants who appreciate the benefit of a system that delivers fair and accurate settlements.

AAA-Missouri claims adjusters attended the JCRS Jewelry Insurance training program in October 2001, and found it helpful and beneficial in understanding both the larger issues and the details of insuring jewelry and what is involved



in determining fair settlements. They also found the software system to be intuitive and easy to learn. Furthermore, they benefited from that fact that it provides a solid process to follow.

FUTURE

JCRS' JEMs® for Claims software is currently implemented in AAA-Missouri (approximately 40,000 homeowners), and is in the preliminary stages of adoption by CSAA (the California association), which includes an estimated 360,000 homeowners policies. JCRS is currently directing its marketing efforts towards company claims departments, where the most immediate and direct benefits of its JEMs® for Claims software can be demonstrated and realized, as the AAA-Missouri results illustrate.

While JCRS' end-to-end solution offers a suite of integrated products and services (including software, training, forms and standards, claims mitigation, jewelry replacement, and electronic transmission), each one can be used in a stand-alone manner. For example, agents could benefit from the eight hours of Continuing Education Credit training without ever using the JEMs® for Claims software. Fifty percent of this course covers the use of ACORD Form 18 as it translates into improved underwriting and claims workflows. Similarly, a company claims department could implement JEMs® for Claims in a standalone mode without the need for additional integration.

Ideally, the JCRS solution would be embraced by both the jewelry industry and the insurance industry because accurate jewelry claims settlements are only as good as the accuracy and completeness of the initial jewelry appraisal — a goal that is attainable through the use of ACORD Jewelry Standards, XML, and Forms. The JCRS solution promotes a measure of cooperation between the two industries that ultimately works to everyone's benefit, including the customer who buys jewelry and then insures it.

In the meantime, there remains a significant level of cooperation by the insurance industry itself that needs to take place, a point noted by AAA-Missouri Claims Director, James Strike. Training and education benefit the insurance industry at all levels. The use of ACORD Jewelry Standards, XML, and Forms promote uniform and systematic information collection and presentation. The use of JCRS' Web-enabled, ACORD-powered JEMs® for Claims and JEMs® for Underwriting software streamlines the underwriting and claims process, reduces overpayment of claims, and increases customer satisfaction.

