



## The Price-Hollingsworth Company, Inc.

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# Lightning Damage and Equipment Damage Property Claims

## Introduction

Each Spring and Fall, and throughout the year, the Claims Adjuster is faced with a barrage of claims for (reported) lightning damage to equipment. From TV's, garage door openers, PC's and air conditioners to server networks and high dollar radio antennas, there is an urgent need to verify lightning as the cause, then establish the proper amounts for repairs and LKQ replacements. Here are the typical stages of such claims:

1. Verify cause -- lightning, man-made surge, or wear & tear
2. Establish actual damages
3. Review repair estimates
4. Confirm LKQ replacements & establish all costs
5. Issue funds & close claim



## Stage 1: Verification of Cause

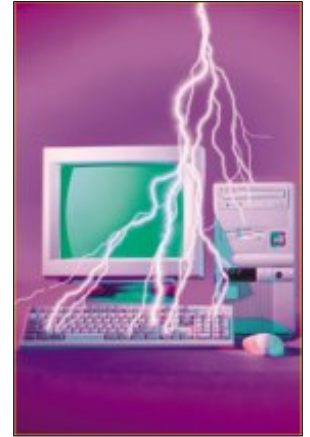
First and foremost is the verification of lightning (particularly if there is exclusion for man-made current, or different limits apply). Before you spend a lot of money to have an "expert" perform a site inspection, disassemble equipment and incur a bill, here are some important points to consider:  
**Stop right here**

- A. If there is an exclusion for man-made or artificially generated current (which is a common exclusion), the very first step is to verify the presence (or absence) of lightning. The most reliable, and in our opinion most cost-effective way to do this is to utilize an accurate, reliable lightning reporting service such as Vaisala's Strike Fax ([www.vaisala.com](http://www.vaisala.com)). This is a service that uses a nationwide array of sensors to verify the presence of lightning. This is far more accurate than simple weather reporting services such as Weather Underground, which simply report the presence or absence of storms. **The mere presence of a storm does not guarantee that lightning actually struck your Insured.** Nor does the absence of storms guarantee the absence of lightning. If lightning is not detected for the DOL (and a reasonable time frame around the date), then lightning is **NOT** the cause is it time to issue a denial? Think about it- if lightning is not present, -why pay, to have a compressor torn apart for example, and a consulting bill incurred.

- B. No once lightning is verified, it is still necessary to ascertain if that was the cause of loss. This is the point where your consultant can provide valuable assistance.

## Stage 2: Establish Actual Damages

Once a covered cause is verified, it is still necessary for an accurate assessment of the reported damages, establishment of a causal link to the voltage event, and an audit of proposed repairs and replacements. Old damages, wear and tear, and damages unrelated to the reported cause of loss can all be lumped into catch-all of “lightning damage”. This is also the time that many vendors will put forth the standard lines like: *everything is stressed by lightning and is now unreliable*; or the old standard “*we can’t get repair parts anymore, so the Insured needs a whole new system*”. First of all, rarely is anything repaired at a component or part level anymore. Rather, a technician simply replaces an electronic circuit card. The offending “stressed by lightning” parts are gone. Secondly, virtually all phone system that are less than 10 years old (and many even older) can be repaired with refurbished parts, a standard industry practice any other time.



## Stage 3: Review Repair Estimates

Repair estimates should be based on Stage 2 above, i.e. repairs estimates should be for actual claim-related damages, once things like wear and tear, etc., have been eliminated. It may be advisable to obtain several repair estimates unless delays might drive up business interruption costs. Ask that the repair vendor retain any replaced parts in case further analysis is required. It may be advisable to retain the use of an expert to review repair bills.

Here are some typical issues to review on repair estimates and invoices:

### *Computer repair issues*

- Excessive programming time
- Programming and software costs related to enhancement and upgrades
- Additional memory and unnecessary hardware upgrades
- Change of operating systems that will necessitate additional (and unnecessary costs)

### *Air conditioner repair issues- this has become a key area of grossly overinflated repair and replacement costs!*

- Trade-in allowance for compressor cores not deducted from repair estimates
- Vendor using EPA regulations regarding old freon-style R22 refrigerant ban as an excuse to replace and upgrade an entire HVAC unit, air handlers, etc to R410-based units even though the EPA still allows the repair of older equipment and even recharging the R22 for repair purposes only.

\*\* See our upcoming Claims White Paper: HVAC Claims, Freon, and other issues.

### *Telephone system repair issues*

- Excessive charges for refurbished parts
- Unnecessary wiring replacements
- Voicemail upgrades
- Unnecessary costs for “training” Insured’s employees on new system
- Lack of salvage credit for old parts



### **Stage 4: Confirm LKQ Replacements & Establish all Costs**

If it has been found necessary to replace equipment rather than repair, it is vitally necessary that an LKQ or Like Kind and Quality analysis be performed. As in the case of repairs, hardware upgrades and enhancements may be a part of the replacement estimates. Other add-ons may be extended warranties, maintenance contracts, new versions of software that are not necessary, etc. Original purchase invoices are not always a good guideline for replacement costs. While they may be used to better identify features on damaged equipment, they may not be an accurate reflection of current costs. Particularly in the case of computers, prices decline very rapidly. Also important is the verification of software purchases. Software copied illegally onto a computer is not covered for replacement. Other costs may include time for re-programming of computers and phone systems, data recovery, re-wiring, etc. All should be reviewed for their relevance to the claim. One final note: In the case of phone systems, it may be more cost effective to replace the entire KSU or “brain box” of the system than to spend much more to attempt repairs. **This also eliminates issues about reliability, etc., after a lightning strike.** However, it should not require the replacement of wiring or individual telephones in most cases.

### **Stage 5: Issue Funds & Closing the Claim**

One final note, a circumstance that is particular to lightning claims is the Insured’s concern about further equipment breakdown due to the lightning strike after the claim is closed. In order to consider that concern and reassure the Insured, , it may be advisable to offer a “window of opportunity,” perhaps 3-4 weeks after the lightning strike, to consider additional costs should further breakdown occur. The claim can be re-opened, and any new claim costs reviewed to ascertain if they are truly attributable to the original loss incident. In the meantime, the Insured will have been paid for agreed upon costs. This will allow the Insured to proceed with repairs versus insisting on outright replacement of all of the items, at the same time properly reserving the Insured’s rights. This White Paper has been prepared by:

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*About The Price-Hollingsworth Company, Inc.*

PHC is an engineering consulting firm specializing in **property claims involving high-tech equipment**. Established in 1987, with offices across the country including our home office in Chicago, our technical consultants advise on cause, audit repair bills and estimates, perform LKQ analysis and more. With many years of experience, PHC has received assignments from virtually every major insurer, coast to coast. **We can also help coordinate disaster recovery efforts, locate appropriate contractors and act as project managers on behalf of the insurance company.** Where appropriate, we assist in estimating salvage value of high-technology equipment. Equipment specialties include but are not limited to:

<b>Motels/Hotels</b> Phone systems Reservation system Elec. Door locks Security/alarm systems Computers Office Equipment POS terminals Restaurant equipment TV/entertainment HVAC	<b>Doctor/Dentist Office</b> Diagnostic Equip X-Ray machines Phone system Computers Office Equipment Dental chairs Chiropractic chairs Security/alarm systems	<b>Radio/TV/Cable Offices</b> Broadcast equip Antenna equipment Amplifiers Phone system Computers Internet equipment Office Equipment Security/alarm systems Battery back-up equip.	<b>Light Manufacturing</b> Machines Fixtures & tools Welders CNC controls Phone system Computers Office Equipment Security/alarm systems HVAC
<b>Restaurants/Taverns &amp; Fast Food</b> Restaurant equipment Coolers/refrigerators TV/entertainment equip Phone systems Security/alarm systems Office Equipment POS terminals Video Games HVAC	<b>Hospitals</b> Diagnostic Equipment X-Ray machines Phone systems Computers Office Equipment Security/alarm systems Environmental controls Elevator controls Battery back-up equip. Generators	<b>General Offices</b> Copiers Computers Printers Phone Systems Computer Networks HVAC	<b>Auto Repair Shops</b> Sun engine analyzers Other analyzers Equipment Tools Parts Inventories Security/Alarms POS terminals Computers Phone systems

Besides these usual types of consulting services, PHC can, after an incident in which smoke and fire are involved, perform **on-site chemical testing of electronics, machinery and facilities** to ascertain the level of contamination, assess damages and assemble recommendations for mitigation. This allows adjusters to have a more scientific basis for planning mitigation, and for justifying the costs incurred in the mitigation process.

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