Jewelry Appraisals:

Evidence of the Problem and A Practical Solution

A six-month appraisal study shows why insurers are having problems with jewelry claims, but there is a way to get detailed, useful appraisals.

By Theo Balti

What's wrong with current appraisals? A recent survey of jewelry appraisals submitted to 21 insurance companies in 16 states found that most appraisals lacked information crucial to jewelry insurers.

In an appraisal for insurance purposes, valuation is less important than description. The appraisal should describe a piece of jewelry in sufficient detail to distinguish it from other pieces similar in appearance. A detailed appraisal can serve as a basis for valuation if the piece is lost.

In diamond appraisals studied, even the 4 C's were not covered. Although 85 percent listed the stone's shape, only 61 percent gave color, 64 percent gave clarity, and 57 percent gave carat weight. A mere 1 percent bothered to mention cut.

Colored gemstone appraisals fared even worse. Only 73 percent of the appraisals gave even the shape of the stone, 48 percent gave hue, 32 percent gave tone, 24 percent gave carat weight, 5 percent gave saturation, and none at all mentioned cut.

For gold items and mountings, 99 percent of the appraisals gave purity and 96 percent gave color, but only 30 percent gave weight. Trademark was mentioned on 11 percent and manufacturing technique on just 6 percent.

The insurance appraisal survey, which covered a six-month period, was the first ever to give this kind of appraisal information breakdown.

For years claims departments all over the country have been settling losses based on inadequate appraisals. An adjuster is often faced with little more than a brief description and an unverified valuation—no realistic basis for pricing a replacement. The claims department complains that underwriting should require better documentation, and agents often find their customers dissatisfied with claim settlements.

One reason the appraisal problem has been overlooked for so long is that jewelry claims are only a small part of the adjuster's load. About 500,000 jewelry claims are filed annually, with each claim averaging about $2,000. Since insurance companies do not keep detailed statistical records on their jewelry claims, some are not aware of their jewelry losses.

In a spot audit of its own claims department, a West Coast insurance company found that 27 percent of its jewelry claims had been miscoded because the claims were paid as general contents under a homeowner's policy rather than as scheduled jewelry. The true loss ratio on jewelry was considerably less favorable then the company had believed. This carrier commissioned the appraisal study in an effort to determine the quality of information available when jewelry is insured and claims adjusted.

The jewelry appraisal problem merits the attention of the insurance industry because claim settlements on jewelry create a disproportionately large amount of bad will toward the insurance industry as a whole. If a customer is unhappy over the settlement of a jewelry claim, all his other insurance business with the agent and the insurer is threatened.

Much of the ill will generated by unsatisfactory claim settlements could be eliminated by good appraisals.

Solutions Proposed: Both the jewelry industry and independent appraisers have put forth ideas on how insurers can get better appraisals.

One suggested remedy is that agents, underwriters and adjusters be trained in jewelry, so they can better understand what should be on an appraisal. However, it is impractical to expect these insurance professionals to become jewelry experts. It is more reasonable to expect that, as in other kinds of insurance, the experts in the field supply insurers with useful information.

Another suggestion is that insurance companies hire independent appraisers. Again, from the insurer's point of view, this is not cost-effective. The typical jewelry item has a premium of $30—not nearly

Survey of Jewelry Appraisals Diamonds
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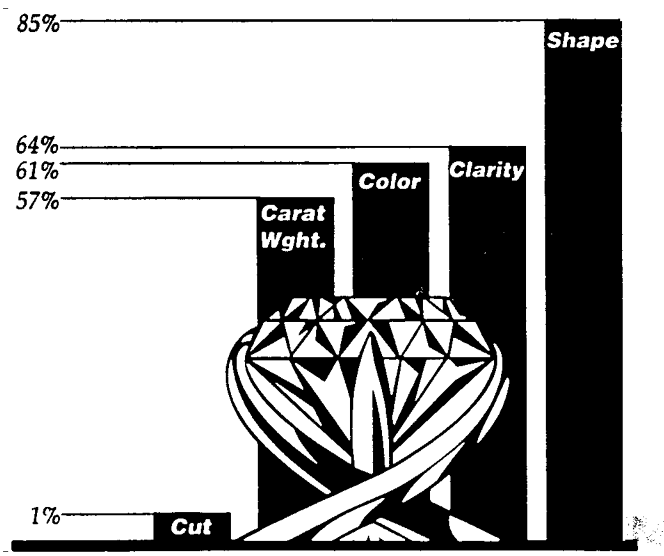

JCRS 1/94 Appraisal Study

enough to support a new cost of hiring an appraiser. A workable solution to the appraisal problem must fall within the norms of how insurance companies are already doing business.

Currently, the vast majority of appraisals for "insurance purposes" are done by retail jewelers or by appraisers with experience in jewelry. Although independent appraisers should be an option for jewelers who are not qualified or who do not want to write appraisals, retail jewelers should not be excluded from writing appraisals on items they sell. A jeweler builds into the price of an item the cost of an appraisal. If the appraisal must be done by someone else, there is extra cost to the consumer and the customer's trust in the jeweler may be undermined.

A Practical Solution: The focus of the solution is to produce an appraisal that is useful to insurers. That is, the issue is not just who writes the appraisal but what the appraisal looks like. A good *insurance* appraisal should not be measured against general appraisal principles but against the needs of the insurance industry.

The ideal approach is one that increases trust between insurer, agent, adjuster, and jeweler, and works to the benefit of the customer.

The Appraisal — What Does It Look Like? For insurance purposes, a jewelry appraisal must describe the piece in enough detail that it can serve as a basis for valuation and replacement if the jewelry is lost. The information must also be presented in such a way that underwriters and agents with no expertise in jewelry can tell whether the necessary information is given. The underwriter does not need to determine whether the information given is accurate (the jeweler/appraiser's job), merely that the appropriate details are included.

This could be done with a standardized appraisal form listing all characteristics relevant to the valuation of jewelry. The underwriter could consult a reference manual, if necessary, to determine what characteristics are important for diamonds, gold, etc., depending on the piece under consideration. Then he could simply check whether the appropriate blanks were filled in. A photo would also be included. If a claim were ever made, the adjuster could refer to that same appraisal to describe to a jeweler the replacement needed.

The retail jeweler could also use the appraisal in discussing with the customer a piece of jewelry being purchased or being considered. He could explain the terminology, and talk about how different characteristics affect the value of a piece. This helps the jeweler set himself apart from those who sell cheaper goods at inflated prices and hide poor quality under vague descriptions. The customer would not only be impressed with the jeweler's expertise and forthrightness, but could walk away with hard copy assurance of the quality of his purchase.

For the insurer, it is desirable that the appraisal not contain the standard disclaimer of responsibility, which gives the insurer only third-party rights. The insurer needs to be in a first party position should a dispute arise.

Who Appraises? A major reason insurance appraisals are inadequate is that most come from people who are not sufficiently qualified. The 16-state appraisal study found that only 21 percent of the appraisers were graduate gemologists and just 3 percent had additional training in appraising.

For the kind of detailed information required for insurance, the appraiser should be a graduate gemologist with appraising experience and training. He should have an on-site gem lab to perform the necessary measurements and evaluations.

How Would It All Work? Qualified jeweler/appraisers would list with a national registry which would verify their credentials. The registry would be nonexclusionary — any jeweler with the basic qualification and training would be admitted. These jewelers would use a standard form for their insurance appraisals.

Insurance companies would receive electronically the names of member jewelers in the registry. The registry could easily customize lists so that agents and insurance companies could distribute to their customers, perhaps along with renewal notices, lists of the nearest qualified jewelers in their area.

At a one-day workshop, agents, underwriters and adjusters would learn jewelry basics and the use of the standardized appraisal form. They could also rely on a reference manual for

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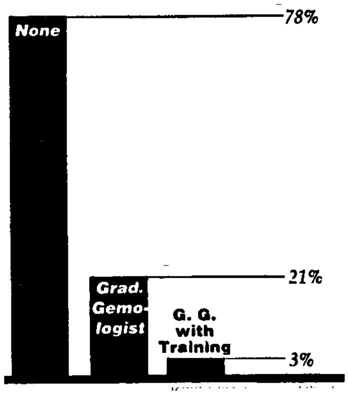
Survey of Jewelry Appraisals Jeweler-Appraiser Qualifications
Report Content



Survey of Jewelry Appraisals Colored Gemstones
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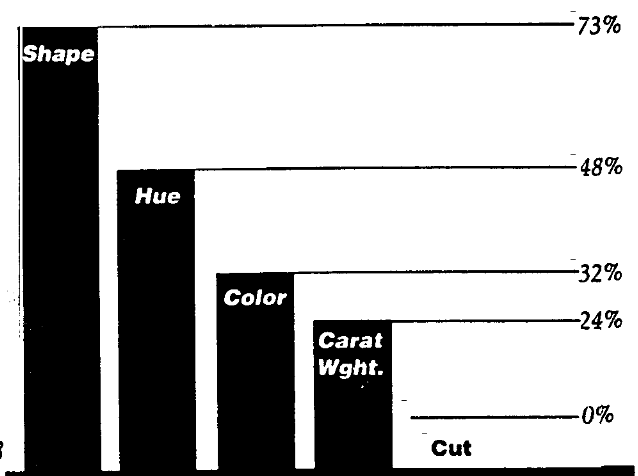

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background information.

Insurance personnel often express a desire for further training in jewelry, so they can be more comfortable talking with jewelers. Courses in jewelry from an insurance perspective, which can be taken to fulfill continuing education requirements, are available through the Society for Insurance Trainers and Educators (SITE). Contact Hank Drewes, Executive Director: (508) 430-2096.

What's in It for the Jeweler? Since retail jewelers are already writing most insurance appraisals, why should they do anything differently? Why should a jeweler spend time on a detailed appraisal, list with a national registry, and perhaps undertake additional training in appraising, to help solve an insurance industry problem?

The Appraisal Task Force, formed within the jewelry industry to help bring about better jewelry appraisals, framed the question this way: What is the incentive to jewelers to write good appraisals? Equally important: What is the incentive to customers to desire good appraisals, rather than inflated ones?

Jewelers who write good appraisals would gain increased sales because the insurance industry would recognize them. Agents and underwriters would recommend to their customers jewelers they know to be honest and knowledgeable appraisers. Including in renewal mailings a list of qualified jeweler/appraisers in the area would be a low-cost way for insurers to put these jeweler's names in the hands of thousands of potential customers. More directly, insurers would give their replacement work to jewelers they knew to be reliable and willing to provide solid appraisals.

The insurer could use the appraisal form to emphasize to customers the importance of the solid documentation on jewelry and all valuables. Customers would be encouraged to seek out jewelers known to write useful appraisals, and they could be rewarded with premium discounts.

Thus the insurance appraisal, rather than being an empty declaration and a source of frustration and misunderstanding, becomes the center of agreement between insurer, jeweler, and customer. It is an accurate and meaningful record, useful to all parties.

Survey of Jewelry Appraisals Gold Items and Mountings

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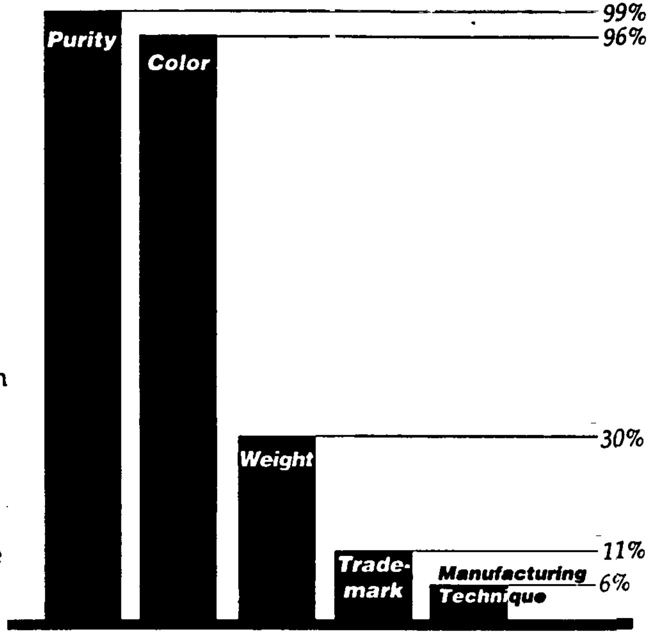

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