RESTORATION REVEALED

Growing administrative burdens and wild swings in claims activity are making it more challenging every year for restoration companies to maintain profitability

>> DISCUSSION MODERATED BY DARYL ANGIER. EDITED BY REGAN REID

When insureds have a claim for a fire or flood, the people they will end up having the most direct interactions with will not be their broker or even the adjuster, but the staff of the restoration company doing the dirty work of making them whole again. Yet many brokers don’t deal with restorers regularly and consequently don’t give much thought to the business challenges faced by these companies today, or why they should get to know them.

To provide brokers with further insight into the restoration sector, Canadian Insurance Top Broker convened a roundtable discussion with executives from five of the top firms in the country. The discussion was held December 10 in our offices at Rogers Media.

**Roundtable participants:**

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<tr>
<td>Steve Blinco</td>
<td>Co-CEO, Strone</td>
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<td>Bruce Derraugh</td>
<td>COO, FirstOnSite</td>
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<td>Simon Frigon (via telephone)</td>
<td>Founder and CEO, CDRG</td>
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<td>Lorne McIntyre</td>
<td>National director, franchisee network, GUS Group</td>
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<td>Stephan Roy</td>
<td>Business leader, disaster restoration, ServiceMaster of Canada Ltd.</td>
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Briefly describe your corporate structure.

**Simon Frigon:** CDRG’s primary focus is to represent our members on a national insurance stage. Our network is based on a community, a team of property restorers from coast to coast. This co-operative model is intended for us to focus on our certified members while not being dependent on claims and disasters. Our network is equipped with a board of directors who review on a monthly basis our strengths and weaknesses.

**Stephan Roy:** ServiceMaster Restore is a franchise system. We’ve been operating in Canada since 1953 and have a national scope. We are a privately held company and owners have a stake in the business.

**Steve Blinco:** Strone is set up as a corporate structure. We started off as a franchise 25 years ago, but made a decision to separate from that model. We felt that consolidating the number of the services we provide was more beneficial to us corporately and allowed us to provide consistency in our services.

**Lorne McIntyre:** GUS Group is a franchise system, like ServiceMaster, but a little bit different in that we co-brand. We give the franchisees an opportunity to keep their name, keep their established business and reputation that they’ve grown over the years and transfer that in the franchised business.

**Bruce Derraugh:** FirstOnSite is corporate, similar to Strone, where we are able to provide consistent service delivery across each of our locations. We are 45 locations across the country, and we are in every province except for Newfoundland, and now also serve the commercial market in the US.

**What are some of the pros and cons of these different structures?**

**Simon Frigon:** The benefits of being a CDRG member are based on a co-operative platform that offers support in networking, marketing, co-branding, training and mentoring opportunities. Our network is made up of experienced restorers who seek a cost-effective and valuable membership with a national presence without having to compromise their ownership through a franchise or corporate business model.

**Lorne McIntyre:** What I like about franchising is it provides a vehicle for us to expand, while easing some of the extra pressure of going out and buying companies, because you’re sharing that risk with the individual business owner.
Steve Blinco: The model that we’ve structured is intended to provide the insurance companies more consistency. With a large diversified workforce, like in the franchise arrangement, and even in the corporate structure, it’s challenging to have all branches function the same way without centralized management, which we are able to provide in our corporate structure.

Stephan Roy: Consistency is an issue, because we’re dealing with a service product, and we’re dealing with people. We’re not building hamburgers, and a product that is easily replicated. Every claim, every job is different.

What are the revenue challenges for restoration companies today?
Steve Blinco: The insurance industry has imposed a lot of administrative tasks on our business. This and price control expectations on our services, with discount credits on the work we do, leave little room to be profitable. We’re also asked to attend and inspect a loss and the majority of these costs are absorbed by us. In some cases we incur legitimate non-recoverable subcontractor inspection costs in order to provide the insurance companies with accurate estimates of the damages.

Bruce Derraugh: Our insurance company customers all expect higher and higher service levels, but those measurable expectations can vary from each insurer. It would be easier for our industry if they all had the same, or similar, expectations.

Stephan Roy: Some carriers will allow you to paint the entire room, while some carriers will only let you paint one wall. So the end consumer says “what do you mean you’re only painting one wall?” And so that’s the point where we’re caught in the middle of those types of balances between serving the customer and keeping them happy and serving our other customer that’s helping drive revenue opportunity to us.

Bruce Derraugh: In that situation, if you don’t paint the entire room, then the customer may not sign off on the customer satisfaction report, which means the file remains open, insurers don’t release the payment and an invoice can sit in Accounts Receivable for a long time. Probably the biggest factor that affects our cash flow or profitability is not getting paid in a timely basis.

What other factors have an impact on revenues?
Steve Blinco: If an insurance company is unable to provide the adjust-
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– Steve Blinco, Co-CEO, Strone

“ing resources on a claim, they use an independent adjusting firm. In this scenario, we’re trying to satisfy the independent adjuster (IA), the insurance company, and the client. The paperwork that goes from us to the adjusting firm takes longer to reach the insurance company, dragging payment for our services out even longer. This is usually compounded because of the fact that the claims that are subbed out to the adjusting firm are usually larger losses, causing significant strain on our cash flow.

Bruce Derraugh: In those large losses you typically have an IA, an end customer, and the insurance company. Certain brokers will be involved in the restoration process and also require continual communication throughout the claim. So in some cases you have four different customers you’re trying to please, who all may have varying expectations.

Stephan Roy: Not everybody has the same agenda. The broker is trying to satisfy the needs of their customer, the IA is trying to satisfy the cost containment within a file, a carrier is trying to reduce their exposure, all while trying to maintain retention within the business. There are a lot of different forces that are at play, and we’re in the middle of that trying to satisfy all of those needs.

Simon Frigon: There’s actually another factor that we probably forgot to mention, and it’s going to become more complex in 2013; that is the third party. It can become very difficult for restorers and vendors to work with these third parties, simply because we are communicating with people in Jacksonville, Florida on claims that occurred here in Canada. Many of our members have had to hire additional administrative staff just to remain vendor-compliant and not affect our preferred vendor status with the insurance company.

How was business for your companies in 2012?

Simon Frigon: In 2012, the total claim count for our certified members has gone down. However, despite this drop in claims, the total volume for CDRG as a whole is in line with past years. One of the main considerations for these increases in average claims costs is that more homeowners are renovating and upgrading their properties. From surround sounds, smart homes, custom bars, wood cabinets, hardwood and marble floors, whenever they have a property loss, these factors all have a direct effect on the average claim cost going up.

Steve Blinco: In the last three years, it’s been pretty flat. It’s our understanding that claims count is down across the industry. That makes it challenging for all of us to be profitable. We are always trying to find the next insurer for recognition as a preferred contractor. We’ve had to adapt, restructure and reorganize.

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There is also less emergency work available. Most of the emergency claims are approximately half the value than what they were three years ago, at least from our numbers. As the administrative costs increase, it just makes it all that more challenging.

Bruce Derraugh: What you’re seeing in the industry are more volatile weather events causing bigger disasters. We’ll go six months with beautiful weather, and then we’ll get back-to-back CAT events. In the past, the weather was more predictable, with a consistent level of claims coming in, now claim volume is more sporadic with extreme highs and lows. Because of these changing weather patterns, our ability to respond to a catastrophe becomes an important factor for our business. We need to be able to leverage our resources from other locations/regions to meet our customer expectations and maximize our claim volumes.

How is climate change affecting the restoration sector overall?
Stephan Roy: We’ve had to adapt to become a very lean provider. And so when you do get a spike in claims, the challenge is greater than maybe it was at one point. We’re not a “firehouse,” we don’t have guys sleeping upstairs waiting for the bell to ring. The challenges are really around the ability to have qualified people and resources to manage that additional influx. Some of us that are larger in scope have a greater ability to manage than others that may not have the same scale.

Lorne McIntyre: Climate change is and will continue to be a real challenge for the restoration industry. Climate uncertainty will test our ability to mobilize resources while responding to natural disasters to all parts of Canada.

Bruce Derraugh: The weather patterns are becoming more volatile and are less consistent. What we’ve positioned for now is to have technology start to eliminate the administrative burden that CATs and customer protocols are bringing to the industry. You need to remain lean, as there may not be many claims for a period of time. However, you need to have the resources to respond when the need arises. We are using technology to help us remain lean and efficient when delivering customer protocols, but are still positioned to help our customers out during catastrophes.

How is consolidation in other parts of the insurance industry affecting restoration companies?
Bruce Derraugh: As the insurer gets bigger, they have more leverage and an ability to ask for rebates and specific service delivery requirements. The pro is that it will reduce the number of different protocols and measurements, resulting in fewer variables when servicing the customer. On the broker side, I think there’s an opportunity for them to more directly engage the insured as they come together and become bigger. They have an opportunity to deal with their end customer in a much closer and attentive way and with more critical mass they will be in a position to impose more control over their customers.

Lorne McIntyre: I just think consolidation, overall, is going to put more pressure on the insurer to drive down costs and set prices. Restorers will have to adapt to the downsizing of the insurance industry.

Stephan Roy: I think one of the challenges of consolidation is that there’s a misconception that volume brings greater profits. It’s not like building widgets where, because we can build more of them, we can produce them cheaper. In a claim-by-claim environment, it’s not necessarily an accurate distinction.

How is job-quoting software such as Xactimate changing the restoration industry?
Stephan Roy: I think the challenge that we have with the product is that...
we’re being dictated how to use it, and it’s not necessarily being used the way it was designed to be used. Xactware originally built its platform to serve the general contractor or the restoration contractor, and now they’re also trying to serve the needs of the insurance customer at the same time.

Steve Blinco: Xactimate, as an estimating program, is useful but the pricing is not always up to date. Xactimate has driven its services into the administrative reporting of our business for the insurance companies and our experience is that this information is not very accurate. We find that these added features are not designed for the way we run our business. Rather than being helpful, these requirements are restrictive and increase our administrative costs. This is one component that’s driven our administrative costs higher.

Simon Frigon: Currently, there are many insurance companies who use their own price lists and several line items within that specific price list do not factor in the real cost to perform the work. But overall, Xactimate is a very efficient estimating tool.

Why do you think it’s important for brokers to have a good understanding of the restoration sector?

Lorne McIntyre: I think the best asset a broker has over an agent or a direct seller is they have that client right in front of them at the time of purchase. They have an opportunity to discuss the claims process. They can explain in more detail what to expect in the event of a loss. I believe this is a huge advantage over the competition that will pay off if the insured should suffer a loss.

Bruce Derraugh: The more they have a vested interest in the claim cycle and what the customer is going through, the better they are able to provide advice and direction. As a broker, you might hear that your clients’ last four claims with a particular company was not a positive experience. You would want to be involved, to help provide advice to your clients and ensure they are being serviced by a firm in a manner that you would expect.

In your view, what are some of the most important areas where brokers can improve?

Steve Blinco: Making clients aware of what their limits are at the time of loss. Many times we will get in a position where clients are reaching their limits and they haven’t even been informed about it.

Stephan Roy: I think they do a good job educating the consumer at the time of sale. But when was the last time the customer talked to their broker? The dwell time between the policy sale to having a claim, they’ve completely forgotten what they’re covered for and what they’re not covered for.

Bruce Derraugh: I think they have more ability to influence the decision than they may believe. It doesn’t mean they can make the final decision for their customers, but they can certainly influence it if they take more of a vested interest.

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