ADJUSTING
TODAY
Adjusters International Disaster Recovery Consulting

EDITOR'S NOTE

Sophisticated marketers of today focus on finding solutions *to their clients' key business needs. In no field is this more relevant than insurance, where such solutions not only contribute to a company's success, they can determine its very survival in the event a disaster strikes.*

Veteran adjusting professional Robb Greenspan has been applying this principle for decades and in this issue of Adjusting Today *shares his insight on how the broker who uses his or her expertise to identify the myriad exposures modern businesses face and develop a corresponding package of coverage solutions is providing an invaluable service to the client, while at the same time solidifying a business relationship that contributes to the prosperity of both parties.*

Our second article addresses another subject of timely significance for insurance professionals around the world. In a talk before a group of leading brokers in the United Kingdom, Ronald A. Cuccaro, president and CEO of Adjusters International, discussed the rising frequency of the multinational loss. These losses transcend national boundaries in their scope, sources of coverage and the parties involved in the settlement. Specifically, he identified characteristics that make these losses unique and difficult to coordinate.

We are pleased to offer both of these informative pieces here.

Sheila E. Salvatore
Editor

Risk Assessment: Evaluating Coverage from a Loss Perspective

Robb Greenspan, SPPA

Although the exercise seems so basic that it often escapes our attention, reviewing loss scenarios with a client or prospective insured can not only help ensure adequate coverage, it can enhance the client-broker relationship as well. What's more, the risk assessment process provides the broker with a better understanding of the client's business, enabling both parties to identify and address otherwise unknown exposures.

The objective of risk assessment is, of course, to recognize problems that might be encountered in the event of a property loss. By reviewing specific coverages designed to respond to these problems, the client will better understand how their policy will respond in a loss situation — or more importantly, how their business could be affected if the appropriate coverages are not in place. Similarly, when additional coverages are required, the client will more readily appreciate the need for them — if that need has been properly demonstrated in the walk-through.

The insured will also be in a better position to evaluate cost versus risk. Too many firms view their insurance program as just another line item in the budget, an item that may get attention only when there's a need to control costs. Effective risk assessment should leave the client convinced that their insurance program is an essential and efficient solution to some very real potential problems — problems that could devastate the company.

Besides providing the client with a better understanding of their insurance needs, risk assessment allows the broker to demonstrate an interest in the client's business that is significant irrespective of the insurance purchase transaction.

While portions of what follows might appear fundamental, a review of several ingredients that make an assessment meaningful can help both experienced brokers and those new to the field do a better job of performing this valuable service.

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The Walk-Through

Start the risk assessment by conducting a walk-through of circumstances the insured might experience following a disaster. Create an imaginary fire or other loss, anticipating problems that might occur. Build a rapport with the client through which you'll be able to elicit responses that will project these problems. It's not practical to think that you can identify every conceivable scenario, but by brainstorming together and using the experiences of other insureds as examples, you will be able to develop an extensive checklist. Don't forget to use your own experience and knowledge to further the client's thinking.

A Sample Loss Scenario

Let's say your client operates a manufacturing plant. A fire destroys two-thirds of the shipping department and causes heavy smoke and water damage to the rest of the facility, including the general offices. Here are some of the conditions that could exist following the loss:

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1. The client's ability to produce goods is diminished by 80 percent. Nothing can be shipped or received.

2. Finished goods in the warehouse are partially damaged.

3. The phones are out.

4. Employees might have to be laid off.

5. The local building department becomes involved, along with environmental inspectors searching for hazardous materials (asbestos, toxic wastes, etc.)

6. Competitors are telling your client's customers that the fire has put the client completely out of business.

7. The client might not be able to rebuild on the same site.

8. Lack of production at the damaged facility affects production and sales at another location that depends on the former for product.

9. The client had recently increased inventory because of a new product line due out this month.

10. The insurance company intends to take the salvage, but the integrity of the client's product is so important that less-than-perfect merchandise cannot be put on the market with the client's name or label on it. Furthermore, previous agreements may prohibit the selling of that product in a specific geographic area.

11. A tenant who occupies part of the building is making demands on the client.

12. The client's newly installed production equipment had just arrived but wasn't included on the last insurance valuation.

13. There was an extensive investment in in-house labor to reconfigure the plant. Much of this cost was expensed and does not appear on the books.

14. Because all lines had been working 24 hours a day, seven days a week before the loss, making up lost production is a problem.

15. Raw materials are not readily available and those that have been shipped cannot be received.

Questions and Dialog

The conditions described above set the stage for a number of questions which, when answered, will help determine the coverages needed and how they would respond to a given situation. The resulting dialog will also help identify potential problem areas. Here are examples of some of the questions that might be posed:

- What could or will the client do for temporary offices and production and shipping facilities?

- Can the insured rebuild at the same location? Will there be a problem with building codes? Could there be a prolonged reconstruction period? What would happen if the firm wanted to build somewhere else? How will the policy respond?

- Does the client recognize its obligation to the insurance company to reduce the loss as much as possible?

- How will the employees be affected? Will some be laid off? If so, which ones? Will the client continue to compensate them? For how long? Is the company insured for these labor costs? Who will pay employees working on the clean-up or reorganization? Is there a need for an ordinary payroll exclusion?

- How will the client substantiate the value of their stock, equipment, furniture, fixtures, etc.? Have they expensed much of this? In establishing value, have they overlooked items like in-house installation costs, power wiring, air lines, water lines and freight-in? What condition are their records in?

- Does the client have accurate beginning inventories and periodic or yearly inventories? Will their accounting method(s) create a problem? (LIFO versus FIFO, for example.)

> *"If the values provided don't match the coverage requirements, the consequences can be severe."*

- How are the inventory and accounting records being stored?

- What about fluctuating inventory values? Will the limits cover a peak season?

- How will the policy's valuation clause respond to a claim? How should the property be valued? Is the client insuring at actual cash value or market value but expecting replacement cost at the time of loss? How will they deal with a possible coinsurance question?

(Understanding the policy's valuation clauses is critical. If the values provided don't match the coverage requirements, the consequences can be severe. Most insureds don't realize this, nor do they understand the methods of valuation or the consequences of coinsurance. Values should be set at current true cost — not book value. Businesses often depreciate equipment and fixtures for tax purposes, causing major problems after a loss. If, for example, a piece of equipment has a book value of $100,000 but costs three times that to replace, and has an actual cash value of $250,000, the client will painfully learn the meaning of coinsurance!)

- "Fireproof" safes aren't necessarily immune to fire, water and smoke damage! Did the client periodically duplicate important records and annual inventory lists and store them off-premises? Is there a backup plan to offset the loss of computerized data processing and information systems that have been affected?

- How will the business be kept alive without adequate cash flow or reserves? (Insurance companies are not always willing to advance monies!)

- Who is responsible for insuring leased items, the client or the lessor? Do the leases contain hold-harmless agreements? Who will be responsible for tenant improvements and other lease provisions? What would happen if no replacement is made?

- What will the client do with new goods they expect to receive, once they have lost the facilities to store them? How much will temporary rental facilities cost? Who will pay for them?

- What about accounts receivable claims? Can they be documented?

- Does the client have any plans for maintaining market share? Have they considered the extra costs that will be incurred to protect that share?

- Does the client understand the difference between expediting and extra expenses? Are they prepared to track these expenses properly?

- If not all of the finished goods are destroyed, how will the client protect its reputation for quality if a salvage company takes control of salvage and wants to sell it? (Potentially defective goods will be on the market with the client's name on them!) Is there a brand and label endorsement in the policy, allowing the client to alter or remove labels? If so, who will pay for the removal or altering? Is the client prepared to buy the goods back if necessary?

- How will the client measure their loss of income? For many businesses, the loss doesn't stop as soon as the doors are reopened — it takes time to rebuild the customer base. Is there need for an Extended Period of Indemnity Endorsement?

  (Unless you have specific expertise in evaluating profit and loss statements, seek the guidance of the client's accounting and loss consulting professionals before developing loss-of-income scenarios. In fact, you should always seek the advice of lawyers, accountants or loss consultants when their professional counsel is relevant.)

Identifying Solutions

After conducting both the loss scenario and dialog procedures with a number of clients, most brokers will be able to identify areas or sets of circumstances that present reoccurring problems. You can then develop a corresponding list of coverage solutions that can be recommended to the client.

For example, in cases involving older structures that may no longer conform to building codes, the Increased Cost of Construction Endorsement is an obvious choice; and the Brand and Label Endorsement will help protect the manufacturer who is concerned about name recognition and the sale of salvaged goods.

Of course, your specific problem/solution lists will vary depending on the nature of the clients you serve. But risk assessment which carefully identifies losses that can strike a client, as well as insurance coverages that will maximize recovery, can be immensely valuable in building and maintaining a sound broker-client relationship.

Not only does it result in a better insurance program for the client, it demonstrates the broker's professionalism and interest in the client's business — including a commitment to help the client survive an otherwise disastrous loss. And it goes without saying that the broker who regularly follows and refines the practice will enjoy significant competitive advantages over his counterpart who does not!

Robb Greenspan, SPPA

Adjusters International

Settling Multinational and Catastrophe Losses: There's No Substitute for Experience

Ronald A. Cuccaro, SPPA
President & Chief Executive Officer, Adjusters International

The increased number of hurricanes, earthquakes and other natural disasters, coupled with "global shrinking" initiated by modern travel, communication and the growth of international business in general, has created more multinational loss activity and a corresponding increase in related claims management problems.

These catastrophes have far-reaching direct and indirect effects, not only on the insured but on the adjusting and brokerage communities as well. As a result of having participated in a number of catastrophe operations around the world, Adjusters International is familiar with many of the factors that make the resulting losses extremely complex and difficult for a broker to coordinate.

Immediately following a widespread catastrophe there is a lack of transportation, communications, accommodations and other critical support services. Manpower is overworked and expensive. Prices, especially of basic supplies and building materials, are often exorbitant, thwarting attempts to complete temporary repairs and mitigate damages.

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Language barriers, local laws and customs, and differing interpretations of insurance policies originating or administered outside

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the country, fuel the confusion. A turnover in claims adjusters can be expected and an army of “experts” having diverse backgrounds from all over the world further complicates the scene.

Multinational losses in general are unique, and adjusting them is a specialized process requiring unique skills and expertise.

It is not practical or economically feasible for brokers or most claims managers to develop these capabilities independently. The broker’s claims management program should contemplate the possibility of a multinational loss and in such cases allow for the assistance — in critical areas — of experienced specialists accustomed to dealing in this environment.

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