

WHITE PAPER

# The Dollars & Sense of Outsourcing Inspections versus In-house

An Examination and Cost Comparison  
for the Insurance and Finance Industry

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## Quick Snap: Executive Summary

Using in-house staff to do inspections periodically, or routinely, appears on face value a reasonable and smart cost saving approach without risk. But is it? Is it better to outsource, or use in-house staff, with respect to conducting property inspections for insurance companies, brokerages, credit unions and financial institutions?

In order to determine if there is a case that supports one approach over the other, five base-line “Inspection Money & Management” subjects can be examined and compared:

1. Secondary and “hidden” costs.
2. Independency, conflict of interest and E & O’s.
3. Personnel direct costs.
4. Training required to properly document risk.
5. Image & report data management.

An analysis of the five critical subject areas above resulted in the following conclusions:

- **What are the real costs?** The notion of cost savings by using in-house staff to conduct professional photo reporting inspections and valuations is not an economic reality of cost savings. When examining real costs, the use of an independent 3rd party eliminates the possibility of both secondary and “hidden” costs.
- **Reporting Integrity:** There is a need for 3rd party independency and integrity within the inspection reporting process; use of in-house staff, who will also often advise on a policy or financial arrangement, represents a potentially serious conflict of interest. The use of an independent 3rd party to conduct photo reporting inspections and valuations ensures independency and eliminates the possibility of perceived and actual Conflicts of Interest.
- **Significantly higher liability and financial risk:** The use of in-house staff increases overall liability and risk or, increases cost to off-set that risk, including hidden costs that eventually hit and impact the bottom line for any individual profit centre and the overall organization.
- **Qualifications:** In-house staff are typically not hired or trained to inspect, verify and document risk; using such staff to conduct work for which they are untrained, can have skewed results, with potentially costly outcomes. In order to mitigate potential problems, further resources are required to train and supervise the in-house staff conducting inspection work.
- **Inspection Management:** Most insurance companies / brokerages and finance organizations do not have enterprise systems that include the ability to properly manage, store and protect inspection imagery and report data for immediate and long-term company wide and 3rd party use. In contrast, outsourced Inspection companies invest heavily in IT infrastructure to deal with such matters and include this as part of the overall cost of any given inspection.

**Conclusion:** Conducting inspections, by utilizing in-house staff, is not without its significant cost and risk when properly assessed. The five critical issues associated with property inspections and valuations resulted in the following conclusion: in contrast to using in-house staff, utilizing an independent 3rd party for inspections is a more cost effective and less risk orientated approach to conducting inspections for insurance companies, brokerages, credit unions and financial institutions.

The thought sometimes goes that if you can do it yourself, why not do it yourself? In the same light, using in-house staff to do inspections periodically, or routinely, appears on face value a reasonable and smart cost saving approach without risk.

BUT IS IT?

That's the question this paper will seek to answer as we explore the options, impact and economics of using in-house staff versus a reputable 3rd party to meet the inspection needs of the insurance and financial industry.

## **METHODOLOGY & OBJECTIVES**

The method used in this White Paper will be to examine and compare outsourcing of inspections versus conducting inspections using in-house personnel. The objective of this paper will be to determine if there is a monetary and management case that supports one approach over the other.

In order to arrive at the conclusions, the authors analyzed, reviewed, identified, and quantified key points pertaining to the benefits, risks, costs, liability, integrity, and security of using a firm's internal resources versus retaining an outsourced 3rd party specialist inspection company to conduct photo reporting inspections and valuations.

## **5 RISK FACTORS TO CONSIDER**

While it is commonly accepted that inspections represent a necessary, material and integral step to be accomplished in the allocation of risk for insurance and finance companies, it is not always clear how best to achieve and execute on the outcomes expected from an inspection. Below are five critical "Inspection Money & Management" risk factors that provide direction when considering costs and risks involved in any given property inspection task:

1. Secondary and "hidden" costs.
2. Independency, conflict of interest and E & O's.
3. Personnel direct costs.
4. Training required to properly document risk.
5. Image & reports data management.

## **5 RISK FACTORS – COMPARISION MATRIX**

Below is a comparison matrix highlighting risk factors, and the results and impact, for both in-house and outsourced inspections.

COST & RISK FACTORS	IN-HOUSE INSPECTION	OUTSOURCED INSPECTION
<p><b>1</b> Secondary and “Hidden” Costs</p>	<p>The employee’s automobile must be insured for business use and the liability insurance would need to be increased to protect their employer.</p>	<p>Outsourced inspection firms are expected to provide their own inspection vehicles.</p>
	<p>The employee’s insurance company needs to be notified so they can name the employer as an Additional Named Insured and Loss Payee on the employee’s liability, property damage and bodily injury coverage at the higher commercial coverage. Employer would typically reimburse the employee for the higher costs incurred.</p>	<p>If outsourcing occurs, the employee’s insurance company does not need to be notified in this regard.</p>
	<p>The employer’s overall company liability policy would have to have additional coverage added (as an added expense to the firm) for employees in the field, not just in the office.</p>	<p>No additional such coverage required.</p>
	<p>Worker Compensation (WCB) coverage increases with the higher rated coverage for employees in the field, not just in the office, when doing a property inspections.</p>	<p>Firms who order from an independent 3rd party do not incur liability for those workers and no financial exposure, or Worker’s Compensation (WCB) costs.</p>
	<p>The material loss of continuity and availability of staff and the significant potential negative effects or economic loss of staff leaving.</p>	<p>No misallocation of staff.</p>
	<p>The firm would bare the costs of significant, though sometimes “hidden”, operational costs including bonding insurance, inspection scheduling time, employee morale issues (was staff hired to do such tasks?), management of data, editing and uploading time of images/reports, storage cost of data, misallocation and safety of office personnel.</p>	<p>Costs are identified by the inspection firm at the outset of the property inspections.</p>
		<p><b>CONCLUSION:</b> The notion of cost savings by using in-house staff to conduct professional photo reporting inspections and valuations is not an economic reality of cost savings. When examining real costs, the use of an independent 3rd party eliminates the possibility of both secondary and “hidden” costs.</p>

COST & RISK FACTORS	IN-HOUSE INSPECTION	OUTSOURCED INSPECTION
<p><b>2</b> Independency &amp; Conflict of Interest</p>	<p>The use of “in-house” personnel lacks an element of Independence, reduces the creditability of any report with third parties, and is clearly prone for the appearance of a Conflict of Interest or an actual damaging and costly Conflict of Interest.</p>	<p>An outsourced inspection firm is a 3rd party holding to rules of impartiality and independency, both in appearance and actuality.</p>
	<p>An employer’s In-house inspector runs the continual risk of dodging (or failing to disclose) defects as a function of seeking to meet other legitimate objectives of the enterprise. Photo and Valuation Reporting must be provided exactly as it is without any direct or indirect factors of influence.</p>	<p>An independent 3rd party inspection firm has no vested interest other than to objectively inspect, verify and report.</p>
	<p>Sending the firm’s in-house personnel to do an inspection and then at the same time providing “sales information” to the insured or prospective mortgage holder, places the inspector/sales person in a conflicted position with obvious risk implications to the other parties.</p>	<p>No conflict of Interest whatsoever from an outsourced inspection company.</p>
	<p>The employers E &amp; O Policy would not cover or protect the firm against an employee’s fraud or intentional misrepresentation in any inspection due, for example, to a conflict of interest in seeking to secure a customer’s carry-on business. Another issue, with respect to a lender, is the effect an error or omission could have on a right to recovery under foreclosure and duty of care principles.</p>	<p>A 3rd party inspection firm operates under rules of independence and a professional standard of care required of all trained staff members.</p>
		<p><b>CONCLUSION:</b> There is a need for 3rd party independency and integrity within the inspection reporting process; use of in-house staff, who will also often advise on a policy or financial arrangement, represents a potentially serious conflict of interest. The use of an independent 3rd party to conduct photo reporting inspections and valuations ensures independency and eliminates the possibility of perceived and actual Conflicts of Interest.</p>

COST & RISK FACTORS	IN-HOUSE INSPECTION	OUTSOURCED INSPECTION
<b>3</b> Personnel Direct Costs	Using staff for doing property inspections will add to the costs of commercial liability insurance and commercial levels of auto insurance, Occupational Health & Safety coverage (OH&S), bonding insurance, and other creeping operational costs.	All such costs are inclusive in the services offered by an independent 3rd party inspection company, with no hidden personnel cost.
	In almost all cases, staff is not hired to conduct inspections nor trained to take detailed professional photos and write comprehensive and accurate inspection reports; therefore, a waste and misallocation of company personnel resources.	Outsourced inspection firms have trained Field Inspectors who take professional photos, collect precise data, and write comprehensive and accurate inspection reports.
	From a costing view point, using in-house staff to do an inspection is not the highest and best use of existing staff. For example, OH&S is rated at \$0.12/\$100 of payroll for Insurance office workers, while Photographic services are rated at \$0.19/\$100, which is over a 50% increase in OH&S coverage cost.	3rd party inspections firms bare 100% of all of their insurance, WCB costs, and other similar costs for their staff.
	The employer will incur on-going variable expenses for in-house inspections and should provide adequate safety training for proper site entry and difficult inspection sites, a suitable digital camera, proper clothing, authorization papers, and direct proper and systematic safety procedures for all inspectors when at any given site.	General inspection expenses, safety training, equipment, site papers, safety procedures and inspection training are all inclusive in the cost of doing a 3rd party inspection.
	The employer who uses staff for in-house inspections experiences a lost opportunity cost and direct pay is required when having in-house personnel do any inspection; i.e. work off \$12/hr + \$0.45/km car allowance + possible overtime added cost by law.	When using an outsourced inspection company the objectives and opportunities of the insurance company, brokerage, credit union or financial institution are aligned and not misallocated into non-relevant areas.
		<b>CONCLUSION:</b> The use of in-house staff increases overall liability and risk or, increases cost to off-set that risk, including hidden costs that eventually hit and impact the bottom line for any individual profit centre and the overall organization.

COST & RISK FACTORS	IN-HOUSE INSPECTION	OUTSOURCED INSPECTION
<p><b>4</b> Training Required to Photo Capture and Document Risk</p>	<p>The employer will need to train their employees on the nature, volume, and quality of collecting on-site data by way of digital photos and site data required to inspect and verify a subject property properly.</p>	<p>Independent 3rd party inspection firms hire, and train inspectors to carry out on-site data collection in a manner that provides the professional quality results that are required for proper analysis.</p>
	<p>In almost all cases, in-house staff is not hired to conduct inspections nor trained to take detailed professional photos and write comprehensive and accurate inspection reports; therefore, using in-house staff is an unreliable and wasteful use of company personnel resources.</p>	<p>3rd party firms have Quality Assurance (QA) programs to ensure proper results are consistently obtained from its trained personnel.</p>
	<p>The employer bears the risk of loss of photos and documentary data due to lack of training, knowledge or time availability required to properly manage and safe-keep imagery and data.</p>	<p>Independent 3rd party inspection firms invest heavily in reliable management systems specifically built for photo capture and documentation of risk for immediate and long-term use in a protected and highly focused environment.</p>
	<p>Due to lack of training on how to properly photo capture appropriate imagery and collect accurate data, the possible shaping, or intentional failure, to photograph and document negative items or features on any given site with risk of manipulation of the data and photo's which could hurt the employers creditability and integrity.</p>	<p>An outsourced inspection company will deliver highly cost effective, efficient, and risk adverse deliverables, enabling timely photo and valuation reporting without the risk of data manipulation of any kind due to lack of training, knowledge or any conflict of objectives.</p>
		<p><b>CONCLUSION:</b> In-house staff are typically not hired or trained to inspect, verify and document risk; when such staff is used to conduct work for which they are untrained, skewed results, with potentially costly outcomes, becomes inevitable.</p>



COST & RISK FACTORS	IN-HOUSE INSPECTION	OUTSOURCED INSPECTION
<p><b>5</b> Image &amp; Reports Data Management</p>	<p>Employer would need to undertake the responsibility for the archiving and storage of the photo images.</p>	<p>Independent 3rd party inspection firms invest heavily in reliable management systems specifically built for photo capture and documentation of risk for immediate and long-term use in a protected and highly focused environment.</p>
	<p>There will be increased staff time required to collect (field work) and manage images/data. The time for image/data retrieval can be significantly longer and more complex for larger multi-branch organizations.</p>	<p>Outsourced inspection firms include this management in their inspection cost.</p>
	<p>In larger organizations, where multiple users may require simultaneous access, there is a material cost involved in such a system. The storing of images and data in a systematic and logical manner for easy reference and quick usage quickly becomes a large task with accompanying cost and expertise required.</p>	<p>A reputable inspection firm will invest heavily in reliable IT infrastructure and management systems that allows for efficient utilization of photos and data for company wide use in an easy, reliable, and efficient manner.</p>
	<p>The employer will have a significant increase in the overall responsibilities to undertake the purchase, installation and management of broker/lender or insurer software to handle, store and manage images and data.</p>	<p>The IT infrastructure and management of a sound inspection company and its databank is a very significant undertaking that requires constant management and oversight. Such costs and “taking care of” is inclusive in the cost of any given inspection.</p>
		<p><b>CONCLUSION:</b> Most insurance companies, brokerages and finance organizations do not have enterprise systems that include the ability to properly manage, store and protect inspection imagery and report data for immediate, short-term and long-term company wide and 3rd party use. In contrast, outsourced Inspection companies invest heavily in IT infrastructure to deal with such matters and include this as part of the overall cost of any given inspection.</p>

At the outset it was asked if it is better to outsource, or use in-house staff, with respect to conducting property inspections for insurance companies, brokerages, credit unions and financial institutions. By analyzing the above five reasonable risk factors associated with property inspections and valuations, it becomes a compelling argument that outsourcing inspections is an economical and sensible business approach to collecting, distributing, and managing property imagery and report data that is used to assist in underwriting risk.

## **White Paper Conclusions**

This white paper has identified, quantified, and reviewed the important key points of the benefits, risks, costs, liability, integrity, and security of using a firm's internal sources versus retaining an outsourced 3rd party inspection company to conduct professional photo reporting inspections and valuations. This white paper also addressed the question of whether there is a real need for 3rd party independence and objectivity in the property inspection arena.

The review of the five critical issues associated with property inspections and valuations has resulted in a clear and compelling conclusion that using a 3rd party inspection company to conduct professional photo reporting inspections and valuations is the best solution for economics, over all cost, lower overhead for the client, significantly lower financial and liability risks, while increasing independence and professionalism. The notion of cost savings by using in-house staff to conduct professional photo reporting inspections and valuations is not an economic reality of cost savings. The use of in-house staff has associated with it considerable costs including: increases in operational overhead, an unwarranted expansion of insurance and liability matters and cost, and intangible productivity costs resulting from unfocused staff time. Furthermore, there is a need for independence and integrity in the property inspection reporting process. On a practical level, a company must account to other parties through business partnerships/contracts as well as regulatory bodies concerning their in-house processes of data gathering. This may lead to an increase in liability risk and exposure because an in-house inspection may be seen as a conflict of interest and lacking in objectivity. In contrast, a 3rd party inspection firm delivers through its status both integrity and objectivity to the data gathering process.

In conclusion, conducting inspections by utilizing in-house staff is not without its significant cost and risk when properly assessed. The five critical issues associated with property inspections and valuations showed that, in contrast to using in-house staff, utilizing an independent 3rd party for inspections is a more cost effective and less risk orientated approach to conducting inspections for insurance companies, brokerages, credit unions and financial institutions.

