Expecting the Unexpected: Surviving Disasters

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Voiceover: Adjusters International's Property Insurance Roundtable features property and casualty insurance experts discussing current issues affecting first party claims. Each podcast focuses on a topic taken from an issue of *Adjusting Today*, a publication from Adjusters International that is written from a policyholder's perspective and includes real-life examples intended to improve disaster preparedness.

Brianna: Welcome to our podcast series Property Insurance Roundtable by Adjusters International. Today's topic is "Expecting the Unexpected, Surviving Disasters Natural or Otherwise." For further insight into this topic please see our show notes located at the bottom of our podcast section. It will lead you to the corresponding *Adjusting Today* publication piece. Today we have four expert panelists with extensive experience in both
[00:01:00] the public adjusting and disaster recovery consulting industries. They will each guide us through our questions. Our panelists include Ron Cuccaro, Executive Chairman at Adjusters International, John Marini, President and CEO at Adjusters International, Tony D'Amico, Senior Vice President at Goodman-Gable-Gould/Adjusters International, and C. Todd Thomas, Director of Consulting Services at Adjusters International.

I am Brianna Moyer, Adjusters International's Digital Marketing Manager, and I am delighted to be your moderator today. Our topic of discussion will cover some of the preparations that can mean the difference between survival and the demise of a company's ability to recover in an insured catastrophe. Let's begin. Our first question I'm going to point towards Ron. The experts say that preparing for the unexpected is one of the key ingredients to surviving a natural disaster or a catastrophe. Do you think it's ever
[00:02:00] possible to be 100% prepared?

Ron: Thank you, Brianna. Okay, for a company struck by a disaster, whether it be from natural causes like a hurricane, flood, tornado, or earthquake, or unnatural causes such as fire, explosion, equipment failure or terrorism, an ingredient crucial to survival is preparedness. Traditionally that's known as expecting the unexpected. However, if it was as simple as that, far fewer companies would be so severely devastated by such losses. Our experience at AI tells us that there is much more to the process. In fact because there are aspects of catastrophic losses that even the most seasoned managers would not believe possible we're convinced that one of the most important keys to survival is expecting the unexpected part of the catastrophe.

Although most firms accept the need to pay insurance premiums, they too often rate their coverage and its cost rather than taking a claims perspective [on] how the policy [00:03:00] would actually perform in the event of a loss. The most important part of establishing a comprehensive disaster recovery program should be adopting the philosophy that you can best protect your firm not just by assuming that you're covered but by digging deeper into the potential problems and exposures and by expecting the unexpected part of the unexpected.

Brianna: Thank you, Ron. John, do you have anything to add? Do you think that it's possible to ever be 100% prepared?

John: Good morning, Brianna. No, I don't. I think you can come close. I think the best way to approach it is not from a premium basis. I mean the idea of insurance is to cover the risks that you have potentially to your industry or your business. I think that what people should do is seek industry advice, whether it be from an experienced broker within their industry that's familiar with their business or public insurance adjusters that have gone through the claims process that understand and actually experienced some of the [00:04:00] unexpected parts of a disaster, and then from there once you identify the potential risks, the potential downfalls to your business then you can seek the proper coverages and then evaluate the premiums.

Brianna: Thank you, so evaluating your policy from a loss perspective versus a cost would probably be best?

John: In my opinion, absolutely.

Brianna: Okay. Tony, do you have anything to add?

Tony: Yes, I would agree with John that it's very difficult to be fully prepared, most people aren't. Naturally in my experience, I think that one of the reasons that people are not totally prepared or even partially prepared is because of some air of optimism that they have that they'll never have a loss, that even when a hurricane is approaching, they won't get damaged all that much. They never think they'll have a fire. I was just in a meeting the other day in a case in litigation, a really bad fire that wiped out a company, I [00:05:00] was talking to the owner of the company and he says to me, "I switched insurance companies but," he said, "I'm not really too worried about it because I'm never going to have a loss again." That afternoon there's a fire alarm in the building and there's a small fire fortunately in the kitchen in the restaurant that was located in that building.

Again, I think a lot of the problems that people have with not being properly prepared is because of this they're so optimistic or they just don't think they'll ever have a loss. With respect to the type of policy coverage it should have, yeah, I agree with Ron and John that it's very important to fully understand and assess your risk. The problem that I see

[00:06:00]	with policies that do not match or correlate to the risk, it relates to premium. People sometimes just don't want to pay the premium. They understand they have the risk, they just aren't willing to or perhaps the business can't afford to pay the premium. My feeling on that topic is you find the best balance between the best type of coverage that you should have and need versus how much you're willing to pay. In a perfect world I would insure the risk 100% but again there's premium concerns.
Brianna:	Okay, thank you, Tony. I'm going to direct this question at John first. John, what do you feel is the difference between evaluating a policy based on cost versus based on how it would perform post-loss, and which stance is better for a policyholder?
John: [00:07:00]	Well, we kind of just hit on that topic. Again evaluating the policy and protecting the risks that your company has versus taking the lowest price or a minimized premium is better. The only way the premium can be reduced is with reduction in coverage. I mean if you're going out and looking for quotations on an insurance policy, the only way that the brokers and the insurance companies can be competitive is to reduce coverage, because coverage is actually cost. I would say absolutely from a claims perspective.
Tony:	One other thing I might add is that in shopping for a premium, the insured should also be shopping companies for the reputation and quality of service that they offer. Again many times I see situations where individuals, policyholders will select a given company based solely on the premium with no other consideration. That could be an unexpected disaster if you select a company who provides very poor service simply on the basis of the fact that you were able to save some premium.
[00:08:00] John:	I would agree with Tony, and I also think that if you're a prospective buyer that you should seek the guidance of your broker or professional loss consultant because it's fairly well-known in the industry who actually is good in the post-loss claims process and payability.
Todd:	I would say cost is always a factor. Unfortunately, we all know cheapest is not the best. I worked with a client that had a heavy landscaping and fence exposure prior to Hurricane Irene. They didn't cover any of it because of cost. Eventually, once prices started to decline, they picked up that exposure later but unfortunately it was a $1.2 million uncovered loss because they weren't willing to pay the premium at the time. You get what you pay for.
[00:09:00] Ron:	Yeah, and I would add that independence is very important, whether it be making sure you work with a broker versus a captive agent or have an insurance consultant is important because when you're working with an agent that only provides one product you really don't have anything to compare it to, but when you work with a broker and/or an insurance consultant that is truly independent you probably would be able to get a better forecast as to what the claims handling ability or philosophy would be for the company that they eventually place you with.

Brianna: Thank you. For me being a first-time home buyer the fact that I bought my insurance and bundled it with my car insurance probably wasn't the best idea, because they sent me a flier.

Tony: Not necessarily.

John: Actually that works in your favor [crosstalk 00:09:48].

Brianna: They sent me a flier and said if you bundle it …

John: No, it depends on who your carrier is, [inaudible 00:09:52].

Brianna: Okay.

Todd: Depends on who your carrier is.

[00:10:00]
Brianna: Okay. Ron, we have all heard of the common natural disasters that can occur to a property such as a flood or a fire. What are some unexpected disasters that one would not normally think about? Do you have any real-world examples from claims you have worked on?

Ron: Yes, definitely. Back many years ago a hotel fire claimed the lives of many of its guests, causing the owners to lose ownership of the property because they did not have adequate liability insurance, never anticipating that there could be human loss of that magnitude. Had they had additional blanket coverage, better limits, they probably would have been able to hold onto their property. It was really of course a tremendous tragedy for the human lives but it ended up being a tragedy for the owners and their investments
[00:11:00] and their property. Another one involves a hurricane where an animal feed processor lost its poultry feed market because they supplied to large chicken farms, and the hurricane took the chickens away. They had no chickens to eat their feed so they lost their market.

Fortunately, they purchased a policy that had an endorsement called the customers and suppliers endorsement before the loss which pretty much said that if your customer is affected by the hurricane, because they weren't, then your coverage would kick in and you'd be able to get your loss of business interruption. Again it was thinking beyond the normal thing that you would expect to happen to the unexpected part of it. Another example is, and this happens quite frequently, a U.S. firm relied heavily on a foreign
[00:12:00] supplier for their parts to manufacture their product and the foreign supplier had a fire and couldn't supply the parts to the U.S. firm. As a result, they had a tremendous business interruption loss, and they didn't anticipate that, and what they could have done is that they could have had a customers' suppliers' endorsement.

This case it would be the supplier that would have been covered with this fire, and because the supplier went down they wouldn't have been able to collect their business interruption loss because they were unable to manufacture their own product. Another one is a company restored its manufacturing facility within three months of a fire loss but it took many months to restore the presales volume because they lost their market for a while. The business interruption loss sustained during the fourth, fifth, and sixth months following the reopening was not covered. This is not an unusual situation that happens.

[00:13:00] You can imagine a retailer in a shopping center that's destroyed, and the shopping center's down for six months. They open back up they're not going to get the same customer base in there the first day. It's going to take a while.

There is a way you could solve that by buying an additional extended period of indemnity policy to cover those interests. In all these cases most people would think, well, we're covered. Well, they didn't really think all the scenarios out, think about what could really happen, what are some of the unexpected things that could happen in the disaster and take steps to make sure that they insure for those extraordinary losses.

Brianna: Great, thank you. Those were some interesting examples. John or Tony, do you guys have anything to add?

[00:14:00]

John: Well, Ron's list was pretty comprehensive. The only couple of others that I can think of where I have seen it happen before is in the area of code compliance. A lot of customers, especially when they're in the public entity business, are grandfathered in. They have old facilities so the new construction costs are higher, the code compliance is higher, and if they fail to purchase law and ordinance coverage or code coverage, they can be severely affected after a loss because they have to rebuild to the current conditions. They have been enjoying that grandfather clause that goes away when you have to rebuild.

The only other one that I can think of right off the top of my head as an example would be a high-end restaurant that may have had a fire, the period of restoration maybe six months, eight months. They have highly skilled waiters, some of the waiters, the service has been in the family, I mean they're highly skilled individuals, and if they don't

[00:15:00] purchase coverage for employee payroll to continue, they'll lose those personnel.

Tony: Yeah, I'll weigh in a little bit on this topic from a little bit different of an angle. With respect to expecting or not expecting natural disasters or some type of disaster, I think we've all seen from our experiences, just recent experiences with the flooding in South Carolina, major, major flooding occurred in areas that are not in the traditional flood plains, flood zones, and therefore people did not have flood insurance. I've realized not living in a flood plain there are underwriting issues, so on and so forth, but again, simply because people do not live in a flood plain, they feel that they perhaps do not need to have insurance and needless to say, there were thousands of people that got caught off-guard somewhat. I think the same situation pertains to earthquake and earth movement.

[00:16:00]

A couple of years ago just outside of Richmond, Virginia, in a small town we had a somewhat significant earthquake that caused significant damage in the Richmond area all the way up through Washington and even in New York City. Again you have policyholders, people that have homes and businesses that are not in traditional earthquake prone or flood prone areas, and they either totally dismiss or do not even consider purchasing flood insurance or earthquake insurance. After the situation in Virginia with the earthquake we had, I went out and bought earthquake insurance on my home. I would never have considered it prior to that. Fortunately, I didn't sustain any damage but I know of a lot of people who did. Just one other thing, I think it was Ron that commented on extended period.

[00:17:00] I do a lot of time element work, a lot of business interruption work, and needless to say, there's a lot of issues in that realm but a major issue almost invariably relates to coverage for losses after the business resumes operations. In the vast majority of situations, particularly in situations where companies have been out of business for many, many months, the ramp up period could be very difficult. You could be resuming operations with no customers, product technology has suffered. There's just a whole host of variables that impact your company's ability to ramp up to its pre-loss level of operations. As we all know, your standard business interruption, the period of indemnity terminates when the property resumes operation.

[00:18:00] The extended period of indemnity often referred to as EPI, in my experience, is quite frequently overlooked, very little consideration is given to writing into the policy the proper amount of extended coverage that one would need in the event that there was a total suspension to your operations. I have one story which is a good story about someone who did have some real foresight. It was a risk manager of a securities storage facility. Well, this risk manager realized that each box that went into storage generated revenue for an average period of 11 years. For 11 years a box, based on average rates, would be generating income for that business. Once the box is destroyed, the income level stops.

[00:19:00] What this risk manager did was she was able to secure an extended period of indemnity for 11 years to cover that lost revenue, which I thought was just amazing foresight, and it just drives home the need to really evaluate what your exposure is post-loss.

John: I just want to circle back one thing that Tony said with respect to seismic activity or earthquake. It's funny, I live in upstate New York and there's I guess we're out of fault but it certainly is not a prevalent area like Los Angeles or San Francisco, so I went to my insurance agent and said, "I'd like to purchase earthquake coverage for my home." His shock and awe was quite evident saying, "Why would you possibly want to do that?" I said, "Just because I have a large investment in my home and God forbid something like that happens." Well, let's go back to premium versus exposure. When my exposure is

[00:20:00] little, I get coverage for my home for earthquake coverage, I was only the second person in our county that requested it and purchased it for approximately the cost of a dinner for four for the entire year. I mean it was chump change compared to the coverage that I have.

Todd: I have a couple of unexpected sinkholes, one that you guys already commented on earthquakes and non-earthquake hotspots. Hurricanes with unexpected tidal surge, and the rather new one, cyber-attacks. I worked a claim post-Katrina where the business had a base level, they were 19 feet off the ground but got hit with 30 feet of water. Sometimes it's just unexpected, so would you have the coverage you got you would in that case. I

[00:21:00] haven't worked one of these yet but I've read a lot about them, cyber-attacks. If someone's able to attack your equipment internally to make the equipment malfunction, there's a high likelihood there could be resulting property damage which could also impact your income. That's something certainly to take a look at, coverages available. It's a little unique now, it's not widespread, but cyber coverage for first party is something to look at.

Ron: In addition to that, John mentioned earthquakes, and you just mentioned hurricanes, and I'm not sure everybody understands the significant deductibles that are normally in place with policies like that. Large percentage deductibles, they may be assuming that they're covered from dollar one, but they could be responsible for the first 10%, 20% of the loss, and they may just gloss over that and not realize in there for there to be coverage there needs to be something really significant, and they're on the hook for the first, well, it could be a substantial amount of money.

[00:22:00]

Todd: That goes to our previous question talking about coverage versus cost, moving from a 3% deductible to 5% is a significant savings but do you have the money to cover it.

Ron: Exactly. Right, exactly.

Tony: I think it just comes down to having to just have a good understanding of what you would be able to manage in the event of a loss. As I said before, it's the balance of the premium versus the potential out of pocket exposure. I think in planning, you have to take a real careful look at what your premium would be versus what your exposure, and if in the event you did have a catastrophic loss or named windstorm loss or earthquake, flood, whatever, can you afford, what would you do to cover the cost of the total [00:23:00] destruction of your property, for instance. Again it's that balance between premium and how well you're capitalized to fund yourself in the event of a serious loss.

Brianna: Tony, you had mentioned earlier the South Carolina floods and people who were kind of caught off-guard, and I know that that happens in a lot of different cases either with earthquakes, hurricanes, floods. At what point can someone say if a disaster were to hit South Carolina and the people had just found out about it and thought "I'm not really in a flood zone but maybe I should get flood insurance coverage," is there a point where they can't add any coverage to their policy? Like if the event is coming up immediately, does it take a week for it to go through? At what point do they have to decide?

Tony: Yeah, there is definitely a timeframe. I don't know off the top of my head exactly what it [00:24:00] is but I do know that there is indeed a timeframe, particularly with respect to named storms. I could be wrong but I think … well, for certain if there's a named storm and it's threatening to make land fall in your geographical area, say you're on the East Coast, you're not going to be able to buy flood insurance. There is a timeframe, and maybe you guys can help me out with that.

Todd: Typically, what will happen, I know when a named storm enters the Gulf, insurance companies will send out notices to their agents saying if it's outbound now, coverage applications will no longer be accepted. You're right in so far as if it's imminent that it's going to hit the coast, the insurers will stop writing coverage.

[00:25:00]

John: I think National Flood Insurance, forgive me, but it's at least 30 days, could be 60 days for coverage to be placed.

Brianna: Okay, thank you for clearing that up. Ron, how can a policyholder predict what may or may not happen to their property? We've been talking a lot about expecting the unexpected, but how does one actually go about doing that, and what key items should be considered in the pre-loss planning stages?

Ron: Well, first of all, select a competent broker or risk consultant, one who understands your business, who's in touch with your growth and one with who you can communicate with. Make an effort to help him or her understand your business so that you can work together to identify possible exposures and solutions. We have a checklist that we always [00:26:00] recommend. Make sure that you understand the terminology used in the policy, understand the valuation clauses of your insurance policy, and don't rely solely on historical records for valuations. Do you need business interruption? Most cases you do. To what extent, what extra endorsement should there be? Every two years revisit your policy to adjust it for inflation and for your company's growth.

Be aware of the inventories that fluctuate widely from period to period. Consider factors associated with pollution and its cleanup to which you enter into a non-coverage area in a lot of instances. Be aware of coinsurance requirements that lead to a penalty at the time of loss. What that means is that you need to carry enough insurance. Policy may have requirements that you carry a certain percentage and if you don't you become a co-insurer and you end up paying some of your own loss. Do you need brands and labels [00:27:00] coverage to protect against your company's damaged goods being sold on the open market? You may have a branded product and you have a loss and then, inevitably, the product isn't really totally damaged and the seller, who works in salvage for the insurance company, takes them and starts putting it on the market and you have tarnished goods with your name on them.

You can take steps to do something in advance to make sure that the labels are taken off or the items are destroyed. What about the responsibility for coverage of leased items, and who owns what, who's responsible for it, what does the lease require from an insurance standpoint, who should buy the insurance, who's responsible for the repairs, and what is the impact beyond the insured premises on suppliers, customers, and other business locations? We talked earlier about the feed processor and the U.S. manufacturer with foreign suppliers. Those are good examples of what could happen. John mentioned [00:28:00] ordinance and law coverage. Do you have coverage to update your property to the new requirements that have been put in place?

For example, you may have a turn of the century building that doesn't have sprinklers or elevators, and you have a fire, and it needs to be renovated and be handicap accessible. Now you have to install elevators, ramps, and fire sprinklers, et cetera. If they didn't exist there before, then the insurance company's not going to pay you for those improvements unless you have codes and ordinance coverage. That's used an awful lot. It's one of the most important coverages that you can secure. Overall, it's looking at your vulnerabilities, trying to establish where they are. For example, if you're in a hurricane area obviously you're going to be concerned about that. In an earthquake area, you're going to be more concerned about that.

[00:29:00] Then think beyond the disaster itself, adopting philosophy that you can best protect yourself by not just assuming that you're covered but digging really deeper into the potential scenarios that could actually could occur and do the best you can to close those gaps in coverage.

Brianna: Thank you, Ron. John or Tony, do you have anything to add on how a policyholder may predict what may or may not happen to their property?

Tony: I think it's very difficult to predict because, A, if you have a fire you don't know if it's going to be a small, contained fire, if it's going to totally destroy your property and all of your personal property or business personal property. I mean something like that is very difficult to ever predict. Along the lines of what Ron was just explaining to kind of recap that, my philosophy would be to insure for the maximum exposure. Work with a broker,
[00:30:00] as Ron indicated, work with a broker and insure for the maximum exposure. Make sure that your building and the equipment is insured to 100% replacement cost. If you have property of others that is in your care, custody, and control, be certain that your policy provides coverage for that.

With respect to business interruption, my recommendation would always be to insure your business for a full minimum 12-month gross earnings exposure. I would include a substantial amount for extra expense. With respect to other exposures and other potential hazards, if you are the type of business that you are solely dependent on one or two suppliers or one or two customers, make sure that you have the right contingent business
[00:31:00] interruption insurance in place. Some other types of time element insurance, that's important but is often overlooked is the service interruption. Service interruption being a situation where the facilities that deliver services to you such as electricity, water, steam, gas, that type of thing, those facilities are damaged.

We all know those from our Super Storm Sandy, those facilities are damaged, and if you're not damaged but your business is suspended in the absence of the proper service interruption coverage, there will be no coverage for your suspension of business and the ensuing loss of earnings that you may experience. Again, it's a question of being sure that your property, your equipment; your business is insured to the max basically. Again
[00:32:00] that's going to bring us back to premium concerns, so on and so forth, but set your program up to cover the full exposure, and if you need to make some adjustments from there, do so but do so prudently.

Todd: I'd like to add a couple of things. This is sort of taken from Ron's list sort of pre-loss analytics. One of the things what we do a replacement cost valuation no less than every three years on your properties, in talking about business interruptions specifically, looking at the income, going through the potential extra and expedited expenses. We've talked about it a couple of times, supply chain, who impacts you? How would you be out of business? Other things as John said earlier about law and ordinance type coverages, what codes have changed, state and local? How do they impact you? Then finally, if at all [00:33:00] possible, select your insurance company adjuster ahead of time, and pre-engage a loss consultant, a public adjuster, be prepared for the loss ahead of time.

Brianna: Okay, that is all great advice. Thank you. It sounds like one of the key takeaways is to research your industry, especially whatever your business is an expert in, and to find out what happened maybe in the past to other businesses like yours and perhaps read up on case studies and different scenarios that are more common for your type of business. We've also noticed a lot of terminology and we've heard that brought up a lot about knowing what's in your policy and understanding what those terms mean. A lot of people who read their policy aren't necessarily insurance experts, so what do you feel is terminology that's especially important to understand in a policy? A few that were [00:34:00] named in this particular issue of *Adjusting Today* were things such as actual cash value, replacement cost coverage, and selling price clauses. Can you guys touch on a few of these terms and kind of explain what they mean?

Tony: Sure. Actual cash value. It's interesting you mentioned that a lot of insureds don't really understand the terminology. Well, there's a lot of contention, if you will, amongst the experts as to what these terms mean. Needless to say that that brings the issues up to a much higher level. Actual cash value fundamentally is replacement cost less physical depreciation. Fortunately, most policies these days are written on a replacement cost basis but if you elect not to repair or replace a property, you'll be looking at an actual [00:35:00] cash value settlement. There may be some situations where you do have coverage limited to actual cash value. The question is, "What is it?" It's somewhat of a subjective term.

Again, as I mentioned before, it is calculated by determining what the replacement cost value of the property is and generally speaking, deducting physical depreciation based on age, condition, life expectancy, so on and so forth. Many States have and rely on what's referred to as the broad evidence rule. The broad evidence rule says something to the effect that you could take all factors into consideration in determining what actual cash value is. Some policies will define actual cash value as being replacement cost less physical depreciation. I have seen some policies, particularly in California, that define [00:36:00] actual cash value as market value, and many policies do not define it.

It's one of those valuation issues in a policy that, because of its subjectivity, can be quite contentious. You have to really do your homework and spend a lot of time understanding and dealing with all the variables when you're determining what actual cash value is. Replacement cost coverage that is what it is. You are entitled to recover the full replacement value of your property in the event of physical damage by a covered cause of loss. There are some limitations in some cases. There are some policies that are written on a functional replacement cost basis and you have to be careful about that. What a functional replacement cost policy does is it provides cost, yes, on a replacement [00:37:00] cost basis but not necessarily for materials of same kind and quality.

So, in other words, let's say you have a building that's made with three width brick, and it's plaster inside, and you have full dimensional lumber and whatnot, under your traditional replacement cost policy, you would be entitled to recover the full reproduction cost of that building, albeit you have to actually do and spend the money, but you would be entitled to recover the full reproduction cost. If the functional replacement cost language somehow gets injected into the policy that could have a serious limitation on the amount that you would be able to recover because again you would only be able to recover the cost of similar functional materials which would be required to repair or replace the property. Your selling price clauses, that's taking into the

[00:38:00] realm of commercial property.

Typically, most policies will provide coverage for finished goods, goods that are manufactured, goods that are sold but not delivered. There's a number of different classifications of property, mainly stock that would be valued under the policy on a selling price basis. I have seen some risks that they have used the selling price coverage as a replacement, if you will, for business interruption, because in the event that they lose all of their finished goods, they would be entitled to selling price which would entitle them to recover their gross profit that they would have earned on that, and that to some

[00:39:00] extent could cover all of your business interruption exposure. However, that's not always true because your business interruption exposure may go beyond the time where that first turn of inventory that you got paid selling price for would have covered.

I'm not sure if that makes sense or not. I don't know if I'm being clear. It's just something I deal with all the time and sometimes I don't realize that my audience may not quite totally grasp that, but generally speaking selling price again it gives you indemnity based on the selling price of the goods that are insured at selling price, however, there are adjustments to it for un-incurred selling expenses so you have to be careful about that. Generally speaking it is good coverage to have. Another reason it's good to have the selling price on finished goods is because most policies' manufacturing forms, they will

[00:40:00] exclude lost profits associated with loss or damage to finished goods.

Todd: Tony, we'll have these definitions put up on our show notes, the four that you provided.

Tony: Okay.

John: I'd just like to say that, Tony, that was an outstanding description of all of those, and when we talk about our audience, I've been involved in meetings with clients that whether it be for premium basis bought an actual cash value policy, obviously limited coverages, but had no idea that they were limited to the depreciated value of their old manufacturing facility. We happened to be the fourth person that talked to these people, and the first three, including our own set of people, talked about this building with the assumption that they had a replacement cost policy with some of the bells and whistles

[00:41:00] that we talked about, code coverage, et cetera. It was a multimillion dollar loss. As we looked around the table, there was a lot of blank stares because we were typically talking in our language, in the insurance industry language where these business people didn't really understand the definitions.

We paused for a moment and said, "Do you have a replacement cost policy or an actual cash value?" They said, "Oh, we're going to get paid what we deserve because we have actual cash value," which significantly took what their expected recovery was from multiple millions of dollars to the depreciated value on an old building. It's really key that everybody understands the basic definitions of what they're buying.

Brianna: [00:42:00] As Tony was saying, there's some subjectivity when it comes to how an insurance company is going to define, or a State is going to define, what these terms mean. When there's a discretion between what a policyholder thinks and what an insurance company thinks, who should the policyholder go to if they don't feel like their insurance company is being fair or they're not getting the right definition or the right expertise, who should they go to, to clear up some of these issues?

Ron: The public adjusters are advocates for the policyholder. Our job as public adjuster is to expedite and maximize the recovery under the terms and conditions of the policy. That public adjuster is very conversant with coverages and is able to set up a proper claims strategy to maximize the recovery and make sure it happens as quickly as possible. We're [00:43:00] generally involved after a loss occurs, but occasionally we're called on by clients to take a look at their coverage before and kind of help them with the vulnerabilities and the possible potential things that could occur to help them close those gaps. That's really not what we do normally but it's available to our clients and to anyone else.

We don't sell insurance, we don't have relationships with brokers to refer brokers or insurance companies, it would be looking at the claim strictly from a claims perspective, and that's what we talked about in the beginning, knowing what the possible scenarios are, how would your policy react, what are the things that you could put in place to make sure that you maximize your recovery in the shortest period of time.

Brianna: [00:44:00] Great, thank you. We talked about pre-loss considerations and what people can kind of run through the checklist and look at in their business, see what they need to assess, especially when it comes to risks. What are some tips you can give our audience for post-loss consideration, so after a disaster, what should they be considering right away? Especially, what is the policyholder responsible for following a loss?

Tony: Thank you. I can weigh in on that. First, look to your policy because every insurance policy contains duties of the insured in the event of a loss. You want to be sure that you are in full compliance with the duties that require prompt notice, that require preservation and protection of property, sorting damaged property from undamaged property, possibly filing a proof of loss. It's very important from a housekeeping, if you [00:45:00] will, standpoint that you be familiar with, understand, and fully comply with all of your duties as they're outlined in the policy, because there are enough issues that you are going to encounter through the adjustment process, through the valuation of scope of damage, cost to repair, coverage issues, so on and so forth, so the last thing that you need to be dealing with is a breach of one of these conditions that an insurance company could use to defeat coverage in part or in whole if you don't comply.

In some States, if you do not report the claim immediately, and immediately is not

[00:46:00] always defined, that's a subjective term, but if you don't report the claim immediately even if there's not a showing of prejudice to the insurance company that could be a basis for denial of coverage. I cannot emphasize enough how important it is to be in compliance with those duties that the policy puts on the policyholder. Thereafter you start dealing with the practical considerations, so to speak. If you're a business, yes you take the measures to protect property and then you start thinking about what you can do to resume operations at the existing facility or elsewhere. You start planning to look for avenues to replace damaged property, to repair replacement sources, start looking for contractors although if you were doing a really good job of pre-preparedness you would have had some contractors and suppliers kind of on your list that you could immediately turn to, so on and so forth.

[00:47:00]

Ron: There are a few other items that could supplement the good advice that Tony's given. Establish a loss management team with a designated leader. There is a team from your organization that will have responsibility for the various areas of the claim preparation, settlement process, and recovery process. By all means activate a post-business plan to protect your market. Don't wait for the insurance company to tell you what you should be doing. It's your business, you need to keep it going, you need to protect your customer base, you need to notify your stakeholders, your banks, your customers, and come up with a plan to make sure that your competitors don't get word out that you're out of business, that you get to your customers first.

[00:48:00] Again, you can end up with an insurance claim that's okay but you've lost your business in the meantime. Don't wait for the insurance company to tell you how to protect your business. Act proactively yourself in the very beginning, document your activities in a log, everything that you're doing. Maintain accurate records. Do have a public relations program, and make the decisions that are best for the survival of your business. Then of course hire your own experts to prepare your claim. Don't rely solely on the insurance company representatives, and don't rely solely on historical records. We have clients that think they should take their accounting records that have depreciated values and submit those as claims and items that had depreciated over five years yet they have a 30-year lifespan, and valuation for an insurance claim is different than valuation for accounting purposes. That's very, very important.

[00:49:00] Understand that your claim must be verified. It needs to be documented, detailed, and the insurance company is going to have representatives, including experts like mechanical engineers, structural engineers, forensic accountants, that are going to come in and slice and dice it. Be prepared at the onset that this is going to happen and make sure that you put your best foot forward, and the best way to do that is to have a professional do it for you.

John: I'm going to take just a little different stance. I mean everything that's been said is absolutely correct. What always amazes me is when I watch TV and the commercial comes on and there's an accident or something, and poof, the insurance adjuster is there and the claim appears to be settled. In the business world, obviously we're preaching that you have a management team in place that includes legal, finance, risk management, [00:50:00] construction management, depending on your organization.

It always amazes me when I sit down in a meeting when we could be talking quarter of a million dollars to tens of millions of dollars, and if somebody were to evaluate a million dollars' worth of software that they were going to purchase or an investment they were going to make, they would automatically go out and seek the best advice they could from their accountants, their CPA firms, financial advisors, how do they best maximize their investment and minimize their cost. What I see is a reliance upon the system or the process or the insurance company adjusters and the trust factor that comes out that says, They're here to help me, please help me." As Ron stated, it's your claim, it's your business, and the individuals that are on this management team have to have a claims [00:51:00] strategy, and they have to think of the claims process and the recovery as a business transaction.

It's not a "I'm just going to get a claim and I'm going to deal with it." It's a process, it's an understanding, it's an evaluation, and it's truly a negotiation from day one. I think if prospective insurers look at it as it's a loss, it's you're now an expense to the insurance carrier, it's not your trusted broker or your trusted uncle who's your agent, it's a whole different section. It's a business transaction. I think if I you look at it that way, I think that the normal business processes will kick in automatically.

Tony: [00:52:00] Yeah, I agree. I think it's critical to set up a good management team to deal with the insurance loss adjustment process. This may sound self-serving but I believe that a skilled, experienced, knowledgeable public adjuster should be part of that scene. I'll just give you a little story. I remember I was being deposed one time, and as most you know, I worked for a major insurance company for about 12 years. I did nothing but property work. In the deposition I was asked at one time, "Why did you leave this company to go to work for a public adjusting firm?" My response was this, I said, "What I have found in my experience is that the survival of a business or a homeowner's ability to resume normal lifestyle after a major loss, again, for a business to be able to recover and move on and continue on with its operations, it was a function of how well the insurance claim went and how well the insurance claim was processed and what the recovery was."

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Because short of that, many businesses failed, many homeowners could not return to the same standard of living, so on and so forth. On that notion or on that premise, I felt that and seeing how disadvantaged policyholders were in dealing with the vast array of unlimited countless complexities, subjectivities in insurance policy, I felt that I would rather bring my skills and my knowledge over to the policyholder-side to kind of help level the playing field to minimize that disadvantage that they were at. I have found a tremendous amount of satisfaction from fulfilling that role.

Todd: That was great, thank you.

Brianna: [00:54:00] Thank you, Tony. We discussed having a team of experts in place following a loss, and maybe even pre-planning those team members out in advance. I'm just curious, will the policyholder's insurance cover the fees for these professionals or are they expected to pay for them on their own post-loss?

Tony: Many commercial policies have provisions for professional fees coverage. However, they exclude the services of a public adjuster. It is very difficult when you have that type of limiting language in order to recover fees associated with your public adjuster and the work that he does. The answer largely to that question is no, fees of the public adjuster

[00:55:00] per se are not generally covered and would be an expense of the policyholder to incur.

John: One of the things that always has struck me with that, Tony, is first of all, the mere language of excluding a public adjuster should be a sign that says we're not going to pay for you to hire a professional to help you maximize your claim, that should be a trigger to any insured. I liken it to, in business, every business that has an accounting firm they pay accounting fees, those accountants with respect to, say, taxes, you're going to pay the accountant to either minimize your tax liability or maximize your refund, either way you want to look at it. Those are professional fees and most businesses incur those fees because of the benefit of the service.

Tony: Right. If you're charged with a crime you're not going to go into court without a lawyer,

[00:56:00] you're going to pay for the lawyer. Yeah, I think that's what you're saying, John, is that there are just some services that require even though it may be at your cost, they just absolutely require the services of a professional. Again, this kind of relates a little bit to the balancing of cost versus coverage, premium cost versus how much coverage I want. I think the correlation is post-loss balance the cost of a public adjuster versus the recovery, and I know the recovery at the point in time that you're making a decision to hire a public adjuster, you really don't know what your recovery is going to be and when you ultimately do settle you're not going to know what it would have been without the benefit of a public adjuster.

I think given the complexity and the time required to navigate through and complete the

[00:57:00] loss adjustment process, I think it should be abundantly clear to most people that there is indeed a major benefit that would outweigh the cost, a major benefit in the recovery that would outweigh the cost of making that recovery by means of the services of the public adjuster.

Ron: In addition to that, the business owners and their management staff is free to focus on the recovery and not spend a lot of time on the claim itself which takes away from mitigating losses and getting their business back up and running. There's tremendous value to that. This isn't a science. I mean all claims aren't evaluated the same way and we in the insurance companies normally come from a different perspective. Public adjusters are more detailed. We count every widget and value it properly so that our claims are

[00:58:00] generally more comprehensive and they're put together with the idea that they're going to be questioned but they're set up properly so that the auditing process can go much more quickly. In addition to that we get better results almost all instances.

The best example I can give you, even though the amount of money will blow you away, but we handled an earthquake loss in the West Coast where the owner called us in. The insurance company was offering $4 million to a building and they were going to kind of fill it with epoxies and cobble it all up. Fast forward to the end the settlement was $40 million when it was all over when we got through with the claim. I don't remember what the percentage was but we more than earned our claim. That's an example of what the disparity could be in an insurance claim and how a public adjuster could really earn their keep.

[00:59:00]
John: Conversely, let me give you one, because we always talk about large dollar amounts. We had a hailstorm out a place that I have on the lake and my neighbor came over to me and showed me a check for $1,400, just trying to bring this down to the homeowner's level, $1,400. I said, "What for?" He said, "The hailstorm. The adjuster just came and gave me this for my roof." Now my place is very similar to his, matter of fact he lives there all winter long, I don't. We had the same adjuster, the same insurance carrier; I collected $5,700 versus his $1,400. The only reason why I was able to do that was because I proved my claim. I've got the roof; I've got the paint because I knew in upstate New York come springtime all the paint on the side would blister. So did the adjuster, he just didn't offer that information to my neighbor.

[01:00:00] The benefit on a very small basis is what is that, 500%? I mean it's significant just by knowing what the policy stated, what I was entitled to, and then telling the insurance company how much they owed me.

Todd: The only thing I'd like to build on I guess is it's the insured's responsibility to prove their claim. I rarely run into a situation where the insured that had a claim actually had staff members with free time on their hands to put the claim together. If they did, they certainly weren't in the business of putting claims together. The experience of the stories we just heard shows the advantage of bringing in a professional to help you put your claim together.

Tony: One last comment about that is what you'll often hear from a prospective client is, "Well, if I hire you and I have to pay the fee, how am I going to pay to repair my damages, so on and so forth, because again if I'm paying a fee there's going to be a deficit." Well, my [01:01:00] response to that is that the insurance loss adjustment process is by no stretch of the imagination an exact science. Just through this hour discussion this far we've touched on a host of complexities and issues that could have a significant impact on the ultimate recovery. What we just touched on was the tip of the iceberg.

So, from my perspective having a professional who understands policy, who understands coverage, who understands the valuation issues and could navigate through all those issues, many of which are very subjective because insurance policies are so ambiguous, so on and so forth, by having someone, a professional, navigating you [01:02:00] through that, your ultimate recovery is going to be significantly greater than if an insurance layman i.e. the policyholder who has no understanding of these issues, attempts to handle the claim themselves, because, again, it's their burden to prove their loss, it's not the insurance company's burden. Just to kind of add a little commentary to the story I told about my deposition question was when I worked for this company, one of the things that I was criticized for doing was informing or advising the policyholder too much.

[01:03:00] I would have people come to me and say, "Look, it's the insured's responsibility to present their claim and to prove the claim. Your responsibility is just to evaluate it." In other words, I said, "If an insured is entitled to this but they don't ask for it and I know it, I'm not supposed to advise them accordingly?" The answer was, "It's the insured's responsibility to present and prove their claim." As I said, for the policyholder is at an extreme disadvantage and I think to enter into a loss adjustment process in a large, complex loss is by no stretch of imagination advisable, meaning to try to do it on your own.

Brianna: Thank you, guys. Do any of you have any other things you'd like to add? Any information, any tips that you feel the policyholder needs to know about expecting the unexpected, anything that we haven't covered?

John: [01:04:00] The only thing that I can say is if they want to read the article, they can go to our website. There's multiple, multiple other articles with respect to provisions of replacement cost, actual cash value, just a plethora of titles there that we've identified. There is no sales in them, they're only from a claims perspective and how policies respond, and it gives the reader an indication of what they can expect.

Ron: I would say our goal has been to stimulate thinking about what could actually happen to your company during and after disaster, and that by considering the possibilities now before a disaster, especially next time your insurance program comes up for renewal, you'll be better prepared to deal with the unexpected part of the unexpected.

Brianna: [01:05:00] Okay, thank you for tuning into this podcast on expecting the unexpected. Thank you to all of our panelists, Ron, John, Tony, and Todd! We hope you tune in again for more discussions on insurance topics, the public adjusting industry, and disaster recovery industries. Thanks again for listening.

Voiceover: This episode of Property Insurance Roundtable was presented by Adjusters International, the nation's premier disaster recovery consulting organization. AI focuses on the principles of maximizing and expediting our clients' financial recovery from insurance and FEMA claims. For more information on this topic or to request a copy of the *Adjusting Today* issue on which it was based, please visit http://adjustersinternational.com/. Thank you for listening to AI's Property Insurance Roundtable.