Managing a Complex Property Damage and Business Interruption Claim

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Managing a Complex Claim
Agenda

- Pre-Loss Preparation
- Best Practices to Handle a Claim
- Business Interruption Values
- Business Interruption Claims
- Important Extensions of Coverage
- Key Strategies to Get the Deal Done
Team of Professionals

It is important you help Insured establish a team of professionals before a loss.

- Risk Manager
- Operations Management
- Financial Management
- Named Adjuster
- Insurance Broker
- Forensic Accountant
- Coverage Counsel
- Engineer/Contractor

Insured’s Team of Professionals
Best Practices To Help Insureds Manage a Loss

- Request on site visit by adjuster ASAP and then assume responsibility of measuring your own claim with your contractors, engineers, etc.

- Help form a “Claim Preparation Strategy” with insured before adjuster’s professional form theirs

- Initiate discussions with adjuster for an interim cash advance and guide insured to what support is required

- Discuss with adjuster to give insured authority to spend to mitigate loss and incur extra expenses without an item by item approval

- Pull out insurance policy and review it in detail with Insured
Common Concerns About BI and Reporting BI Values

- Do Business Interruption (BI) Values accurately reflect the exposure?
- Are BI limits adequate?
- Certain revenue streams may not be at risk from physical disruption. If not, should we adjust our plans?
- Should we report BI values for data centers, call centers? Corporate HQ? Distribution centers? If so, how much?
- If we have percentage deductibles, do we know to what value that percentage will be applied in the event of a loss?
What Is The Importance Accurate Business Interruption Values?

- Why an assessment of pre-loss business interruption values are a valuable benefit:
  - Insurance companies often require business interruption worksheets prior to renewal

- Facilitates the inward and outward examination of client operations
  - Requires planning, anticipation and “what if” analysis

- Creates a partnership between risk management, operations, finance and senior management to develop a Maximum Loss Scenario (“MLS”)
  - Identifies contingent exposures from customers & suppliers

- Identifies and quantifies potential financial and operational risks
  - Allows client to translate risks from the earnings stream into dollars

- Enables you to make an informed business decision on the type and limits of insurance needed
The BI “Chain Rule”

In the event of:

Physical Damage to Property of the type insured under the property policy by a peril insured under that policy which directly results in a necessary interruption of the insured’s operations.

The policy will cover:

The losses defined in the policy which are suffered by the insured party or parties, and which are incurred during the period of indemnity defined in the policy.
Subjective Interpretations of the Rule Book During the Game

An Insured's' future revenues and profits are inherently unpredictable. The earnings of the business before the date of damage and the probable earnings thereafter, had no loss occurred, must be considered

- Attributing business interruption income loss to direct physical damage
- Ordinary course of business forecasts
- Trending historical results, budgets, etc. ("But For" the loss)
- Period of indemnity performance and necessity of continuing expense
- Market/economic conditions
- Comparables
- "Make-up" sales and other offsets
Key Strategies to Get the Deal Done!

- Do not lose sight of the fact that an insurance claim is a cooperative and adversarial process at the same time.
- Segregate factual issues from judgement issues.
- Take initiative – the team prepares the claim not the insurer and be prepared to support the position.
- Consider viewpoint of insurer – “Devil’s Advocate” while at the same time understand the strengths & weaknesses of the claim (have reasonable expectations).
- Prevent adversarial situations throughout the process; resolve differences item by item; agree to disagree and move on; resist time pressures.
- Be cautious of allowing the insured to sign a general release as a condition of settlement. Insured is entitled to collect the loss payment by filing an agreed proof of loss.
What Worked – Claims Settlement Process

During the resolution-claim settlement process, it is important to:

Set appropriate expectations

Understanding the options
  • Compromise
  • Appraisal
  • Litigation

Understand unique facts and circumstances surrounding the claim and the policy
Questions?
Contact Information

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