BAKER

INSURING THE RELOCATION PROCESS

Adequate insurance of employees' household goods shipments requires thorough analysis of the options.

Baker International Insurance

Insuring a transferring employee's household goods in transit is an important subject for relocation policymakers. Employers need to understand the most commonly used methods of protecting transferees' household possessions, know how to compare their benefits or deficiencies, and establish criteria for determining which option to select.

There are three basis methods of protecting an employee's possessions while in transit or storage: self-insurance, mover's valuation, and relocation insurance. It is imperative that five concerns be carefully considered prior to implementing any insurance plan:

1. A detailed review of historical claims data;
2. The limits of liability to be provided;
3. The terms and conditions of the coverage;
4. Selection of a high-quality claims settlement process;
5. Assessment of the permanent storage exposure.

There are other concerns that must be addressed, but those referenced above are paramount. Failure to examine any one of them could produce serious negative repercussions.

SELF-INSURANCE

In the relocation process, self-insurance requires setting aside financial assets sufficient to cover numerous routine and ordinary claims while having the capacity to sustain one or more catastrophic losses, whether they arise from a single event such as a van fire or a multiple loss event, such as a tornado destroying a warehouse filled with your employees' possessions in permanent storage.

Most "self-insured" entities have the sophisticated risk assessment and management skills required to assume, rather than "transfer", the household goods relocation exposure to loss or damage. "Self-insured" corporations have ascertained the impact of day-to-day claims and the prospects for the infrequent, but severe, catastrophic loss. In addition, they have created an internal charge-back system to replenish the pool of funds required to pay such claims. They concurrently have determined an appropriate means of sharing catastrophic losses through cost center assessments, or by securing supplemental insurance to mitigate the most expensive claims. There is a common misconception that a company is self-insured if it obtains "free valuation" within its transportation contract. In reality, the very definition of "self-insurance" precludes that possibility.

Historical Claims Data Analysis

A well-documented history of prior claims is essential to the success of any "self-insured" program. The data analyzed should be of sufficient quantitative size to allow the "law of large numbers" to apply. In other words, the greater number of prior losses studied, the more likely you will be able to predict your future loss experience. In addition, the examination should cover a specific period, generally three to five years. The examination period should not include the current year, as that experience is considered "green" and therefore unreliable. If a reliable loss history is unavailable, a decision to self-insure is throwing caution to the wind, and the results could prove financially devastating. If, however, these two areas have been thoroughly investigated, you are in a relatively safe position to determine whether "self-insurance" is a viable choice.

Limits of Liability

Most "self-insured" companies provide protection on goods in transit ranging from $100,000 to $250,000 per vehicle. As you might imagine, this protection will cover virtually every shipment by employees moving at company expense. On the rare occasion when a shipment exceeds limits of this nature, the company must determine if it is willing to accept greater exposure or if it needs to approach the excess insurance market to cover such shipments.

Some companies mitigate the potential for loss by self-insuring the first $2,500 to $5,000 of all claims and purchasing insurance to cover claims in excess of those amounts. Large relocation management firms employ such means of assuming risk for their clients.

This entire scenario changes, however, when establishing limits for employees' possessions stored in a warehouse. In general, the storage limits for most "self-insured" entities range from $500,000 to $2,500,000 for any one occurrence.

The limit must be sufficient to protect multiple storage lots belonging to employees at any one location. It is critical that the company know how many of its employees have goods in storage at any facility and the total value of those goods. Some "self-insured" companies buy coverage from the warehouseman to reduce their economic exposure to a catastrophic loss. It is essential to carefully examine the issue of storage coverage when storage protection is being provided within a contract of carriage. This exposure has the potential to wreak financial and emotional havoc should a catastrophic loss occur. Further discussion of this issue will be included in the permanent storage category.

Terms and Conditions of Coverages

Generally, the coverage provided by self-insured companies mirrors that offered by the commercial insurance market. In the early 1980s, a dramatic change took place in the protection of household goods. At that time, virtually all claims were processed on an actual cash value basis. That is to say, claims were settled on current fair market value of an item, less depreciation. The 1980s ushered in deregulation of the transportation industry. The rules were changed. Actual cash value coverage was expanded to replacement value protection. Replacement value is actual cash value without

depreciation. Replacement value protection has become a permanent fixture in the relocation industry and much of the insurance industry in general.

Today, it is rare to find any firm still settling claims on an actual cash value basis. Replacement value coverage is commonplace. By and large, most “self-insured” programs are extremely liberal. There are few, if any, exclusions. Most questionable claims are settled in favor of the employee. Although this tends to drive the average cost per claim higher and exposes the company to inflated or fraudulent claims, it reduces confrontations over controversial claims.

Claims Settlement Process

The litmus test determining the success of any protection program is its ability to respond to claims. A critical decision for any “self-insured” entity is to ascertain the best method of processing its claims. The most popular means employed today is “outsourcing” the settlement responsibility to the transportation provider’s adjusting staff. The cost to do so is relatively low.

Such adjusting tariffs, in general, do a reasonably good job of inspecting, having items repaired, or processing payment for items that must be replaced. Nonetheless, issues arise that raise questions as to whether this is the best method. For instance, does the adjuster always look out for the employee’s or the employer’s best interests? Does the outsourced staff aggressively pursue the recovery of the movers’ legal liability through the process known as “subrogation”? A positive response to these concerns is important for a successful settlement process. If not, a third-party independent and neutral adjusting firm may be the answer.

In any event, it is critical that the employee receive prompt, fair attention to his or her claim. Additionally, it is important that the settlement agency be able to supply unbiased credible loss information to the self-insured company in order for it to continuously monitor its economic exposures. Without such feedback, the company is in a vulnerable position. An age-old adage in the insurance industry is that the frequency of claims inevitably leads to severity. If this information is not provided, self-insured companies have no means of knowing the full picture, and self-insurance becomes a shot in the dark.

Permanent Storage

As the name implies, “permanent storage” refers to the storage of household goods belonging to the employees of a company whose storage period has exceeded the “storage-in-transit” *(SIT)* timeframe, or whose storage was immediately designated as permanent or long-term storage on arrival at the warehouse. The latter generally is true for the storage of expatriates’ possessions. Most domestic shipments do not involve permanent storage.

Companies need to be aware of the possibility of a catastrophic event at any location where a number of employees have stored their goods. The self-insured corporation must ascertain the maximum possible loss to which it may be exposed at any one location at any given time, to reserve the necessary funds, if only on paper, to pay for such catastrophic losses. For example, should a warehouse in Miami

be filled with the storage of (50) expatriates, it is essential that funds be available to pay for a total loss should a hurricane, fire or tornado destroy the facility. Years of experience have shown that this exposure is not given the attention it demands. And, virtually every warehouseman's insurance policy excludes "acts of nature". Many "self-insured" corporations purchase insurance from the warehousing company to reduce their own exposure to catastrophic loss. If this coverage is included as part of a contract of carriage, revisit this area of exposure with your carrier, as the policy may or may not provide sufficient catastrophic loss protection.

MOVERS' VALUATION

The Motor Carrier Transportation Act of 1980, which deregulated the household goods transportation industry, altered the course of the moving industry and resulted in innovative and unique approaches to an industry that had languished in a staid and predictable environment. One of the more innovative concepts to make a significant and lasting impact was the contract of carriage.

The contract of carriage allowed the moving industry to become competitive and creative in structuring new agreements with their valued clients. No longer did a plethora of federal, state, and local regulations hinder them. One novel idea that surfaced within contracts of carriage was the offering known as "free insurance", later more appropriately deemed "free valuation" or "mover's valuation".

Mover's valuation is simply the expansion of basic contractual liability. For years, the government required that all transportation providers engaged in interstate commerce be held liable for a stipulated minimum amount. In the 1960s, this amount was established at $0.60 per pound per item. At that time, the minimum liability was a reasonable reflection of weight versus value, but it was implemented prior to the onset of escalating values due to inflation.

In addition, it is important to remember that, prior to 1980, settlements were based on the actual cash value or depreciated value of an item. With the increased value of goods, coverage was expanded to replacement value protection. Both of these factors made the $0.60 per pound minimum contractual liability virtually obsolete or, at the very least, insufficient. Contracts of carriage changed the transportation playing field. It allowed movers to expand liability and increase coverage.

Unexpectedly, a well-known national moving and storage company began offering mover's valuation to its clients. The idea was to provide valued clients with expanded protection at no apparent cost. The word "free" often was irresistible to prospective clients. However, as you will discover, the offer was neither free, nor was it insurance.

Here is how the concept worked. The buyer was offered "free insurance" *(mover's valuation)* as an integral part of the contract of carriage. The offer stipulated that the clients' employees would be protected up to a fixed limit. Initially, this offering was $50,000. Some limits now are set as high as $100,000. The "catch" was the limiting clause, which stated that coverage would be paid on a restricted basis to either $3.50 or $4.00 per pound maximum liability based on the total weight of the shipment. Thus, a shipment weighing 10,000 pounds actually would be protected to a maximum of $35,000 or

$40,000 on a replacement value basis. So, even though it appeared as if the shipment was protected for $50,000 or $75,000, it was not.

The concept took on a wide range of variations as every major van line began offering competitive programs. Some included pairs and sets coverage; others added protection for mechanical and electrical failure. There was no end to the variations. The idea is unique and inviting, but when it is offered, it should be carefully evaluated.

Although this concept covers most ordinary and routine claims, it falls short as a protective measure when a catastrophic loss occurs because weight and value have no meaningful relationship. For example, if you have two shipments weighing 10,000 pounds, one with goods purchased from Sears, the other with goods purchased from Neiman-Marcus, there probably is no correlation between weight and value. One of these shipments may have a value of $40,000, while the other's value could easily exceed $100,000.

Reliable figures on an extensive volume of paid catastrophic losses indicate that the total payout on such losses is close to $10 per pound. Additionally, if these figures are accurate, all "free insurance" *(valuation)* contracts have a glaring deficiency. The result is the significant under-insuring of a large number of clients' shipments.

Generally, the exposure is greatest to the highest level personnel within a company, who will have the heavier shipments, and often, the greater accumulation of value. If the average weight of a corporate move is between 10,000 and 12,000 pounds, the disparity between weight and value is very apparent, especially if the "free" limit is $50,000 or $75,000. While most claims are partial in nature, you gamble that a catastrophic event will not affect your transferee' assets when under-insuring. Eventually, you may find yourself in the undesirable position of having to ante up a significant sum of money to properly compensate an employee whose shipment was inadequately protected.

Historical Claims Analysis

Few, if any, transportation service providers supply detailed loss information to their clients, especially if coverage is provided free under the contract of carriage. The transportation providers view such information as privileged since they are the ones paying the claims. This attitude however, prevents valuable information from reaching the client. This is unfortunate, considering clients' need to prepare for the possibility of a severe loss.

The task of claims analysis is further complicated when you are receiving claim information from multiple carriers. In most cases, there is no consistent presentation of the information, and differing claims settlement philosophies may skew the data. Accurate, credible information is necessary to gauge susceptibility to a severe loss. Regardless, you must know the frequency and cost of your ordinary day-to-day claims.

Limits of Liability

There is a wide variety of "mover's valuation" programs currently in the marketplace. Typically, limits will range from $50,000 to $100,000 and each will be structured with a per pound limitation, such as $3.50 or $4.00. The protection offered will be determined on the size of the account and the account's significance to the transportation provider. The larger the account, the more likely the coverage will be expanded, if the need arises.

Coverage

Coverage, similar to self-insurance, will resemble commercial insurance. Most of today's contracts are based on replacement value protection, with a wide variety of restrictions or stipulations included within the specific contract. Check for the inclusion of pairs and sets protection, and mechanical or electrical failure. Some contracts provide these, others do not. Review the contract carefully to assure yourself that protection is included for the long-term storage of household goods or to determine how you can extend this coverage through the transportation provider if the need arises.

Claims Settlement Process

Virtually all contracts of carriage, particularly those in which mover's valuation is provided, specify that claims will be settled through the transportation provider's in-house adjusting staff. They have the damages inspected and repaired, if possible, and make offers on items that must be replaced. Each organization has relationships with repair firms and individuals throughout the country who inspect and assess the merits of each claims and report back to the in-house adjuster, who then makes a final determination on the claims settlement. For the most part, these groups do a good job, but there always is a concern for their independence when deciding the "gray area" claims. Do not be afraid to question how service providers resolve those claims that do not always fit neatly into an easily determined settlement solution.

Another area that should be addressed is the claim process for interstate *(as opposed to intrastate)* claims. It can become more complex when a permanent storage claim is involved. You could find yourself dealing with three separate entities attempting to settle a claim for one employee. In addition, some contracts allow for deductibles, which further complicates the settlement process. The most sensible process engages one adjusting firm to handle the claim from beginning to end, seamlessly, without creating additional work or stress for the employee.

Permanent Storage

Unless the contract of carriage provides for it, permanent storage coverage typically is the responsibility of the local agent for that transportation service provider. This is more frequently an issue when an employee is on an international assignment and leaves possessions in storage for an extended period. It is imperative to ask the contracting party how this exposure will be protected, and whether more than one firm will be involved in the insurance and settlement process. In some cases, the results will be positive; in others, you may want to consider alternative arrangements.

COMMERCIAL INSURANCE

The last of the three methods left to examine is "commercial insurance". This term simply refers to any program designed to protect loss or damage to an employee's household goods during the relocation process, that is purchased through the commercial insurance market. It is used by firms whose situation prohibits "self-insurance", or that elect broader benefits of a commercial insurance plan over those of mover's valuation. Insurance is the transfer of a financial risk from one entity to another that has the willingness and capacity to assume the risk for an agreed premium. The employer must decide if it should accept the risk *(self-insure)* or transfer the risk by accepting the offer of mover's valuation or purchasing insurance through a viable commercial insurance entity.

There are several commercial insurance companies and agencies that provide insurance to firms whose employees are being transferred at the request and expense of the company. First, it is important to recognize that this is pure insurance. That is to say, an insurance policy issued with terms, conditions, exclusions, and limits that specify how the insuring company is willing to accept the risk. This insurance, generally speaking, may not be as broad in scope or as liberal as a self-insurance plan, but it tends to be far more comprehensive than the mover's valuation available from transportation providers.

Historical Claims Analysis

Of the three options available today, commercial insurance probably is the most capable of providing credible, accurate claims information because of its ability to assess risk in the underwriting process. However, the capability of each insurance company to supply appropriate claims information to clients varies widely. Each company should be investigated for this capability. The claims analysis should cover such areas as gross claims cost and frequency, as well as the total cost of missing items. Additionally, loss histories should reflect recoveries received through the subrogation process and the claims-to-moves ratio, sorted by carrier. These histories should be able to pinpoint the better performing carriers and assist in identifying performance problems. This enables the corporate buyer to select the best carriers based on unbiased claim statistics.

Limits of Liability

One of the true benefits of a commercial insurance program is the virtually unlimited ability to access and establish any desired limit of protection. Experience indicates that most insurance plans set limits between $50,000 and $150,000. Higher limits are easily obtained at a price. The design of most plans assures that most of a client's employees will fall within the prescribed limits. There also will be a mechanism in place to insure those few shipments that may exceed the purchased limit. This usually is accomplished at a significant savings over a transportation service provider's excess coverage rate. Coverage for extremely high-value shipments seldom creates a problem in the purchased insurance market.

Coverages

As mentioned previously, the reference point for most protection programs is the insurance marketplace. Like the other two programs, commercial insurance is based on replacement value settlements. Every insurance policy includes terms and conditions, as well as exclusions. This is a reflection of the insurer's determination on the nature of the exposure, anticipated cost, and the prospects of making a profit.

Most relocation insurance policies are reasonably straightforward and contain few exclusions. Of the most common exclusions, three may be "waived" *(removed)* by paying an additional premium: pairs and sets protection, mechanical and electrical failure, and mold and mildew. These can be the most confrontational of all exclusions. Mold and mildew become an issue with permanent storage and overseas transit claims. Whenever possible, it is advisable to remove these exclusions.

Claims Settlement Process

Each commercial entity providing purchased insurance coverage has a system to process claims. Some are very effective, others less so. It is important to investigate any company with which you intend to place the responsibility for the claims settlement process. How quickly do they respond to a claim? Do they monitor the claim from its initial submission to its conclusion? Do they evaluate the quality of repair services and their costs? What is their method of resolving complex or appealed claim settlements? Do they have a well-documented history with other clients of successfully handling household goods claims? These are just a few of the questions that should be addressed. Positive responses and proven track records are critical. Using the services of a proven service provider will save you time and involvement in the ongoing process.

Permanent Storage

Of all the exposures that commercial insurance addresses, none is more important than permanent storage. While the other two programs need to be meticulously monitored to assure the appropriate levels of protection are in place, such is not the case with the commercial insurance program. This is particularly true of domestic transit shipments. In such a scenario, permanent storage is required only if the shipment is in SIT and extends beyond the 180 days of coverage normally provided within the basic structure of the program. Even if your employee's shipment is converted to the warehouse designation of permanent storage prior to the expiration date of 180 days, the commercial insurance program continues to cover the shipment as though it were still in SIT. This eliminates a great deal of cost and a lot of concern on the part of the corporate buyer.

Insuring long-term permanent storage, which typically is associated with expatriates, is simply a matter of declaring the value of the storage lot at the time it is assigned to storage. Some commercial insurance entities create blanket coverages so that the need to declare a value occurs only when greater values than those established are requested by the employee.

Having examined the three methods of insuring the household goods relocation process, it is evident that each has unique features that must be considered to determine the plan that best suits the buyer's need and provides optimum coverage for their valued employees.

- Baker International Insurance is a best-in-class provider of all risk relocation moving insurance