

# Be prepared for a major loss

Steps to successful claims settlement





## EXPECT THE UNEXPECTED

As events around the world consistently show, the unexpected can and does happen. Natural catastrophes, manmade losses, social unrest and upheaval, pandemics and other risks continue to challenge businesses.

*“As a buyer, I'm buying the policy to pay the claims I did not anticipate”*

**Francoise Carli**

Risk and Insurance Manager, Sanofi-Aventis Group

With extensive flooding in Thailand and Australia, earthquakes in New Zealand and Chile, a 9.0 magnitude quake and tsunami in Japan, record tornadoes in the US mid-west, political upheaval and war in the Middle East and North Africa, riots and recent storms and floods in the UK, the past few years have proved costly for many businesses and their insurers.

Companies caught up in such events are often surprised by the nature and magnitude of the losses they face and the complexity of the insurance claims process that lies ahead. Even those with superior risk management processes and business continuity plans cannot prepare for every eventuality. Many companies underestimate the resources needed to deal with a claim and their part in the process, which can lead to costly delays and even disputes.

Organisations of all sizes need to be prepared for the possibility that they will face a large claim. Claims could result from damage to property, disruptions to supply chains or breakdowns in the manufacturing process. There are many ways large events can impact the day-to-day functioning of businesses.

Whilst contingency plans can help minimise disruption following a loss, preparing for the claims process is also essential. This can speed up the settlement process and ensure the policyholder obtains their proper settlement by being well prepared and having the right resources and experts on their side.

### How would you deal with a major loss?

- Will your insurance policy respond as you expect?
- Do you know what is and is not covered?
- Have you tested it?

## THE THREE STEP PLAN

Few organisations have the benefit of experience when it comes to dealing with a large claim. Thinking through the process in advance is essential. Companies should understand the level of resource required and the amount of detailed information that must be provided to recover the full amount of their claim.

*"Insured companies can mitigate the pain of settling a large claim and ensure they obtain their proper settlement by being well prepared and having the right resources and experts on their side."*

### Airmic

(Association of Insurance & Risk Managers)

A growing number of experts (loss adjusters, forensic analysts, legal experts and others) are appointed by insurers to investigate all aspects of a loss in great detail. This can prove very time consuming, prolonging the claims process and putting pressure on the policyholder to submit detailed evidence of the loss. Everything must be supported by evidence and this must be presented in the right way.

Many policyholders think that all they need to do is present a figure or a list of invoices, but the reality is very different. They must undergo a much stricter and more forensic process than ever before to obtain the acceptance of liability and their claims payments.

The growing use of claims preparation clauses is one way for insureds to counteract these pressures.

## Does your policy contain a claims preparation clause?

A claims preparation clause provides insurance cover for costs incurred in the preparation and submission of a major claim. Major or complex claims e.g. business interruption claims, always involve detailed forensic investigation and analysis by insurers who appoint loss adjusters, engineers, accountants and lawyers, to act on their behalf. To conduct such investigations, extensive information requirements can be made of an insured who must, of course, comply with policy conditions in relation to notifying and substantiating any claim submission.

The appointment of an independent claims expert provides the insured with forensic support and advice on claims submission and strategy, but not the delivery and negotiation activities carried out by the broker. In essence the insured's own expert helping them to expedite their claim, as opposed to the loss adjuster who is appointed to act for insurers.

Appointing an expert who understands the working practices and information requirements of the insurance market, and who can apply this knowledge on behalf of the insured to deliver an effective and expedited claims settlement process, is therefore of obvious potential value.

The use of claims preparation clauses is becoming more widespread and we would strongly advise you raise the issue with your insurers to make sure you have one included in your policies.

The following three-step plan will help policy holders to be prepared when a major loss occurs:

## STEP 1: STRESS TEST YOUR POLICY

When it comes to major incidents, the swift settlement of a claim can mean the difference between a business surviving or going under. However, large claims are often complex, onerous and time-consuming and – unlike smaller claims – there is more potential for disagreements and disputes. A course of action that can readily be agreed ahead of time (such as whether to use a preferred contractor) could otherwise turn into an argument that takes weeks to resolve.

Many policyholders make the mistake of spending a great deal of time focusing on the size of their insurance premiums and not enough looking at the policy wordings and restrictions, mapping that to their risk exposures and ensuring that the policy will respond properly and promptly in the event of a claim.

Stress testing involves analysing how your policy will respond in the event of a loss. For instance, an organisation heavily dependent on its supply chain with one or two key suppliers could consider what the impact on their business would be if these suppliers stopped producing following an insured event.

Could they source products from alternative suppliers? How long would it take? What are the contractual terms of the supply chain?

By mapping potential loss scenario outputs against the policy coverage, it will soon become apparent whether those exposures are insured, or indeed, insurable.

## STEP 2: CREATE A MAJOR LOSS PLAN

Establishing a procedure to deal with a major loss can help smooth the way to a speedy settlement.

Knowing who will take charge and who needs to be involved is essential. The person in your organisation who is responsible for the claim should know where and from whom to access crucial information and what resources they need to draw upon to help them handle the claim effectively. The first 24 to 48 hours following an incident can be critical. Loss adjusters will immediately want to establish the potential size of a loss, using the basis of such estimates (which may include business interruption costs) throughout the claims process. From that point on a wealth of information will be asked for to substantiate the claim and evidence the loss.

A clear communications strategy is essential. All information should be routed through a senior person before going to the insurers' experts. This may sound obvious but it plays a vital role in avoiding unnecessary duplication or inaccuracies, which could hamper the claims process.

The major loss plan should include the following considerations:

- Resources – who will you need, how will you access them?
- Appoint a major loss team with responsibility to make decisions - who will be in charge?
- Immediate response – who does what?
- Loss mitigation, interface with the business and the business continuity plan
- Information – where in your organisation is the data held that you will need to evidence the claim? Who will record and capture it and how?
- Loss quantification and preparation – what is the process?

- Communication and reporting – stakeholders, internal management and external parties
- Do you need specialist, external claim preparation support?

### STEP 3: AGREE A CLAIMS PROTOCOL WITH YOUR INSURERS

Don't wait until a major incident occurs to establish a relationship with your insurer's claims team. Discussing each parties' roles, responsibilities and wishes beforehand can avoid many of the pitfalls commonly associated with claims handling. This should mean insurers have to be more transparent about their claims process in terms of their service delivery.

The broker can be particularly instrumental, helping both parties to agree which experts the insurer/insured will use (for example, will the insured be able to use a preferred contractor to carry out work or are they expected to tender the market?), agreeing timescales and response times for information. This is also an opportunity to agree on any other advisers or specialist third parties that will be involved.

A claims protocol would typically include the following information:

- Roles/responsibilities - which experts will the insurer use?
- Agreement of communication procedures and response times
- Pre agreeing your preferred lawyers and/or other advisers/ specialist third parties
- Dealing with any confidentiality issues – will you have a Non Disclosure Agreement? What information will you provide?
- Clarify any ambiguities in the policy wording, e.g. claims conditions – what do they mean? Agree how they will apply
- Claim notification procedures and timescales
- Procedures and timescales for interim payments and basis for valuation of claims including what evidence insurers require.

### Key decisions

- What is the policy coverage and what restrictions are there?
- What resources will you need to deal with a major claim and how quickly can these be sourced?
- What is your business response to a major incident and who is in charge of the claim internally?
- How do you kick-start the claims process?
- What information does the insurer/loss adjuster need from you and where can you access it?
- How do you communicate effectively with your insurer/loss adjuster to avoid disputes?
- Can you agree timelines and final settlement points early on, if not before a claim arises?



## ABOUT THE AUTHOR

Candy Holland is a chartered loss adjuster who has wide ranging experience in the investigation, handling and settlement of major insurance claims. She deals with contentious and sensitive claims, including analysing and interpreting complex policy wording problems, for multi-national clients across a range of industry sectors and business classes.

She has developed considerable knowledge and expertise in all aspects of claims process and procedures, audit and systems and can provide advice on claims management, process improvement and technical issues.

Candy is Managing Director of Echelon Claims Consultants, a trading name of JLT Specialty Limited. In addition to specialising in complex claims resolution, Echelon also provides pre loss services including loss scenario planning, claim defensibility audits, business interruption reviews and claims audits.



## ABOUT ECHELON CLAIMS CONSULTANTS

We are a dedicated team specialising in major loss across a wide range of industries. With extensive experience and a reputation for the relentless pursuit and best possible settlement of major loss claims, we save clients time and money.

We take a pragmatic, collaborative, and constructively robust approach to the major loss claims process. We provide parity with the insurer's loss adjusters, ask the right questions and challenge unnecessary claims processes.

We ensure the interests of our clients – not the insurer – drive the claim in order to achieve the best possible settlement.

Find out more about us at [www.echeloncl.com](http://www.echeloncl.com) where you can find more advice on how to deal with major and complex losses and case studies which demonstrate our expertise.

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