

treeTalkSM

Green Industry News

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Adjusting for Tree Damage and Loss of Landscaping

By Doug Malawsky

Property and casualty claims data indicate that the insurance industry spends billions of dollars each year removing fallen trees and shrubs (trees) from insured structures and properties. Claims involving tree falls have sharply risen over the last ten years due to a number of factors, including: the occurrence of stronger, more violent storms; growth of the green movement, which is causing an increase in the acquisition of landscape materials and new plantings as well as the preservation of large trees during construction, and an increase in land development that encroaches upon natural areas containing mature trees. Furthermore, over the last two years enhanced landscape policies have been filed by leading residential and commercial carriers with available coverage levels of \$100,000 or more per tree, a development that will certainly increase the industry's exposure to tree and landscape losses. Adjusters having a greater understanding of how to price tree care (removal) work as well as how to establish primary cause of loss when a tree falls and calculate replacement costs for landscaping will be able to adjust these categories of claims more effectively.

Estimating Costs for Professional Tree Care Work

The primary situations an adjuster will face when tree damage occurs are either the removal of a tree from a structure or debris removal of fallen trees. Currently, available claims estimating software provides limited data as it pertains to tree removal; simply knowing the diameter of a fallen tree, for example, does not provide sufficient information required to evaluate an estimate. Furthermore, the pricing of tree removal services as currently presented in estimating software includes pricing data for work performed by unqualified companies performing tree care work. This fact has created two major challenges for adjusters: first, tree work is highly

undervalued by estimating software and while this may appear to save insurers money, the ultimate result is that it promotes unprofessional or unqualified work by the lowest bidder that can result in further damage and therefore higher loss adjusting expenses (LAE) and increased exposure to liability. It is important to note that while tree care work is one of the most dangerous professions in the US, it is also one of the least regulated, and for the most part no licensing, accreditation or professional training is required in order to operate a tree care business. According to recent statistics, the likelihood for a tree care worker to have a fatal accident is more than three times than that of a construction worker. Second, adjusters generally do not have sufficient experience working with tree care companies to know how to correctly adjust a loss other than by relying on available estimating software.

There are many factors that can greatly impact the cost of a tree removal. Having a basic understanding of the key variables affecting these costs will be helpful to effectively adjust what may be the most dangerous and potentially costly aspect of a claim. Obviously the size of the tree involved is a main factor in the cost of removal. However, it is also important to know the extent of damage the tree caused the roof of a structure. Even a large tree can be routinely removed if it is simply lying on the roof. By contrast a small tree that has heavily impacted the roof can be very complex and costly. Another important variable is access to the site. Clear access enables a professional crew to utilize the most appropriate equipment and techniques for the job – which almost by definition means the most cost-effective. Poor access can require dangerous maneuvers or specialty equipment, such as a crane, to safely remove a tree.

In an effort to establish some realistic standards by which adjusters can audit tree removal costs, the chart on the reverse side was developed to describe "typical" tree loss scenarios and a price range for each. The pricing information was gathered from tree care companies that are members of the Tree Care Industry Association (TCIA), the only self-regulating trade organization that subjects its

members to codes of professional conduct and ethics. The work procedures described below and associated costs assume that the work is being completed by a professional tree service that is fully insured and that has five years or more of experience.

There will be cases where tree removal costs exceed \$4,700, and there is no specific condition which will cause a tree removal project to escalate to this level. Generally speaking, claims of this size involve very large trees (48"+ DBH), or multiple trees that have caused extensive damage to a structure or are tangled in power lines or difficult to access.

Determining Cause of Loss and Replacement Costs on a Landscaping Loss

As previously mentioned, a growing number of residential and commercial insurers are increasing coverage for landscape losses. Traditionally, an average home owner's policy would cover between \$250-\$500 per tree lost and the covered perils were usually limited to lightning and fire, but with the investment in landscaping surging to almost \$75 billion dollars a year, insurers are taking steps to protect this valuable asset class. The result is enhanced coverage for landscaping and trees with sub-limits of up to \$100,000 and limits going as high as 10% of the insured value of the property, and specialty landscape endorsements being underwritten for virtually unlimited amounts. As this newly insured class of living assets proliferates the market, adjusters are being required to gain a greater understanding of adjusting for landscape losses and potential exposure for insurers is increasing.

In light of the foregoing, determining the cause of loss of landscaping may determine whether a significant claims payment is made, and when living assets are involved, this may require special expertise. Two tests should be considered when determining cause of loss: first, what was the primary cause of loss, e.g., lightning, wind, ice, flood, etc., and whether it is a covered peril; the second test is commonly overlooked and includes an analysis of whether a pre-existing condition, e.g., root or trunk rot, insect infestation, etc., was pres-

Tree Removal Cost Chart*

	Level 1: \$1,200 or less		Level 2: \$1,201 - \$2,200		Level 3: \$2,201 - \$3,500		Level 4: \$3,501 - \$4,700	
	DBH	Spread	DBH	Spread	DBH	Spread	DBH	Spread
Tree Size:	<24"	<40'	<24"	>40'	>24"	>40'	>24"	>40'
Access:	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Possible Restriction	Possible Restriction	Possible Restriction	Possible Restriction
Structural Impact:	Slight to Moderate	Slight to Moderate	Moderate	Moderate	Moderate to Heavy	Moderate to Heavy	Moderate to Heavy	Moderate to Heavy
Special Equipment:	None	None	One extra piece	One extra piece	Multiple or Large Crews, Crane	Multiple or Large Crews, Crane	Multiple or Large Crews, Crane ≥90 tons	Multiple or Large Crews, Crane ≥90 tons

ent and whether said condition was actually the reason the tree failed. Depending on the circumstances and the policy terms, determining whether a pre-existing condition was present may decide whether the loss is covered or not. The ability to determine cause of loss may require special expertise and in instances where the cause of loss is not obvious, an ISA (International Society of Arboriculture) certified arborist is the best resource for procuring a professional opinion. Tree care experts will support that a vast majority (75%+) of trees fail due to pre-existing conditions.

In the event that the tree loss is covered, it would be necessary to establish its replacement cost in order to process the claim. There are two primary cost methods for determining either the replacement cost or appraised value of a tree. The first method is the replacement cost method; replacement costs for trees are calculated by using median wholesale prices for trees that are commercially available (the industry standard is using the average of at least three different wholesale prices). If a tree is larger than what is generally available in a nursery environment, then the replacement cost is determined and extrapolated based on the Council of Tree and Landscape Appraiser's (CTLA's) trunk formula method, which is a recognized industry standard. The replacement cost includes the cost of the tree and typical transportation and installation costs and generally is equivalent to 2.5-3.5 times the tree's wholesale price.

The second method is the appraisal method; there is no depreciation per se for trees, and trees actually appreciate in value over time. A consulting arborist will generally perform

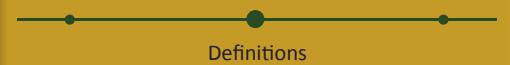
a tree appraisal and will use a species rating which is based on the species of tree, the geographic area where the tree is located, the species' ability to adapt to the geographic location and the species' desirability in the landscape. The species rating is then combined with other information gathered on site, including tree condition and location, and applied against the replacement cost of the tree in order to determine whether the appraised value deviates from the replacement cost.

In most cases, the replacement cost analysis is the method used in adjusting an insurance claim, and a mature tree may have a replacement cost of \$50,000 or more. Appraised values are more commonly used in legal proceedings or casualty loss claims. Appraised values are very subjective and it is not uncommon to have appraisal results which differ greatly from arborist to arborist. The replacement cost method is more aligned with a standardized method of cost analysis performance. Ultimately, it is the language of the policy that will determine what method is to be used in a specific case.

It is clear that adjusting losses that involve living assets have many variables and require specific expertise. The insurance industry has traditionally not had firm guidelines by which to function when claims involving trees and landscaping are involved but as underwriting exposure increases and a desire to reduce LAEs becomes more predominant in the industry, it will be necessary for the green industry and the insurance industry to work together in order to ensure professional work and standardization for adjusting tree and landscaping related claims.

*Labor is based on \$75/hour. Representative of a median demographic market.

*Emergency tree removals may increase these costs by 30% - 50% depending on availability of local resources.



Definitions

Tree Size

Diameter at Breast Height (DBH): Diameter of trunk roughly 4 1/2 ft. from the ground.

Spread: The Spread on a tree represents the width of the crown (branches).

Access

Unrestricted access - tree service is able to move workers and equipment freely.

Restricted access - may require, for example, a crane to reach over a home to extract a tree, or that a tree be cut-up into small pieces and removed manually.

Structural Impact

Slight impacts cause minor damage to the roof or structure with some limbs penetrating the roof. Moderate impacts consist of structural damage to the roof joist or decking; however, only a small portion of the tree has penetrated the roof. Heavy structural damage occurs when a tree has broken through the roof and is greatly imbedded in the structure.

Special Equipment

Second bucket truck, skid steer/loader, crane, etc.

About the author: Doug Malawsky is the Executive Vice President of HMI (www.hmi-advantage.com), a company that provides the insurance industry with national 24/7 emergency response services involving tree damage as well as consultative services regarding replacement cost values for landscaping losses, pre-loss inspections, cause of loss analyses, subrogation reporting, wildfire prevention and storm preparation.

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