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Familiarity is for Fools

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Before we start, I want to ask a few quick questions:

Fold your hands across your chest. Now, without placing your hands in a typing position and without looking, explain where the letter 'c' is on the keyboard. Which hand? Which finger? What are the surrounding letters?

Now, think about your car's controls. Describe what you would do to engage the cruise control? How many buttons would you push? Where are they in relation to the others? If you were to turn your windshield wipers on to medium delay, would you be operating the right lever or left? Would you turn the delay controller up or down?

Now think about your boss. What was he/she wearing yesterday? Colors? Style?

At the risk of blowing my point, I'm guessing you couldn't answer all of these - at least without thinking pretty hard about them. But why not? A computer keyboard? Your car? Your boss? These are all very familiar things to you ... things you see and interact with every single day. Which is exactly my point: Sometimes familiarity can fool us.

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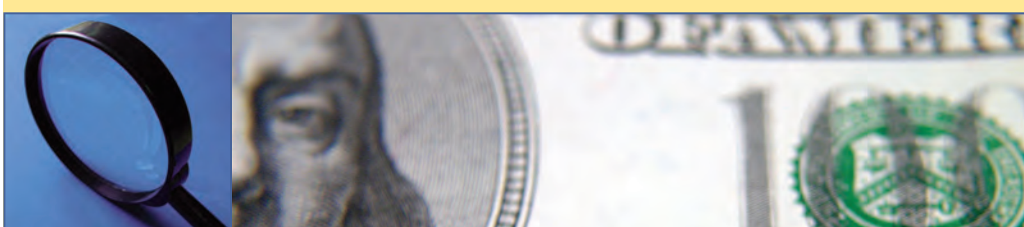

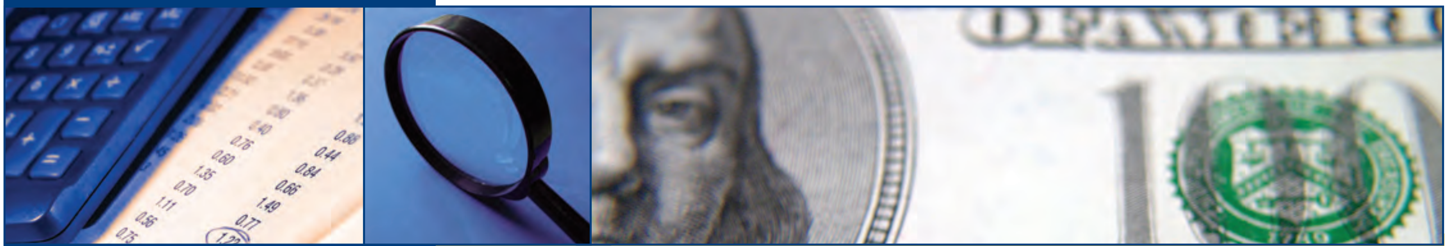

CASEWORK EXPERIENCE

FASNA member casework includes, but is not limited to, cases involving:

- Inventory/property loss
- Employee dishonesty
- Business income loss
- Personal injury or wrongful death claims
- Truth in lending/truth in leasing
- Post judgement matters/ calculations
- Loss of income/earnings
- Divorce and fidelity claims
- Business valuation
- Expert testimony
- Fraud

INDUSTRY EXPERIENCE

FASNA member experience includes, but is not limited to cases involving:

- Auto dealerships and transportation
- Colleges and universities
- Construction, contracting, and engineering
- Financial/money management, trust, and estate
- Healthcare
- State and Indian tribal government
- Insurance claims
- Manufacturing
- Real estate
- Restaurant and hotel industries
- Retailing/wholesale

Every insurance claim is different, with different motives, details, businesses and people. Without looking into the details of every claim, you can miss things that can make a significant difference in the claim.

The human brain is a very complex computer. It gains its efficiency through its ability to categorize things and later recall them based on where and how these things are categorized ... think "portable electronic filing cabinet." The trouble is, sometimes the efficiency of this system makes the brain file things too quickly into a familiar category without looking at the details. Fortunately (I think), the brain of a forensic accountant doesn't work so efficiently!

Now, imagine someone (maybe you) who handles a large number of claims. Do these claims sometimes fall into a false sense of familiarity? You may expect the details and figures to match with similar-looking claims and cases worked on previously. However, it's our experience that, more often than not, details in an insurance claim - especially a loss of business income claim - can make what seems like seemingly similar claims actually end much differently.

Here's a good example of a seemingly familiar type of claim being quite different when you look at the details:

A runaway truck crashes through a convenience store. The store owner calculates the physical damage to the property, the loss or damage to inventory and the loss of business income based on recent sales records and turns in a claim to their insurance company. On the surface, it looks like a potentially sizeable, yet typical claim. Fairly easy claim, right?

But by digging a little deeper, maybe you uncover a few details that could completely change how the claim should be calculated:

Forensic Accountants are trained to be curious and ask questions. Asking the right questions can lead to information that can change how a claim may be calculated.

Sales vs. Income: The initial loss of income calculation is just that ... loss of income - not loss of sales. So, say in this example, part of the insured's claim is based on the fact that the convenience store had sales of $40,000 in the previous month. That doesn't mean the insurance company owes the insured $40,000. It means you must calculate the income that $40,000 would have generated - sales minus the cost of goods or services. In a high-volume, low margin business like fuel sales, distinguishing sales from income can make a significant difference in the size of the claim.

Sales vs. Margin: Speaking of margin, often, we'll run into insureds who are happy to show us that their sales have been higher, with the assumption that their income loss is going up at the same percentage rate. Sales are up 40% this month, so income should be up 40% too, right? Rarely!

In this example, most convenience stores operate their fuel sales on a fixed margin. If the cost of a gallon of gas costs two bucks, the margin may be a nickel or a dime per gallon. If the cost of a gallon of gas costs four bucks, the margin is still only a nickel or a dime a gallon. Therefore, unless the volume of fuel gallons changes, the loss of income claim will be the same regardless of what sales figures show.

Income vs. Inventory: In loss of income claims, it can also be important to separate inventory losses from income losses. If not calculated correctly, the insurer can end up paying twice for the same things.

For example, in this convenience store claim, how would you calculate the store inventory (snacks, soda, etc.) that were damaged? The insured's claim may calculate their inventory loss based on the retail price of the damaged products. However, if you are also paying for loss of business income, you're actually paying twice for the same claim. Because the markup on the product is your income, it should be separated from the cost of the inventory that was damaged. Inventory is the cost of the inventory that was lost or destroyed. Income is what you would have made above and beyond your costs had the accident not occurred. Understanding these differences can make a huge difference between what an insured may expect from their claim and the actual economic damage incurred.

Bottom line is it's easy to look at a claim and lump it into the same category as another similar claim. However, all businesses are different and all claims are different. You've got to be willing to dig under the surface to make sure that there aren't details or other factors that could affect your claim. And that's exactly why many of our clients come to us.

FASNA members are dedicated to helping you resolve your most complicated claims.

Not understanding how income is calculated by an insured can have a great impact on the final insurance claim.

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