



The Forensic Accountant in the Property and Casualty Insurance Claim Industry – Expense or a Cost Benefit

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Topics

1

Overview of the Insurance Industry

2

Property and Casualty Insurance

3

The Forensic Accountant's Role

4

Determining Profits for the Insurance Carrier

5

Impact to Insurance Carriers and Steps Taken

6

Case Studies – Utilizing the Forensic Accountant

7

Conclusion and Future Considerations

Introduction

- Insurance carriers assume and manage risks for a premium
- The profitability for the carrier is determined after payouts of claims
- Insurance carriers are faced with certain business decisions
- A forensic accounting investigation may be required to determine the extent of damages
- The forensic accountant becomes a **cost benefit**

Overview of the Insurance Industry

- The insurance industry is a multi-trillion dollar business in the United States and plays a fundamental role in our economy
- Provides consumers the financial protection they need to absorb risk to minimize or protect from a potential loss
- Provides the security in transferring the risk of loss, from one entity to another in exchange for a fee



Overview of the Insurance Industry

Types of Insurance

- **Auto Insurance**
- **Health Insurance**
- **Accident, sickness and unemployment insurance**
- **Workers compensation**
- **Life**
- **Credit**
- **Fidelity**
- **Business Income & Extra Expense**
- **Property**
- **Casualty**

The Insurance Business Model

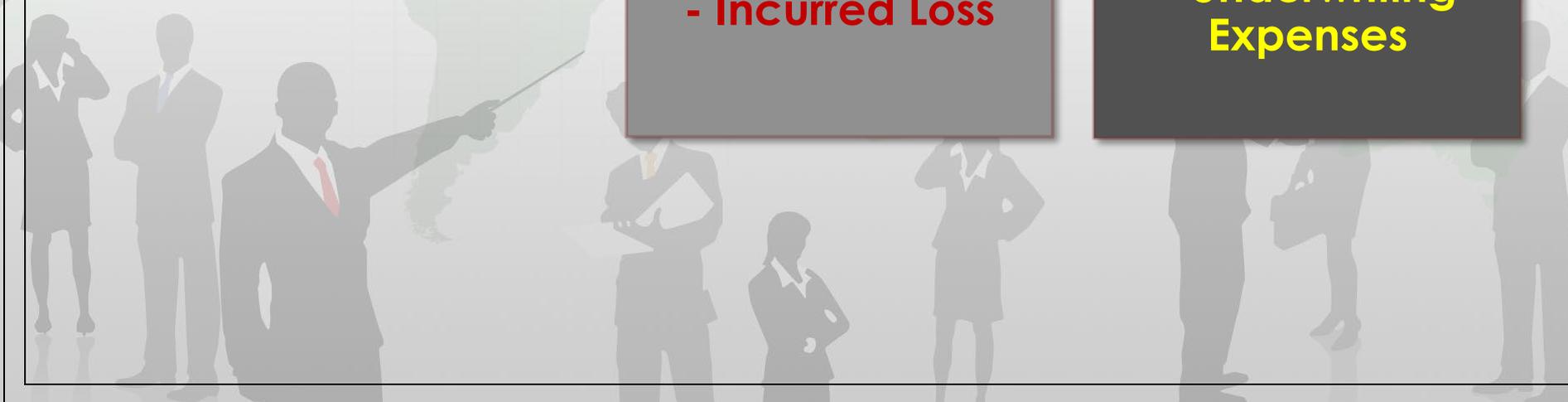
Profit =

Earned Premium

**+ Investment
Income**

- Incurred Loss

**- Underwriting
Expenses**



Property and Casualty Insurance

- The property and casualty protects against risk
- For personal lines and commercial lines
- **Property Insurance** – protection against an interest in physical property or the loss of its income due to damage
- **Casualty Insurance** – protection against legal liability

The Forensic Accountant's Role

- Must possess the knowledge and skills
- Performs investigative accounting as well as litigation support
- Acquire skills to interpret, analyze and present financial evidence
- Maintains an independent and conflict-free presence
- Becomes a key player on investigation team



Determining Profits for the Insurance Carrier

- Obtain maximum earnings
- Faced with option to pay claim or investigate
- The business decision to investigate will hinge upon several factors
 - Internal resources
 - Adjuster's role
 - The timeline
 - Magnitude and complexity of the claim
 - Location of the loss
 - Potential litigation and need for evaluation

Insurance Carriers

Reporting and Profitability



Insurance Carriers

- ❖ Realize profitability
- ❖ Must set up reserves
- ❖ Reports LLAE

Loss and Loss Adjustment Expenses (LLAE)

- ❖ Control loss and loss adjustment expenses

The Forensic Accountant

- ❖ Accounting fees part of LLAE
- ❖ Could reduce payout and increase profits

Loss and Loss Adjustment Expenses

- Income – Net Earned Premiums
- Costs & Expenses
 - Underwriting costs and expenses
 - Incurred losses
 - Loss adjustment expenses
 - Cost to handle the claim
 - Cost to investigate the claim
- Gain on policy before other expenses

Net Earned
Premiums

Incurred Losses
& Loss
Adjustment
Expenses

Underwriting
Gain

Impact to Insurance Carriers and Steps taken

❖ LLAE can account for **80% of costs** – steps to control:

- Detect fraudulent claims
- Giving additional attention to priority claims
- Address potential litigation
- Consider additional options
- Avoiding fast tracking claims

Utilizing a Forensic Accountant – Case #1

Commercial Fuel Delivery Co. vs. Energy Company

Background Information:

- Commercial fuel company delivered fuel to a wholesale distribution energy company (facility)
- Delivery made at 8:00pm on July 20, 2013
- Driver forgot to disconnect hose before leaving, causing a major fuel spill at the facility
- The facility was forced to close for 6 hours
- The energy company retained outside and presented a claim for loss of sales totaling \$532,090 in damages

Summary of Investigation of Case #1

The results from the investigation

AS CLAIMED

- Claimed 6 hours of downtime for \$526,616
- Claimed other expenses for \$5,474, for total claim of \$532,090
- Alleges claim was conservative and should pay

AS CALCULATED

- The claimed 6 hours – 8:00pm to 2:00am
- Claim does not consider saved costs
- Accepted settlement of \$10,000
- Saved insurance company \$503,318 after accounting fees

Utilizing a Forensic Accountant – Case #2

Commercial Concrete Contractor vs. Pumping Equipment Manuf.

Background Information:

- Concrete contractor was using concrete pumping equipment which malfunctioned causing injury to contractor
- Hired an attorney and sued manufacturer for \$503,000
- Had a 100% ownership in the S-Corp
- He received a salary and profits from business
- Employed other family members (sons)

Summary of Investigation of Case #2

The results of the investigation

AS CLAIMED

- Hired an economist to prepare claim
- Claimed difference in salary before injury to salary after injury
- Claimed difference for 17 years for a total of \$503,000

AS CALCULATED

- Reviewed pertinent records
- Owner's wages were shifted
- Industry was experiencing downward trend
- Settled claim for \$25,000
- Saved insurance company \$455,660

Summary of Investigation of Case #2

Financial Information as Reported on Tax Returns

Year	Sales	Net Profit/(Loss)	Compensation of Officers
2004	\$633,126	\$82,451	N/A
2005	\$677,726	\$24,878	\$70,800
2006	\$728,413	(\$8,746)	\$90,800
2007	\$906,713	(\$14,577)	\$98,800
2008	\$765,912	(\$16,509)	\$116,400
2009	\$549,919	\$17,086	\$7,600
2010	\$1,019,747	\$101,880	\$0

Insurance Fraud



Conclusion & Future Considerations



- Must decide to pay or investigate
- Whether the expense will reduce their profitability



- Works as a team member
- Provides skills and expertise
- Helps in providing substantiation
- Provides an independent analysis

Conclusion & Future Considerations

Forensic Accounting Services Provide:

- A reduced amount paid on the claim
- An accurate measurement of damages
- Identify honest and/or dishonest mistakes
- Fraud detection
- Discouragement of future fraudulent claims
- Education for all parties on the facts
- Evidence and facts for possible subrogation

Conclusion & Future Considerations

- Other Studies – Deloitte, Journal of Finance and Accountancy
- The forensic accounting investigations can reduce the LLAE for the insurance company making them more profitable
- Establish & control additional liabilities for loss reserves
- Ultimately the savings would pass down to the consumer as premiums are established

The Forensic Accountant – Expense or a Cost Benefit?