

## OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
09-24-03	Claim Practices Fire	File Requirements First Party Claims	75-07

## TABLE OF CONTENTS

- I. INTRODUCTION
  - A. Purpose
  - B. General
- II. LOSSES HANDLED BY THE CLAIM REPRESENTATIVE
  - A. Policyholder Service
  - B. Agency Relations
  - C. Common Guidelines
  - D. File Requirements - Structural Losses
  - E. File Requirements - Personal Property - General
  - F. File Requirements - Theft
  - G. Losses Which May Require Inspection
- III. FIRE CLAIM CENTRAL
  - A. Definition
  - B. Eligibility Requirements
  - C. Procedures
- IV. CONSOLIDATED CLAIMS-OPERATIONS CENTER
  - A. Definitions
  - B. Eligibility Requirements
  - C. Processing of ADA Claims
  - D. File Requirements and Evaluation
  - E. Reporting

## I. INTRODUCTION

- A. Purpose
  - 1. To provide comprehensive file requirements and standards for all first party claims.

2. To aid Section Managers and Team Managers in file management and organization.
3. To standardize all first party file requirements.

B. General

Comprehensive First Party file guidelines and requirements are outlined. Not all claims will require as comprehensive an investigation. File requirements may vary according to the size of the loss, the facts of the loss, and the experience level of the individual claim representative. Claim management may modify certain file requirements as necessary and prudent, consistent with good judgment and sound claim handling practices. Any deviations by a section from the standards and requirements outlined should be documented in writing with a copy sent to the appropriate General Claims Consultant.

## II. LOSSES HANDLED BY THE CLAIM REPRESENTATIVE

A. Policyholder Service

1. Contact the policyholder within 24 hours of receipt of the loss in the claim office. It may be necessary to make contact after normal business hours and over the weekend. Normally, initial contact is made by telephone within 24 hours of receipt of the claim in the claim office. In Fire field offices, follow-up contacts may be made in person, as appropriate.
2. The policyholder must be kept advised throughout the duration of the claim. Individual files may require more frequent contact. Document in the file activity log conversations with the insured. Maintain in the claim file copies of all correspondence to the insured.
3. Claim denials must be in writing to the policyholder, with a thorough explanation for the denial. Include the specific policy language.

B. Agency Relations

1. Promptly notify the agent of all losses when a dispute with a policyholder arises.
2. Whenever possible, inform the agent before a loss is denied.

C. Common Guidelines

These guidelines apply to all losses and are to be used in connection with requirements for specific types of losses outlined later in this Operation Guide. These requirements must be consistently applied throughout a section.

1. Handle ECHO to CSR (Claim Service Record) loss reporting consistent with QG 741-200.

2. Assignments will be made by centralized reporting of losses and automatic claim number assignment.
3. Determine if the claim is eligible for the State Farm Premier Service<sup>®</sup> Program (SFPSP).
4. Activity logs with concise, appropriate entries outlining only pertinent activity should be contained within the file.
5. The Team Manager should adjust reserves, as necessary, at each calendar date.
6. Reservation of rights letters must be sent by claim management.
7. Promptly investigate questions of coverage. If the question is resolved in favor of the insured, the reservation on that coverage question must be promptly withdrawn.
8. A proof of loss shall be taken on disputed claims, suspicious losses, and on cases where deemed appropriate.
9. Complete a Statement of Loss when a need exists to consolidate and organize numerous payments, or as directed by claim management.
10. Purge all unnecessary duplicate copies of material from the file.
11. File order shall conform to OG 75-01.
12. Comply with the Fair Claim Trade Practices Act of your state.
13. Forms completion may be used via electronic assistance (see OG 755-100).
14. A Combined Fire Report (CFR) with Facing Sheet may be necessary and should be discussed at first diary date. Management has the discretion to require a CFR.
15. A dictated narrative Closing Report (per OG 75-01) should be contained in the file if a need exists to summarize the file activity and provide a better understanding of the decision-making process in the file.
16. Obtain a Police or Fire Department report when necessary and appropriate for the investigation of a claim.
17. Independent experts may be used, with management approval, on losses where the claim representative cannot determine the cause and origin, or in any circumstance when it is necessary and appropriate in the investigation of the claim.
18. Take photographs accurately depicting the damage and describe appropriately.

Z 213 1140

0193

19. Complete underwriting reviews per OG 75-01.
20. Handle salvage consistent with OG 75-55. Document the file with regular status reports until closed.
21. Handle subrogation consistent with OG 75-54 and OG 770-100. Document the file as to the investigation, evaluation, and analysis of legal liability.
22. Assign the proper facility code for accurate statistical information (see OG 702-320).
23. Ensure all externally-generated file material is date stamped.
24. Either handwritten or recorded statements may be necessary on certain files. Claim management and the claim representative should consider the value of a statement on any given file. (Claim management may establish guidelines for statements.)
25. A recorded statement summary is required. Transcription of statements is normally only necessary if there is a claim committee coverage issue, litigation or arbitration involved, or at management's discretion.

D. File Requirements - Structural Losses

1. Thorough handwritten or Xactimate® estimates and scope notes are required on field handled losses.
2. Prerequisites for using the current version of Xactimate:
  - a. Successful completion of Computer-Based Training (CBT) Estimator Training (Blocks 1-12), including Xactimate Estimating Theory.
  - b. Successful completion of Fire Claims and Estimating Course and/or Residential Building Damage and Estimating School (RBDES). (Estimators do not attend Fire Claims and Estimating Course.)
  - c. Complete a minimum of 50 scopes and 50 handwritten estimates. (This requirement may not apply to employees with significant structural estimating backgrounds.)

Fire Claim Central (FCC) employees: Upon completion of Fire Claims and Estimating Course and/or RBDES, FCC employees may begin using Xactimate, while continuing to complete 50 scopes and 50 handwritten estimates.
  - d. Demonstrate to the Team Manager a thorough understanding of estimatics skills.

- e. Applicable hardware and operating system training.
  - f. Applicable Xactimate software training.
3. Submit a PILR report within 5 working days on all claims that meet the criteria in OG 74-10 (Losses Reported to PILR). Complete appropriate supplementals in a timely fashion where additional information warrants.
  4. Consider all losses for depreciation. If applicable, complete an Explanation of Building Replacement Cost Benefits form (available on State Farm Forms under Claims/Fire), give the original to the insured, and place a copy in the file. Record in the activity log or the scope sheets the basis for depreciation.
  5. Interior room diagrams with measurements are required on all losses where multiple rooms are involved in the damage.
  6. The mortgagee(s) will be protected on all drafts as outlined in OG 74-04.
  7. Some types of structural losses should be considered for field or estimator handling. For example, water losses emanating from plumbing or heating systems, roof losses, and vandalism claims should be considered for inspection.

E. File Requirements - Personal Property - General

1. Use the Contents Inventory application on all inventories in excess of 16 items (one page) or in which judgment indicates a benefit can be derived from the mathematical capability of the system or a summary of yearly purchases (see OG 787-100).
2. Establish replacement cost of items to provide a starting point in evaluating a loss. Consider the use of discount sources throughout the handling of all personal property losses.
3. Use of the State Farm Replacement Service (SFRS) should be given priority consideration as this enhances policyholder service. There is no need for competitive estimates when SFRS is used.

If a cash settlement is chosen, payment is the lower of the actual cash value (ACV) or SFRS quote price.

ACV is figured by subtracting depreciation from the cost of the item based on the open market price. If the item is readily accessible through a discount house the insured has access to, depreciation may be taken from the discount price.

**Note:** Do not depreciate from the SFRS quote, because this service is not available to the general public.

Z 213 1142

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Example:

CASH SETTLEMENT		REPLACEMENT SERVICE	
Television		Same Television	
Open market price	\$400	SFRS quote	\$275
Depreciation	<u>-100</u>	No depreciation	
Actual cash value	<u>\$300</u>	Deductible	<u>-100</u>
Deductible	<u>-100</u>	Settlement value	<u>\$175</u>
Settlement value	<u>\$200</u>		

The actual cash value is higher than the SFRS quote. Payment is made based on the SFRS quote of \$175.

CASH SETTLEMENT		REPLACEMENT SERVICE	
Television		Same Television	
Open market price	\$400	SFRS quote	\$275
Depreciation	<u>-200</u>	No depreciation	
Actual cash value	<u>\$200</u>	Deductible	<u>-100</u>
Deductible	<u>-100</u>	Settlement value	<u>\$175</u>
Settlement value	<u>\$100</u>		

The actual cash value settlement of \$100 is less than SFRS settlement value of \$175. The insured is paid \$100.

4. Apply depreciation on an item-by-item basis. The age of each item must be shown. When depreciation taken is more, or less, than guideline amounts, appropriate explanation should be made in the file. Guideline amounts are shown in OG 75-50.

F. File Requirements - Theft

1. Proof of ownership and value may be necessary.
  - a. Evidence that documents, verifies, supports, and gives credibility to the existence and value of any item being claimed must be given consideration on any claim.
  - b. The nature and extent of any documentation must be determined by the claim representative and claim management. The evidence must be evaluated in light of many factors, including but not limited to:
    - 1) The facts of the case.
    - 2) The value and types of items claimed lost or damaged.

Z 213 1143

- 3) The ability of either the insured or the claim representative to reasonably procure the documentation.
    - c. Documentation may take several forms. Request reasonable proof. The use of affidavits should be discouraged.
    - d. Lack of documentation should be explained in the file.
    - e. Photocopies of proof of ownership and value should not be accepted. Originals should be returned to the insured after examining, verifying, and date stamping the document. Place copies in the file with appropriate remarks.
  2. Submit PILRs within 5 working days on theft and mysterious disappearance losses (see OG 763-100).
  3. Crime losses with unusual circumstances or questionable facts may require field inspection.
  4. Police reports are not necessary on every crime loss. These reports may be of significant value on individual cases. Evaluate the need for the report and determine if receipt would add to the investigation and evaluation of the case. If the report is not obtained, it should be explained in the closing comments of the file.
  5. If a police report is obtained, note and explain any discrepancies between the report and the claim file. Supplemental reports may be needed as determined by the claim investigation. Personal or telephone contact with the investigating officer may be necessary as part of the overall investigation process.
  6. A copy of the original application of the insured may be a necessary document in the course of an investigation, if it will help clarify any aspect of an investigation. A copy of the application is needed in the following circumstances:
    - a. All policies in force less than 6 months.
    - b. All suspicious losses.
    - c. All losses where prior claims are questionable.
  7. A theft recovery letter should be sent whenever practical on identifiable items. This could lead to recovery of an insured's property.
- G. Losses Which May Require Inspection
1. Losses where a non-waiver or reservation of rights is appropriate.

Z 213 1144

2. Disputed claims.
3. Suspicious losses.
4. Any loss where a field investigation would aid in a more accurate determination of coverage or damages.

### III. FIRE CLAIM CENTRAL

#### A. Definition

Fire Claim Central (FCC) - In-office facility for handling losses by telephone.

#### B. Eligibility Requirements

1. Losses Eligible for Handling - Claim Representatives
  - a. Claims that can be handled/scoped by telephone and can be concluded by issuing draft after telephone adjustment.
  - b. Claims that can be resolved with a single inspection by an estimator.
  - c. SFPSP claims that can be handled by FCC.
2. Losses Eligible for Handling - Claim Processors
  - a. Personal Property (see OG 75-01).
  - b. Handling Explanation of Building Replacement Cost Benefits on undisputed amounts.
  - c. Concluding medical payments coverage only losses with claimants, as directed.
  - d. Handling SFPSP, Strike Fax, and similar type invoices, as assigned.
  - e. Paying and concluding losses within the settlement approval granted by the claim representative.
  - f. Processing salvage paperwork as requested.
3. Losses Not Eligible for Handling by Claim Representatives
  - a. Time element losses (ALE, Business Interruption).
  - b. Total structural losses.



- c. Losses where property is uninhabitable.
  - d. Coverage questions that require causation investigation and scene investigation.
  - e. Lawsuits.
  - f. Public adjuster - represented losses.
  - g. Vandalism losses - Rental Dwelling Policy.
4. Losses Not Eligible for Handling by Claim Processors
- a. Handling of any claims independently from beginning to completion.
  - b. Analyzing coverage, negotiating settlements, or determining liability.
  - c. Handling Explanation of Building Replacement Cost Benefits with amounts different than what is listed.
  - d. Handling questionable losses.
  - e. Handling claim payment replacements involved in the outstanding payments process (see OG 709-120).

C. Procedures

1. Contact by phone as soon as practical, but no later than 24 hours after receipt.
2. Payment - losses can be referred to estimator in area for adjustment on-site if claim can be settled on first contact basis, or claim can be telephone handled with payment directly from FCC Unit.
3. Subrogation/Salvage - follow local procedures in accordance with Company policy.

IV. CONSOLIDATED CLAIMS-OPERATIONS CENTER

A. Definitions

1. Consolidated Claim Facility - Facility for the processing of both Auto and Fire agent's draft claims in one facility.
2. Agent's Draft Authority (ADA) Claim - All claims paid by agent's draft authority.

**B. Eligibility Requirements****1. Losses Eligible for ADA**

- a. All ADA claims except those stated in Section IV.B.2., Losses Not Eligible for ADA.
- b. **Note:** ADA may be used in the following situations to make supplemental payments.
  - 1) A supplemental payment of the replacement cost provision of a claim can be made by an agent. If the insured presents an Explanation of Building Replacement Cost Benefits form, previously completed by a claim representative, and the agent verifies that the property repair or replacement is complete (evidenced by bills, invoices, canceled check, inspection, or other document), the supplement payment can be made. However, the additional payment amount must not exceed the agent's claim authority.
  - 2) With approval from the claim section, an agent can make supplemental payments for temporary living expenses when there is damage to the insured residence by a covered peril causing it to be uninhabitable.

**2. Losses Not Eligible for ADA**

- a. Any liability or medical payments coverage claims.
- b. Examples of losses not eligible for ADA include the following:
  - 1) Claims that involve out-of-state policies, or policies not issued by your operations center.
  - 2) Claims reported to the agent more than 30 days after the date of loss; or claims not closed within 30 days after being reported to the agent.
  - 3) Claims that involve questions of coverage; for example, suspicious losses, questionable losses such as claims involving water damage around a shower pan or plumbing fixture, or losses where a non-waiver or reservation of rights is appropriate.
  - 4) Complicated claims; for example, losses where a field investigation would aid in a determination of coverage or damages or when the Company has made a decision on the claim in the field or in FCC.

Z 213 1147

- 5) Claims for an amount of more than \$5,000, after deductible, or other amount if designated by the executive office.
  - 6) Claims involving property owned by the agent, the agent's staff employee, or members of the agent's or employee's immediate family or household.
  - 7) First party property claims involving Boiler and Machinery, Fidelity or Surety Bond, Commercial Crime, Crop Hail, Fair Plan or Coastal area, Flood, and Workers Compensation.
  - 8) Claims involving total losses to roofs, concurrent cause, or earth movement losses.
  - 9) Claims that are part of a catastrophe operation unless authorized by the zone/operations center.
- c. Any loss that requires more than two contacts.
  - d. Claims that require the taking of recorded statements.
  - e. Subrogation claims. However, if the liability is clear, other insurance is involved, and recovery may be attainable through limited contacts, the handling of the ADA may be appropriate.
  - f. Losses where a replacement source is used and several contacts are required.

C. Processing of ADA Claims

1. When processing ADA claim files, the following areas should be addressed, if appropriate:
  - a. Was there coverage for the loss?
  - b. Was there an indication the loss was inspected or a reason why inspection was not appropriate?
  - c. Does the claim file comply with the Fair Claim Practices Act?
  - d. Does the claim file contain adequate documentation of items claimed; for example, an itemized bill or estimate containing the scope of needed repair or replacement?
  - e. Does the file contain enough details about how the amount of the payment was calculated?

Z 213 1148

- f. Were the appropriate parties named on the claim draft; for example, all named insureds, mortgagee, or lienholder?
- g. Were the tax identification numbers (TIN) provided correctly?

2. Follow-up Contacts with Agents

- a. If the file material submitted by the agent is not sufficient to make an informed review of the claim processing, phone or write the agent, and carbon copy the agency field executive for clarification or explanation of how the agent arrived at the amount of payment.
- b. When a question arises or a discrepancy is discovered and contact with the agent fails to resolve the problem, refer the matter to claim management for handling with agency management.
- c. If the agent fails to follow the recommended procedures or to furnish the required file documentation, the agency field executive must be advised.
- d. Claims' contact with agents, except as outlined in #a above, should be between the Team Manager and agency management.
- e. Agency management should be kept informed of ADA claim trends recognized during the processing of claims, surveys, and reinspections.

D. File Requirements and Evaluation

1. Salvage

Any salvage value remaining should be considered in the evaluation of any loss (see OG 75-55).

2. Depreciation

Depreciation should be considered per the Agent's Service Text.

3. Personal Property

- a. These claims should have sufficient information attached to justify coverage and amount of payment. Proof of ownership and/or documentation (original invoices, receipts, canceled checks, etc.) and values should be included in the claim file materials.

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- b. The agent, when handling Replacement Cost Coverage claims, should pay the actual cash value of the damaged item(s) and document the claim file with the amount of the replacement cost coverage provision they agreed to pay when the insured replaces the damaged property. Explanation of Building Replacement Cost Benefits or similar forms are not required.

4. Structural Losses

- a. These claims should have sufficiently detailed estimates or bills for repair or replacement of the damaged property. An explanation should be attached justifying coverage and the amount of payment.
- b. An agent, when handling Replacement Cost Coverage claims, should pay the actual cash value of the damaged property and document the claim file with the amount of the replacement cost coverage provision they agreed to pay when the insured repairs or replaces the damaged property. Explanation of Building Replacement Cost Benefits or similar forms are not required.

E. Reporting

The first page of the Agent's Claim Draft is a two-part form. The top half of the form is the Claim Draft and the lower half is a Claim Report. An agent may use either the claim draft report or the Fire and Casualty Claim Report when handling an ADA claim.

Top of Page

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