Taking charge, limiting drift

Effective claims management is an essential component in any business interruption recovery strategy. Stan Johnson outlines a number of claims issues which organisations must factor into their crisis plans

There are plenty of horror stories about companies who mishandle business interruption recovery efforts as a result of some kind of disaster. The reasons can be manifold from not having proper business continuity plans in place generally to mishandling claims management. Of course, one can impact the other as we will discuss. How a company manages the claims process can make an enormous difference to the time it takes to get back up and running, saving time, money and limiting the risk of losing customer confidence and possible market share.

Doing it right: A case study

Much can be learned by scaring ones self straight through horror stories, but let's briefly touch upon a success story and take away some of the better practices that came from that.

A major wireless communications service provider sustained significant damage as a result of a disastrous hurricane. Remarkably, they were able to repair the damage and get fully operational within a very short period of time, restoring their revenue stream and protecting market share and future business. Their deft handling of the disaster had to do with both pre loss considerations and planning as well as proper operational and claims management during the recovery process.

Critical to their rapid recovery was the fact that they had a continuity plan in place. The plan included mobilising temporary equipment and restarting service after identifying the extent of damage and formulating a plan in conjunction with pre-existing continuing plans to reconfigure the network to accommodate voice and data traffic.

The company was also able to utilise previously established relationships with various remediation contractors and service providers needed for repair work. These firms were already familiar with the business generally, the type of damage wrought by hurricanes and the scope of the likely recovery effort necessary with a pre-formulated plan in place.

Companies without well thought out recovery plans are forced to do this on the fly after the disaster, which is less efficient, more costly and risks them running afoul of their insurance carriers who can lose money with each passing day.

When the disaster struck, all of the company's relevant resources were immediately committed to the recovery effort, including internal engineering, customer service, legal, risk management and upper management. They were well coordinated and communicated with one another systematically so that the recovery effort progressed smoothly and successfully.

Having a plan in place also served this company well in managing their insurance

"Companies without well thought out recovery plans are forced to do this on the fly after the disaster, which is less efficient, more costly and risks them running afoul of their insurance carriers" claim. For them and any enterprise facing a recovery, understanding how to deal with insurance matters can make the claims management process run more smoothly and relatively dispute free. In fact, insurance companies are much more likely to give companies who have a formal plan and who are well organised the freedom to execute their plans without nit picking at every expenditure and questioning every step. Those who plan can also benefit from more favourable terms on policy coverage and premium rates. It is clearly in the carrier's interest to limit the duration of the interruption, and instilling confidence that the process will be efficient is an important success factor.

"Businesses that have a detailed, logical and intelligent recovery plan in place do themselves and their insurance carriers a great favour"

Claims management priorities

There are also a number of other claims management considerations worth noting which support disaster recovery, including:

Pre-approve your vendors and assemble your team – in advance.

While insurance companies have a great deal of experience with remediation efforts and can be very helpful in recommending contractors and vendors, it is important for companies to take ownership of the process. Some companies actually depend too much on their carriers for disaster recovery support and need to realise that their insurance companies are not organised to provide operational services. Understanding one's own role and that of the insurance carrier upfront helps in the business continuity planning itself, and can help to limit 'recovery drift' during the recovery and claims management process.

Don't expect the insurance company to do it all. Be proactive.

While the insurance company should be notified in the event of a loss, a company should not expect the insurance company to solve all problems or prepare their claim for them. Companies should be proactive in implementing their own well-designed recovery plan, as well as producing their own measurement of losses in the form of a claim presentation. The claim should include detailed calculations, along with all supporting documentation, and a narrative explaining conclusions and the methodology utilised in determining those conclusions. Claims accountants are specialised in producing such reports and can be invaluable in spearheading this effort, which alleviates the drain on a company's internal resources performing this burdensome task. Companies should also be prepared for the insurers to hire their own experts to evaluate the recovery process and claim presentation, both from an engineering and accounting standpoint.

Don't get hung up getting approvals and insurance company blessing for every action.

Businesses that have a detailed, logical and intelligent recovery plan in place do themselves and their insurance carriers a great favour in that they can confidently make decisions with relative independence, thereby speeding up throughput.

Companies can sometimes get overly hung up on whether or not their plans, and action steps within those plans, will get scrutinised by their insurance carrier and meet their approval. Adjusters who might otherwise not question an action then feel compelled to address each issue one by one, costing time. This can seriously hobble a recovery effort. More often than not, the policyholder understands their business better than the insurer, and is able to provide justification and support that decisions were made prudently.

While generally it is always a good policy to keep the insurer informed of all plans, there is a delicate balance between obtaining pre-approval for every step, versus executing a well-designed plan in the most efficient manner. In the end, if everyone agrees that the policyholder has taken necessary steps to mitigate the loss, there should be no problems especially if it shortens the duration of the business interruption part of the claim.

Many companies don't understand what their carriers' tolerances are and just how much of the claims process they want to be involved in which brings us to the subject of the role of professional claims management and what this bring to the table.

Consider professional claims management

Companies can also benefit from engaging various professionals who are experienced in the areas of business continuity planning, construction project management and forensic accounting for insurance claims. This will help not only in the design of a recovery plan, but also the implementation and management of the recovery effort and presentation of the claim for economic losses.

Companies should look for a firm with expertise in all of these fields as they are critically interrelated and require close coordination. Essential to the process is an accountant specialising in business interruption, and having backgrounds representing both insurers and policyholders, in compiling properly formulated and documented claim measurements. This will minimise disagreements with the insurer and expedite the adjustment, settlement, and payment of the claim. Many insurance policies actually provide coverage for the use of such resources to assist a company in documenting and presenting claims.

In the end

In the end the value of the time, energy and resources spent on continuity planning can be diminished if the claims management process retards a recovery. While not having a solid continuity plan can certainly throw a stick in the claim management spokes, it does not in itself guarantee a smooth process. Knowing the ins and out helps a great deal, factoring those in to the plans can only make them more effective and keep recovery drift to a minimum.

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How the crisis manager can assist in the Business Interruption Insurance process

1. Work with the risk manager or insurance buyer to evaluate whether the assumptions in the reported BI values and chosen BI limits make sense. Your insight into how the organisation will actually perform in a crisis is critical to accurate values.
2. If the organisation does not carry BI insurance, evaluate whether coverage would facilitate a timelier or less devastating recovery. Access to funds following an event can ease the decision-making process and provide comfort to senior management who want to do the 'right thing', but may also have lingering fears about the financial consequences.
3. Compare your assumptions with those used in the BI calculations. Does the BI coverage include deductibles, sublimits or maximum recovery amounts that are inconsistent with how you believe a loss will play out?
4. Review the policy conditions and exclusions for the purpose of determining whether scenarios you believe possible are excluded from coverage. Consider how your approach to building a resilient enterprise may need to change given the conditions/exclusions.
5. Take an active role in determining BI values. Your experience in dealing with a broad array of the organisation's management team provides a unique understanding of what expenses (including which employees warrant continued salaries during a shutdown) might continue during an interruption.

6. Work with risk management to evaluate the overall BI limit. It is possible that the organisation could be buying more BI insurance than the company will reasonably need following an interruption. The more mature the business continuity and crisis management programme, the more likely this is to be the case. Consider how savings in insurance premiums can be used to reinvest in a more resilient enterprise.

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