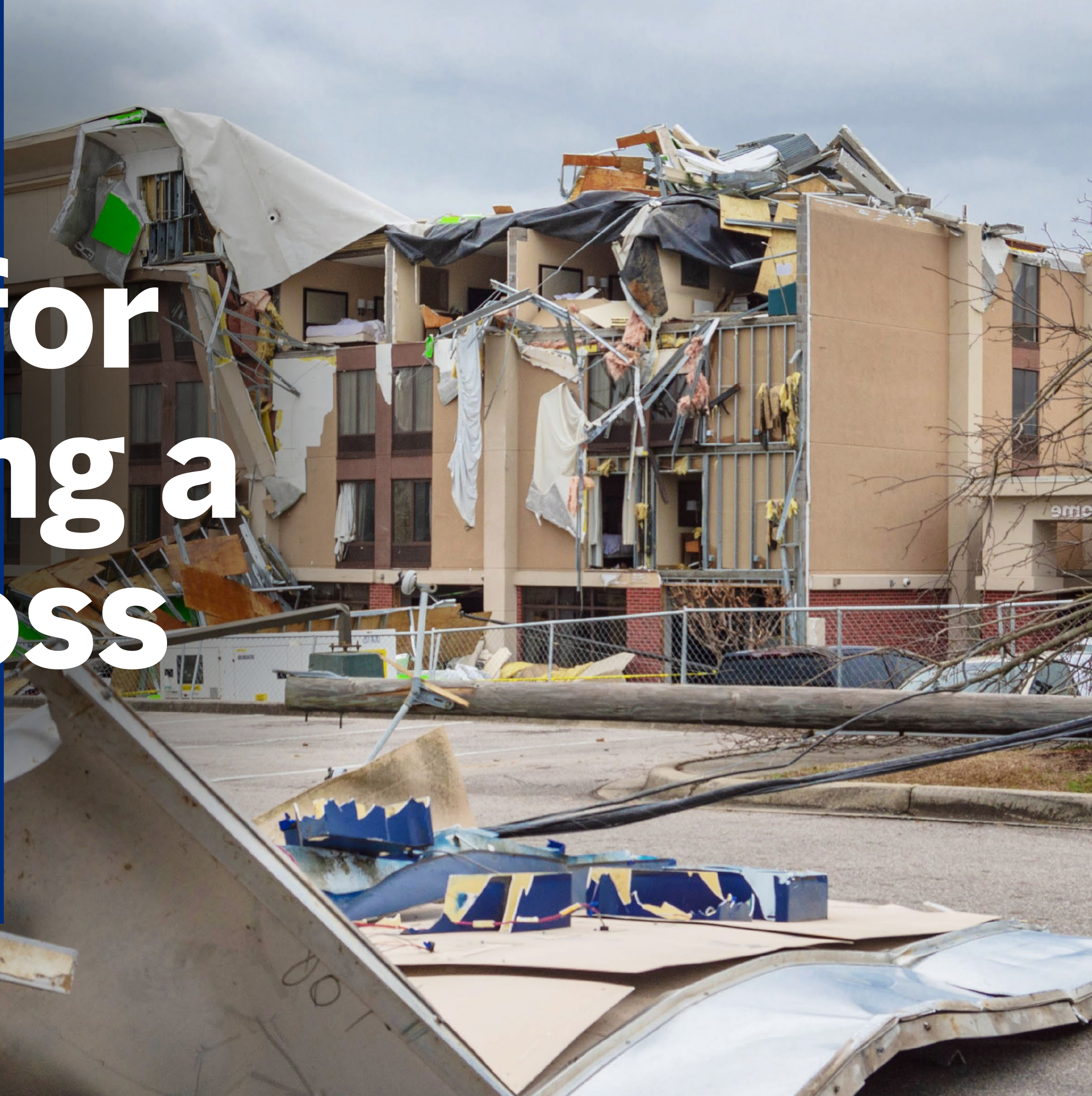
Preparing for and handling a property loss

Managing the property insurance claim process



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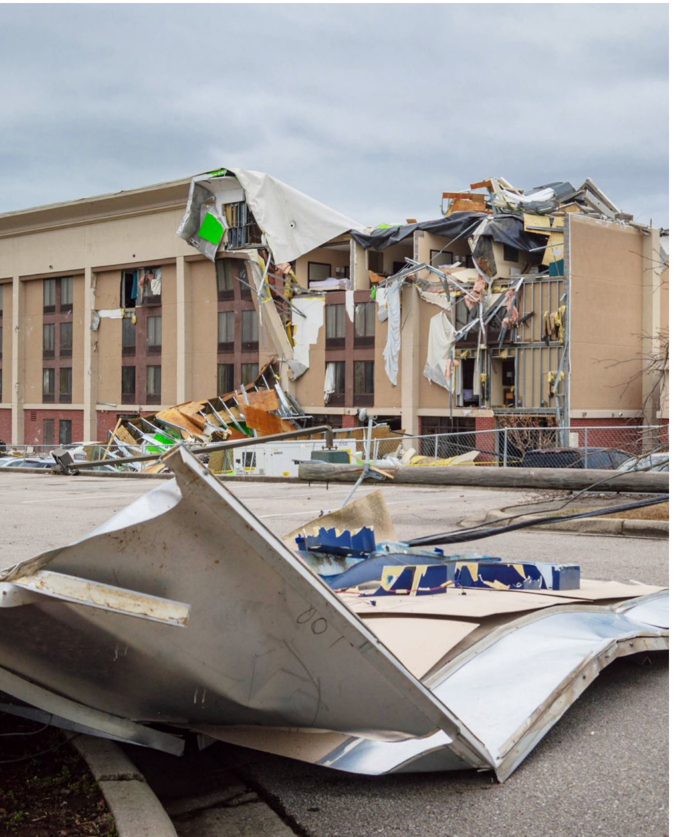
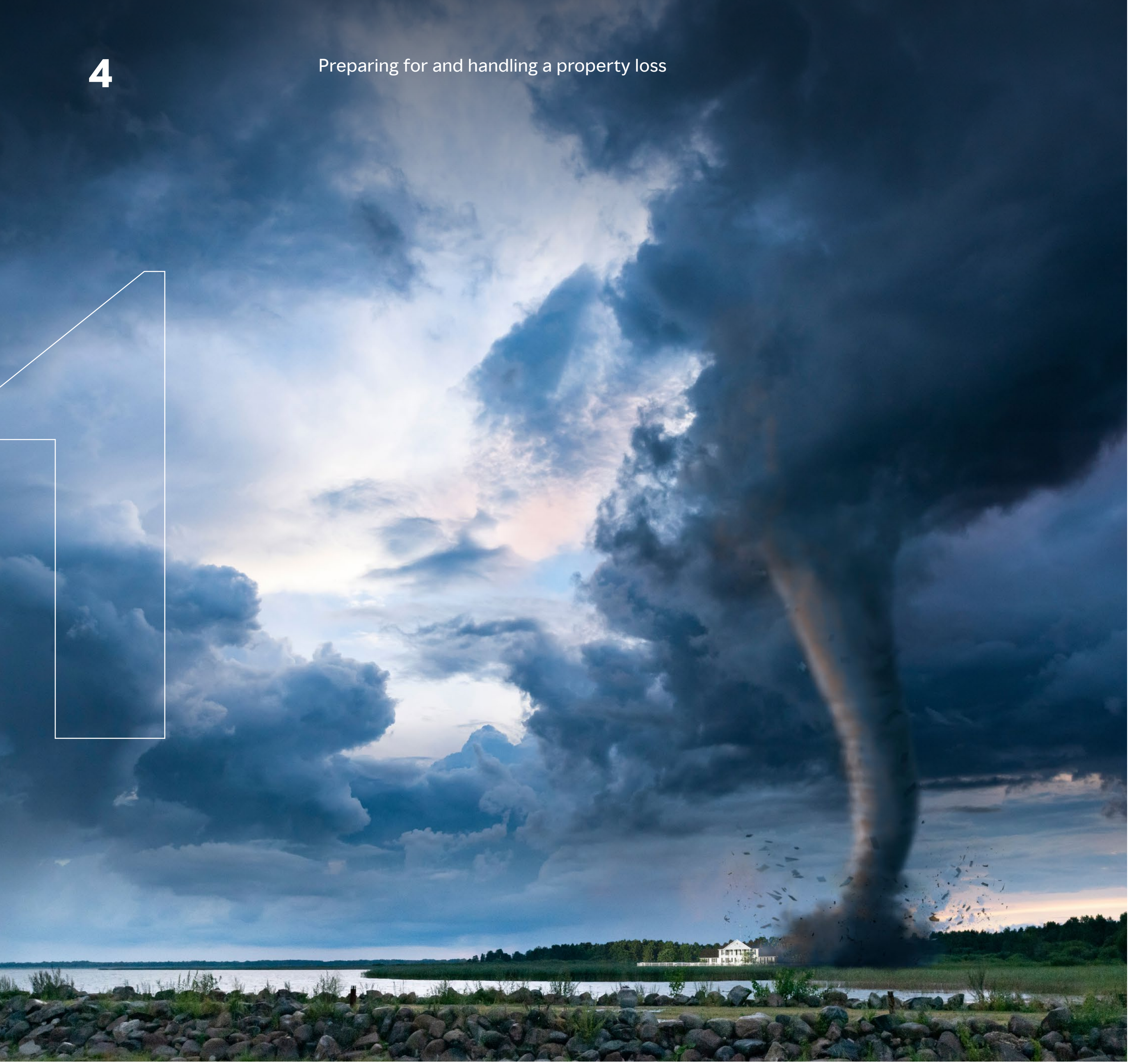


Marsh has long recognized that meeting our clients' needs means far more than simply arranging insurance programs. Perhaps a greater test of our ability to represent your interests comes when the program must respond — for example, when a large claim gets bogged down in contentious negotiations.

We have written this guide to help you prepare for a property loss and to support you in preparing and presenting the claim. Settling a claim can be difficult and time consuming. We hope this guide will make it a little easier and more successful.
As always, Marsh is ready to assist.



Introduction

A major property loss is rare, but most insureds do face losses. If handling a loss is not your usual business function, it can present questions and uncertainty. Remember that the first hours after a loss are crucial. During that time, management will have to make decisions that can dramatically affect operations. Some of these decisions can and should be made before the loss.

We will cover basic steps for you to follow when a loss occurs, along with other loss-handling procedures and concepts. The information is likely to suggest certain changes in your planning, and is designed to prepare you to deal with a loss more effectively. This material also can be reviewed for guidance during your return to normal operations. The appendices contain various checklists and forms to help organize your activities.

Since the loss adjustment process can be very complicated, you should not consider this a standalone or single-source document. You will need to consult with management (including those responsible for operational and financial recovery and safety), your insurers and their team of adjusters, accountants, and other experts, and Marsh.

ROLE OF THE RISK MANAGER

We use the term risk manager here and throughout the guide to mean the person responsible for overall coordination of the insurance claim. In large corporations, there will usually be a risk manager, but it may be the treasurer, human resources manager, or whoever is assigned as the insurance buyer.

The risk manager’s role is to oversee internal preparations of the claim and to be a liaison with the insurance company and local facility management. It’s more efficient for the risk manager not to actually prepare the claim, but to have the access and authority to assign those tasks, and then focus on:

- Guiding the internal data gathering.
- Sharing this data with the insurer’s claim representatives.
- Enlisting experts to assist in the preparation, presentation, and negotiation of the claim as insurers will have their own experts assisting them.

ROLE OF INSURERS, ADJUSTERS, AND THE ADJUSTMENT TEAM

After a loss is reported, an adjuster will be appointed as your principal contact with the insurance company. Remember: the adjusters represent the insurer, so their primary obligation is to the insurer. Adjusters will do what they can to assist you, but it’s not their obligation to prepare your claim.

Primary adjuster duties are to investigate, negotiate, and settle your loss. They will need to speak to the risk manager and others, inspect the damage, and gather facts about the value of the loss. With sufficient information, a coverage determination will be made. Assuming this is favorable, the adjuster will proceed toward settlement.

Adjusters can call on a wealth of background knowledge from previous losses to help you plan your actions. They also use the services of accountants, engineers, salvors, and other experts as consultants (the “adjustment team”).

Ideally, to help your claim settlement be resolved timely, accurately, and fairly, your relationship with the adjuster needs to be professional, not adversarial. In addition, the policy does generally impose a duty on the insured to cooperate with insurers in the adjustment of the claim — this is best served by a professional relationship amongst all parties.

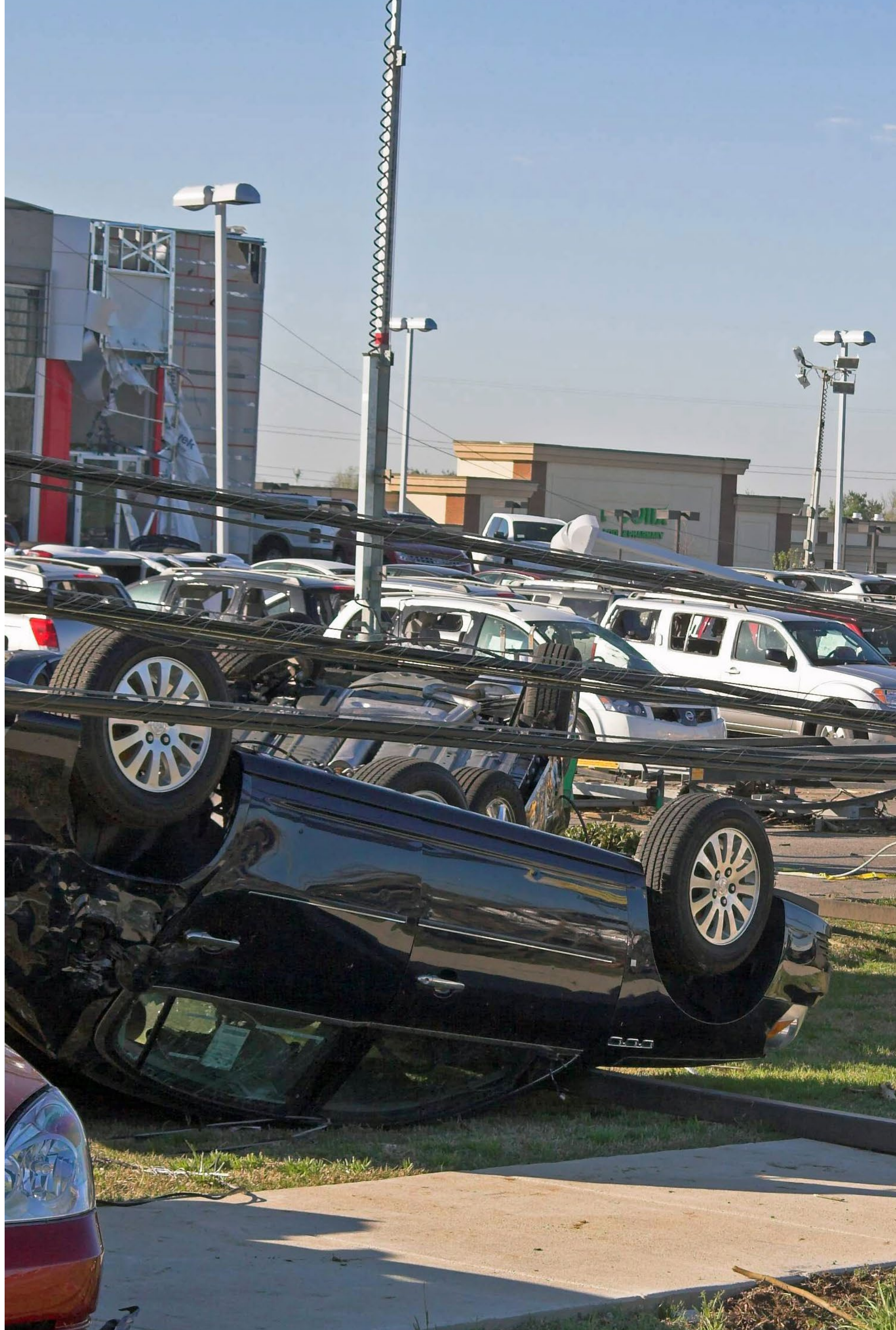
As a final note, the adjuster presents the facts and information gathered during the adjustment process and reports that information to the insurer(s). Independent adjusters cannot make coverage decisions as only the insurer is allowed to provide coverage positions. While an initial coverage decision presented may not be favorable, the adjustment process is one of negotiation — your relationship and ability to substantiate your position with facts can influence the final settlement.

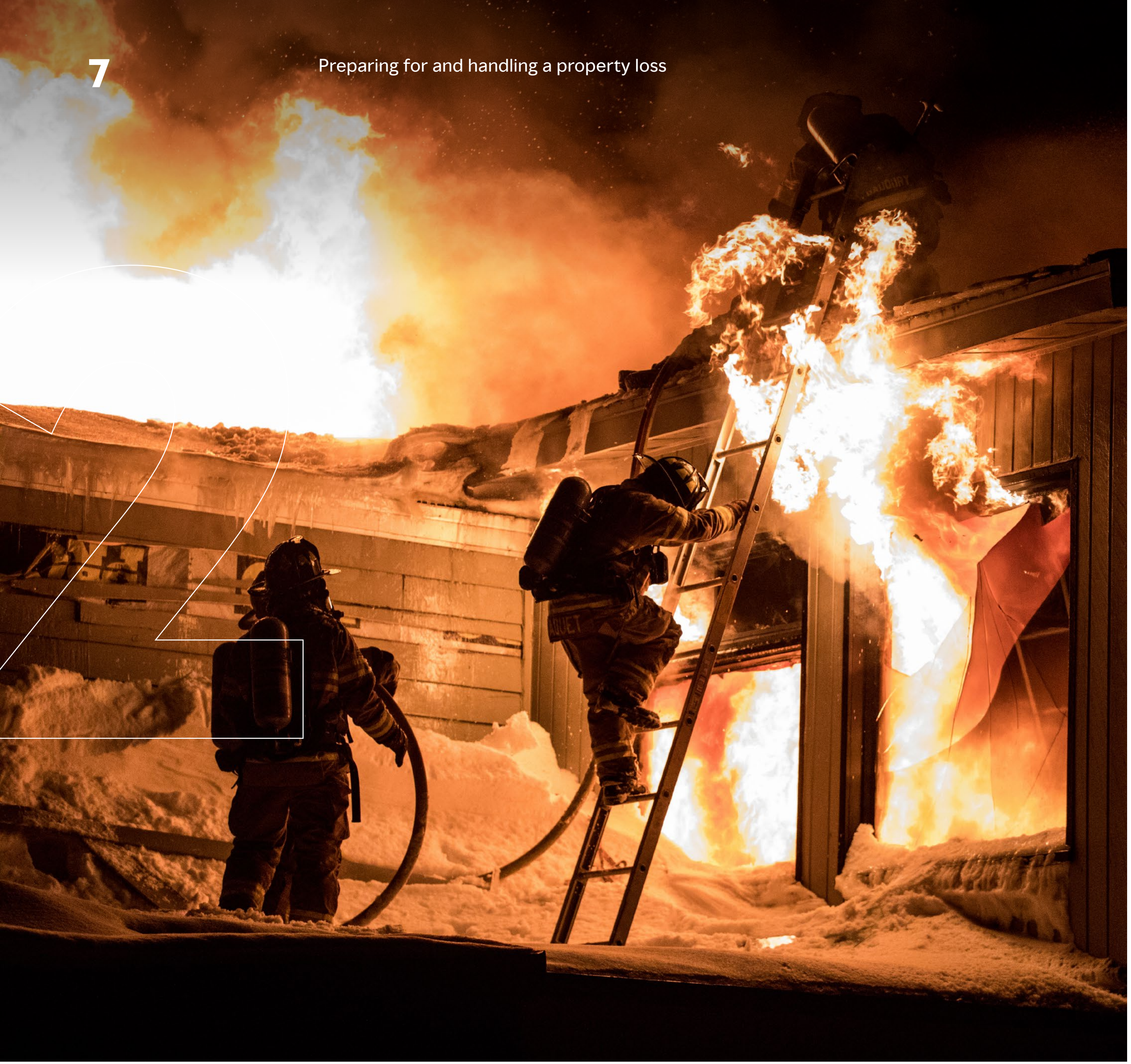
ROLE OF MARSH

Marsh’s Claims Solutions team will assist you in reporting, coordinating, and negotiating the loss and act as your advocate. Our property claim specialists have considerable experience with all types and sizes of losses. We can advise you on many aspects of your loss: salvage and clean-up operations, temporary protection, preparing the claim and, in particular, negotiating with insurer representatives. Marsh will act as your advocate directly with insurers when a difference of opinion or interpretation issue arises.

In addition, our forensic accounting specialists can be retained to assist in the preparation and presentation of your claim details.

The purpose of this guide is to assist insureds in managing the property insurance claim process. While in many instances the focus may be on issues more common to manufacturing and heavy industries, much of the property loss claims preparation considerations outlined here are applicable to other business types. For more insights specific to your particular organization, please contact your Marsh representative.





Preparation before the loss

A loss has occurred: There is damage to your building, and its equipment and contents, and your business operations have been impaired or stopped.

Dealing with this type of disaster is difficult, but preparation will avoid much of the frustration and speed the settlement process. Here are actions you can take before a loss.

PREDETERMINE THE DATA GATHERING MECHANISM

Who will be responsible for gathering the data necessary to prepare the claim? They will probably come from several departments, including production, sales, accounting, and payroll.

Do those individuals know their responsibilities and how quickly they must begin the process? Identifying these people ahead of time and giving them brief training on what recordkeeping will be required will make it easier to document, substantiate, and recover your claim.

UNDERSTAND WHAT POLICIES COVER

Insurance policies sometimes have a way of surprising you after a loss. Review your policies carefully, particularly the insuring clauses and the exclusions. This should be done in conjunction with your Marsh property team before a loss. Look at the policy critically, the way an adjuster would. The time to address any coverage issues is before the loss.

Taking a comprehensive risk management approach to potential property losses will help you answer questions such as:

- What are my values at risk for property damage and time element exposures?
- What risks can impact my property and my business operations?
- Does my coverage in place address these risks, are the needed limits in place, and are terms and conditions correct for these risks?
- What are my various deductibles and how might they affect my net recovery?

Certain risks, such as natural catastrophe (NAT CAT) risks, may have deductibles based on a percentage of values and can be very complex. The best time to understand these complexities is before a loss occurs.

In addition to reviewing your property insurance policies, also consider reviewing any specialty policies you may have that could provide some coverage for a loss. These can include boiler and machinery coverage, transit policies, fine arts coverage, and third party coverages — such as general liability and pollution policies — that may need to be put on notice depending on the loss circumstances.

MAKE CERTAIN VITAL RECORDS WILL NOT BE DESTROYED

While the majority of records and documents are now digital, you may still have paper records and documents stored on-site that may not be duplicated elsewhere. Likewise, certain digital records may not always be backed up to an off-site or cloud server.

Problems will result if you have to recreate evidence of what existed before the loss without an appraisal, inventory, or ledger. If you now store valuable documents on the premises, they should be in a fireproof and waterproof area. However, the best procedure is to keep a copy of these important documents at an off-site location. Examples of such documents include:

Appraisals

Blueprints, plans, and specifications

Photographs

Property records

Inventory records

Financial records

CONSIDER A DETAILED EQUIPMENT INVENTORY

Machinery and equipment claims can be complicated. If there is no formal appraisal, learn what types of lists exist to document machinery and equipment. Ideally, you will have a detailed description of each machine with its manufacturer, age, and cost, including the cost of freight, installation, accessories, attachments, and modifications.

An inventory like this need not be made by a professional or by outsiders; it can be an internal project. A photo or video of the objects can show the adjuster what these machines looked like when operational. Items purchased as a general expense and not capital expenditure may not appear on the capital asset ledger, but can be substantial and must be included in the inventory. Also, machinery and equipment should be categorized according to business criticality, as well as how long it will take to replace. One should pre-identify ways to accelerate the replacement time for critical and long lead-time equipment.

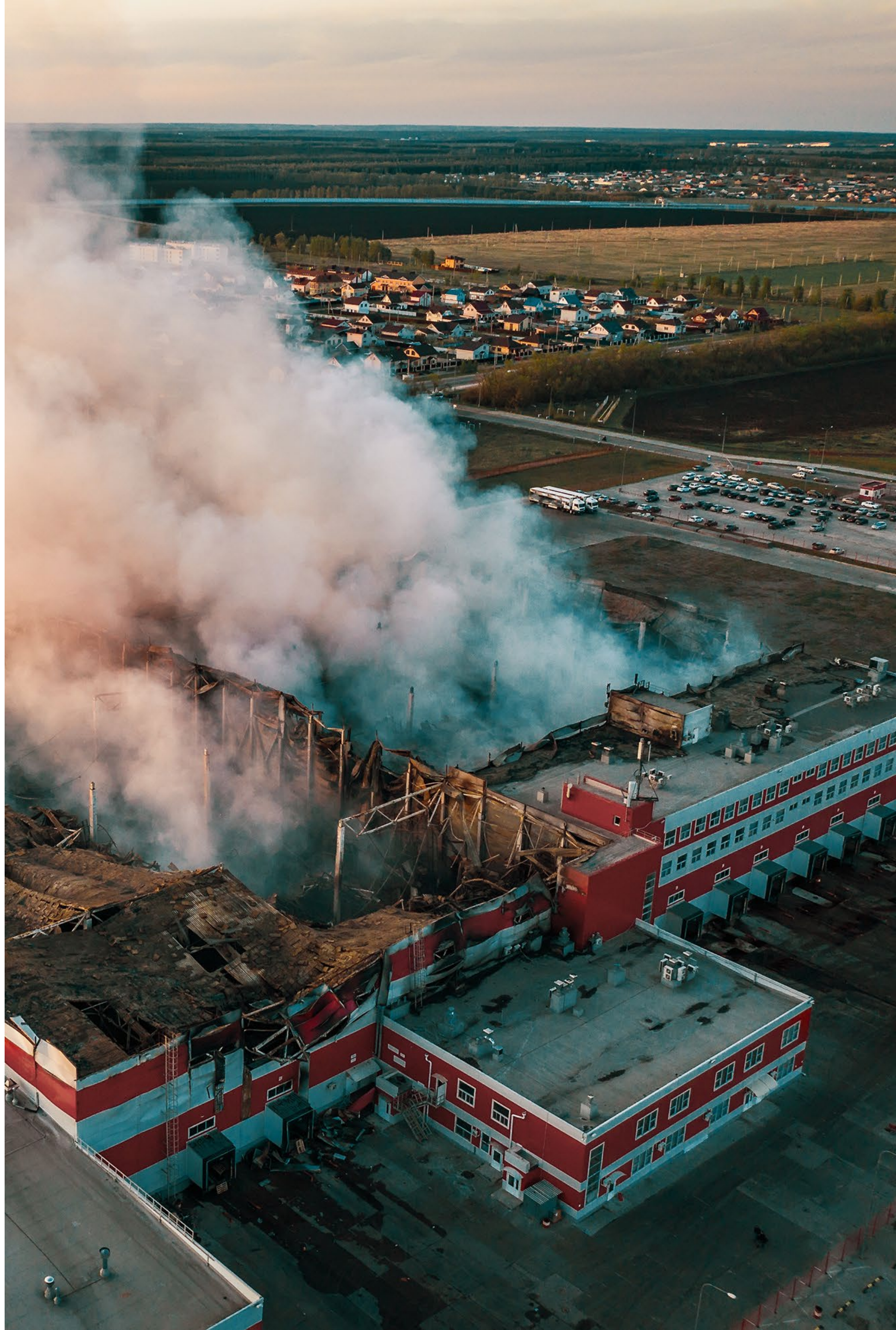
Be aware that the book value of machinery and equipment may be written off and disappear from capital asset ledgers, but it still has a value for claim purposes.

You should update any machinery or equipment lists, photos, or videos regularly (perhaps annually) and store copies off-site.

APPOINT KEY CONTACTS

A serious loss necessitates a series of important decisions on such matters as salvage, expediting repairs, or resuming operations.

Top-level management must make some of these decisions; others will be made at the plant, production, planning, or sales levels. To function effectively during the emergency, be sure to designate who will be responsible for coordinating and communicating with the adjuster.



Your list of key contacts should include the insurance company claim office, your designated Marsh property claim consultant, and/or other appropriate members of the Marsh property team. Home and cellular phone numbers are a must.

VISUALIZE POTENTIAL LOSS SCENARIOS

Certain perils are more likely to occur due to location and type or method of operation. Although it would be impossible to predict every potential loss, it's possible to create what-if scenarios.

- What if you had a partial loss? Or a total loss? How would you respond?
- Do you have alternative manufacturing facilities? Phone and computer systems? Power supplies?
- Do you have clear, frequently communicated emergency procedures?
- What security measures have you planned for?
- Do you keep a list of local vendors with similar products or services who have excess capacity?

Plan for a potential loss by planning for loss scenarios before they occur. Many organizations have an established process with the above components in case of a real or threatened catastrophe.

If you do not have such a plan, your Marsh property team will be glad to offer suggestions and assistance along these lines.

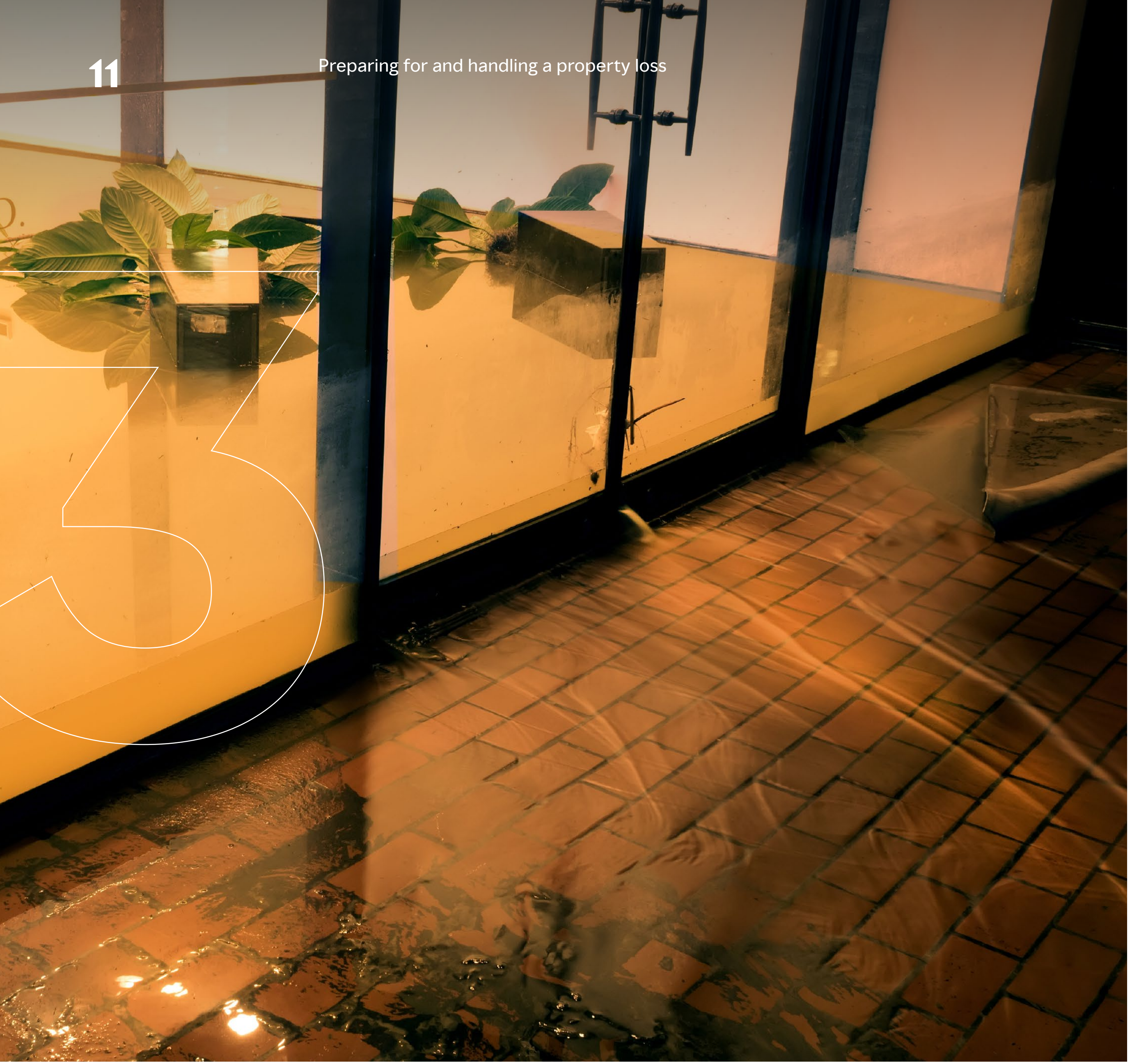
This preparation also can make the claim settlement process easier.

PREPARING YOUR PHYSICAL PROPERTY AHEAD OF A LOSS

While this guide is mainly focused on preparing for a potential property loss claim, it's important to keep in mind there are many ways you can improve the resilience of your property before a loss occurs.

This includes regularly reviewing and improving site-level physical protections and regular training of employees on how to manage natural or human-caused disasters. Then, when faced with an actual threat such as a hurricane, snowstorm, flood, or fire, the proper actions can be taken to preserve your property and mitigate losses.

Sample checklists outlining such steps can be found in our Hurricane Resource Center. You can also contact your Marsh representative if you require property risk management support from our property risk, business continuity, and crisis management consultants.



During the loss

ENACT NOTIFICATION PROCEDURES

Notify your insurer and Marsh as soon as possible by telephone, email, text message, or fax.

RESTORE FIRE PROTECTION AND LIFE SAFETY EQUIPMENT

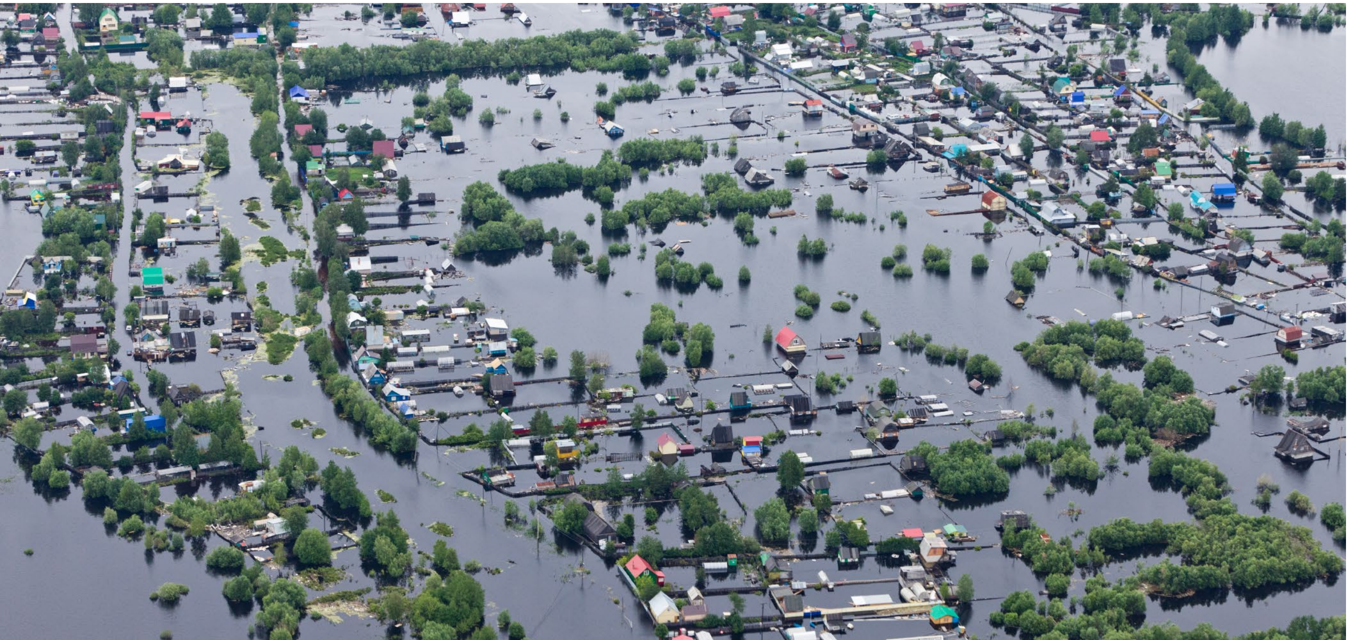
This means replacing sprinkler heads, arranging for temporary standby hose lines, recharging extinguishers and automatic special protection systems, capping broken lines, and getting them back into service. Likewise, ensure life safety equipment is restored and power systems (for example, electricity and gas) are made safe to allow re-entry to the facility.

Your property and your people are particularly vulnerable to loss until all fire protection and safety devices are working again!

PROTECT PROPERTY FROM FURTHER DAMAGE

In addition to restoring fire protection, common sense — and the insurance policy — requires action to preserve the property from further damage.

Your personnel must take immediate emergency measures to minimize the damage. If necessary, call professional vendors for assistance. When possible, clear temporary measures and permanent repairs with the adjuster before proceeding. Otherwise, here is a general rule to help you make decisions: When in doubt, act as you would if you had no insurance at all.



BEGIN SALVAGE PROCESS

As soon as it's safe, begin cleaning, protecting, and salvaging.

- Separate undamaged from damaged goods and begin to segregate what can be saved.
- Dry and protect all motors and electrical equipment.
- Clean, dry, and protect machinery to prevent rust.
- Reprocess any damaged material that can be saved.
- Repackage finished goods, if undamaged.

Do not dispose of any materials until the adjuster agrees they are unsalvageable. In some cases, it may be impractical for you to reprocess or sell damaged property. The adjuster usually will arrange for a salvage company to take over the property and dispose of it on your behalf.

Your policy normally stipulates who has control of the goods and how the salvage can proceed. You do not have the right to abandon it to the insurer's care without the insurer's agreement.

TRACK CLAIM COSTS

Many people in your organization — who will have been identified ahead of time — will need to participate in tracking costs for the claim submission. This is important because in the first days after a loss and beyond it's difficult to keep track of what costs should be assigned to the claim.

Set up special work orders, job numbers, and other accounting procedures, which will enable you to identify and capture all claim costs. Examples of claim cost categories are:

- Protection and preservation
- Temporary repairs and replacement
- Permanent repairs and replacement
- Extraordinary and expediting expenses

Be sure to review these and any other categories with the adjuster and your Marsh property claim consultant.

Describe the tasks assigned to job numbers, and make sure to separate overtime pay because you will need this breakdown later. (Note that straight-time labor will go into the property damage claim; overtime usually will go into the time element claim.)

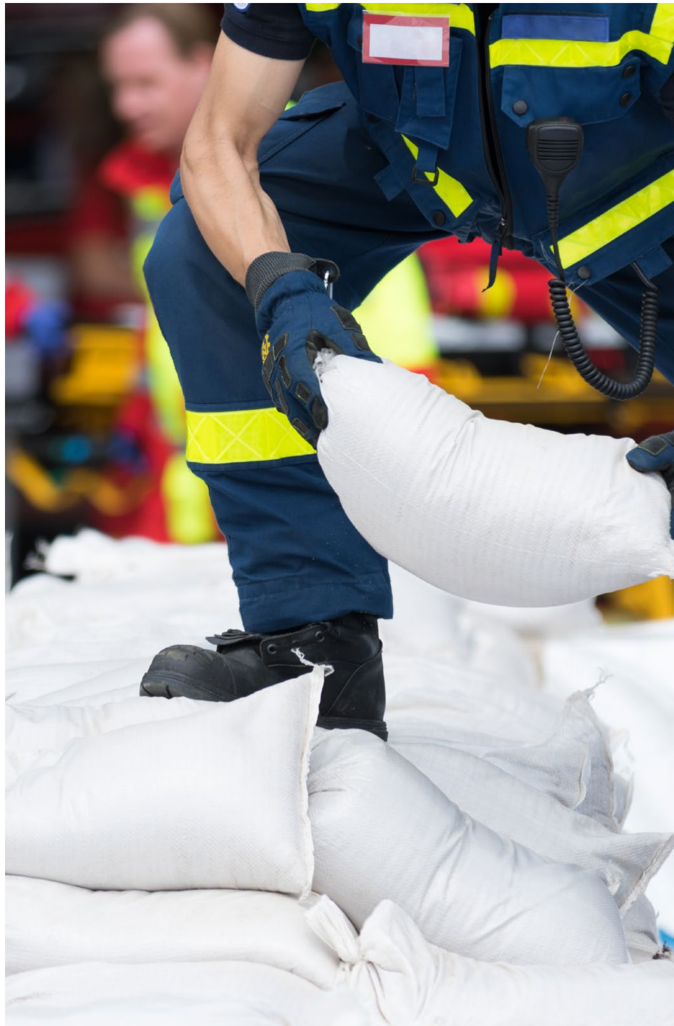
Attempt to secure the adjuster's agreement to compensate for salaried repair labor — if possible, before a loss occurs. Frequently adjusters will take the position that any repairs or clean-up by salaried/ management personnel do not represent additional costs since those employees must be paid anyway.

Review all components of overhead charges with the adjuster, and try to get agreement on mark-ups and corresponding amounts to be allowed in this adjustment. Remember to keep records of overhead applied to labor, materials, and other repair-related costs.

This is especially important to keep in mind when you are faced with a loss event, such as a large storm, that affects a wide area. Recovery resources will be in high demand and, as a result, your recovery costs may be higher than expected. Labor and supply chain issues may also cause recovery delays or otherwise impact costs. Be sure to keep track of all these costs as they may be recoverable.

MAKE TEMPORARY REPAIRS

If temporary repairs are required to save, preserve, and protect the property, you must make them immediately. Use the "reasonable person" test — do what a reasonable person would do and be able to explain your rationale to the adjuster. Advise the adjuster of temporary repairs as soon as possible. Actions you take without prior authorization could subject your decisions to scrutiny and potentially impact recovery for those expenses.



ARRANGE PERMANENT REPAIRS OR REPLACEMENT

As time permits, before authorizing permanent repairs, attempt to obtain your adjuster's agreement on the scope of repairs. The scope of work is an important aspect of the loss; unless you and the adjuster agree on what needs to be done, the claim's monetary value will be in dispute. Delays will result.

You will need to secure contractors to bid on the job. Adjusters will have their contractors provide a competitive estimate, and you have the right to have your own contractor prepare a basis for settlement. Most reputable contractors will give free estimates in the hope of obtaining the job. Some may charge for these services and those costs may not be recoverable unless agreed by the adjuster.

A contractor accustomed to working on insurance claims should know what type of detail the adjuster requires in the proposal. If not, arrange a meeting with the adjuster to set up the ground rules.

A bid without complete back-up details and itemization also will delay settlements.

If your people and the adjuster disagree on the extent of damage to buildings and this difference cannot be readily resolved, you may need an expert opinion from a contractor, architect, or licensed structural or civil engineer. For the same situation regarding machinery and equipment, you may need documents from the equipment manufacturer or machinery repair experts.

These expert opinions are sometimes required to support your position, but you usually cannot recover their cost — unless you can get prior agreement from the adjuster to pay them or reach a compromise.

Some honest differences of opinion are inevitable on any major loss, but if you communicate with Marsh and the adjuster, we can usually help you resolve them.

RESUME OPERATIONS

Whether or not you carry business interruption insurance, you will be vitally concerned with maintaining operations.

Consider whether it's practical to set up temporary facilities in your location or another while repairs are being made. If your operations include manufacturing, you may be able to extend production by adding another line or an additional shift, either at the same plant or another facility producing the same product, or you could maintain sales out of inventory or by shipping from other facilities. Business interruption policies require you to make use of finished goods inventory to reduce a loss of sales, but you will be entitled to recover the necessary extra expense to replace the inventory after you get back into production.

Your claim may include overtime labor, airfreight, rental of special equipment, and other expenses incurred to resume operations as quickly as possible. Be careful to keep your adjuster fully informed of your actions, and always try to secure prior approval of these extraordinary expenses.

Additional information on business interruption can be found in Section 5.

After the loss

INSPECTIONS

It's always helpful to know your properties, but it's even more important that you, or whoever will be in charge of loss negotiations, personally inspect the property as soon after the loss as possible. At that time, you can make notes and gather general impressions, which will be vital to you later in adjusting the loss.

Have photographs or videos taken to help refresh your memory later. They probably will be at your own expense, but are worth the cost in proving aspects of your claim.

By personally inspecting the loss with local management, you also can set up three other very important adjusting aids: Communications, Control, and Coordination.

COMMUNICATIONS

Establish a smooth flow of information from the affected location to your office and clarify which decisions local management can make and which should be referred.

Appoint one person to oversee the entire claim preparation process — from setting up specific work orders or similar accounting mechanisms, right through the final preparation of claim figures. This approach is more efficient than relying on each department to perform the necessary functions without guidance from a central source.

Decide who will be responsible for dealing with the loss at local levels and see that the adjuster is instructed to work only through this individual.

CONTROL

As soon as possible after the loss, advise your accounting department to set up special work order accounts to accumulate all related expenses. It’s a good idea to set up several accounts to capture charges in different categories (for example, building, machinery, extra expense, and overtime).

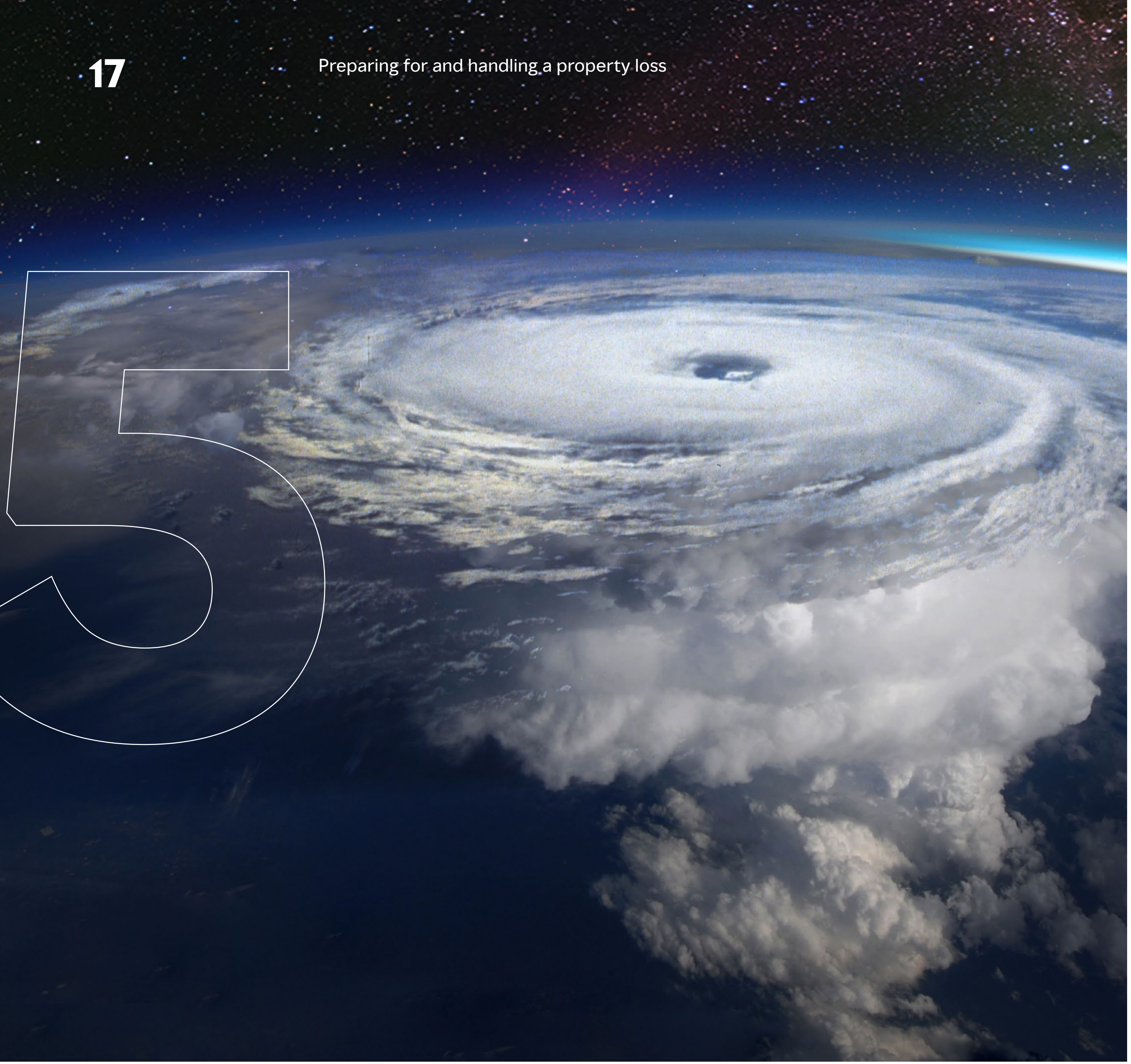
See that your supervisors and foremen are notified so they can charge all clean-up, salvage, and repair labor to the proper account, and keep track of the overtime separately. It will help if individual time cards are marked to indicate the type of work involved.

Also, arrange for purchase orders, invoices, and checks to reflect the special account numbers, then to be copied and set aside to substantiate your claim. We recommend clearing all formal claim information through your insurance staff — local people may not be aware of many administrative and overhead items that could count toward the claim.

COORDINATION

Preparing and presenting a large claim is a complicated process. People from many departments must work together to produce a result acceptable to your organization and the insurer. You may have to cross over normal lines of authority and responsibility to get the job done, yet everyone involved should understand, at least in general, what you are trying to accomplish and why.

Remember, the risk manager need not be an expert in all technical aspects of production, planning, manufacturing, engineering, or accounting. The most important function is to coordinate the gathering and sharing of information from all these people and to ensure it’s presented to the insurer properly and favorably. Marsh is ready to help and to be a part of this process.



Elements of a claim

Generally, a claim is divided into several sections, and different types of records are necessary to document each element. The basic components of property losses follow.

PROPERTY DAMAGE

Most property insurance policies are written on a replacement cost basis, meaning the policy will pay to repair and replace damaged property with property of like kind and quality. Deciding to replace with property that is not of like kind and quality can result in unreimbursed expenses.

Building

If the loss is partial, your claim will consist primarily of the cost of repairs. You will need invoices from the contractors broken down by labor and material costs. If repairs are extensive, you may require further itemization. Discussions with the adjuster and your contractor can confirm what breakdown is required.

If the building is destroyed, you must have some way to determine the value for claim purposes. A formal appraisal is a good starting point, as long as someone updates the figures to reflect current costs. Without an appraisal, you may have to work with blueprints, photographs, capital asset ledgers, or whatever is available to establish the building’s value. Under certain circumstances, the adjuster will insist on having a contractor reconstruct the cost by actually taking material requirements from existing plans. Many adjusters are qualified to do this type of work themselves, but also may use engineers to estimate the cost of rebuilding.

Business personal property — equipment or fixtures

If equipment can be repaired, invoices are usually sufficient to present your claim. If the equipment is replaced, your claim will contain the actual replacement cost.

Even if the items are not replaced, you are still entitled to the equipment's actual cash value. You can obtain estimated replacement costs from manufacturers or dealers if equipment is relatively current. Some manufacturers also can supply actual cash value on older items since there is a market for used equipment. On still older equipment, you may have to use a combination of your capital assets ledger, acquisition cost, appraisals, and maintenance logs to establish the actual cash value of the damaged property. (Even these records will not be all-inclusive because some accounting systems delete an asset from the books when it's fully depreciated.) If you must resort to book figures, be sure to submit your claim on the actual cost to replace at the time of loss, not on the remaining book value. Physical depreciation for claim purposes has no relation to "book" or "tax" depreciation.

Business personal property — materials or supplies

Inventory figures are relatively simple to develop based on the last physical inventory plus purchases less sales. The adjuster will want to examine these records. You also may be able to take a physical inventory of damaged and undamaged property remaining at the site after the loss. The valuation method will follow your policy provisions, but be alert to possible problems in treating freight, purchasing and selling expense, bad debts, shrinkage, returns and allowances, commissions, and discounts — all will affect your final figures.

TIME ELEMENT

Intent and scope of coverage

The purpose of time element insurance is to put you in the same financial position as if no loss occurred. The coverage responds for damage to insured property caused by a covered peril, and it reimburses for loss of earnings during the period of interruption.

The profit and continuing expenses that would have been earned but for the loss will be recoverable, as will any expense to reduce the loss and extra expenses.

Documenting a time element claim can be difficult, and adjusters often use an accountant to audit your claim and financial records.

Not all time element claims are alike — they vary by size, complexity, and duration. Some involve lost sales that cannot be made up or recouped; some involve deferring production without any loss of sales. Many claims consist of making up production or sales lost through the use of outside purchases or overtime.

Business interruption

Most business interruption policies are written on an actual loss sustained basis — covering a loss of sales from operations stopping, due to physical loss or damage to covered property by a covered peril The effect of this language is to provide recovery for only the lost business you are not able to make up.

The policy requires an attempt to make up lost production or sales by:

- Resuming complete or partial operation.
- Utilizing or renting other facilities, including those of other producers, if economically feasible.
- Using raw stock, stock in process, or finished stock.

If you succeed in reducing the business interruption loss through any of these alternatives, you will be entitled to recover the extra expense incurred. These costs are called expenses to reduce loss.

Extra expense

Extra expense can fall within two categories: expense to reduce loss and extra expense.

While the two may be considered the same type of expense, expense to reduce loss (which typically falls within business interruption coverage) requires that every dollar spent reduce the business interruption claim by a dollar. Extra expense allows you to spend more than the dollar saved to continue normal business operations. As an example, if $1.50 was spent to continue normal operations and reduced the business interruption loss by $1.00, the first dollar spent could be allocated to expense to reduce loss and the $.50 could be allocated to extra expense.

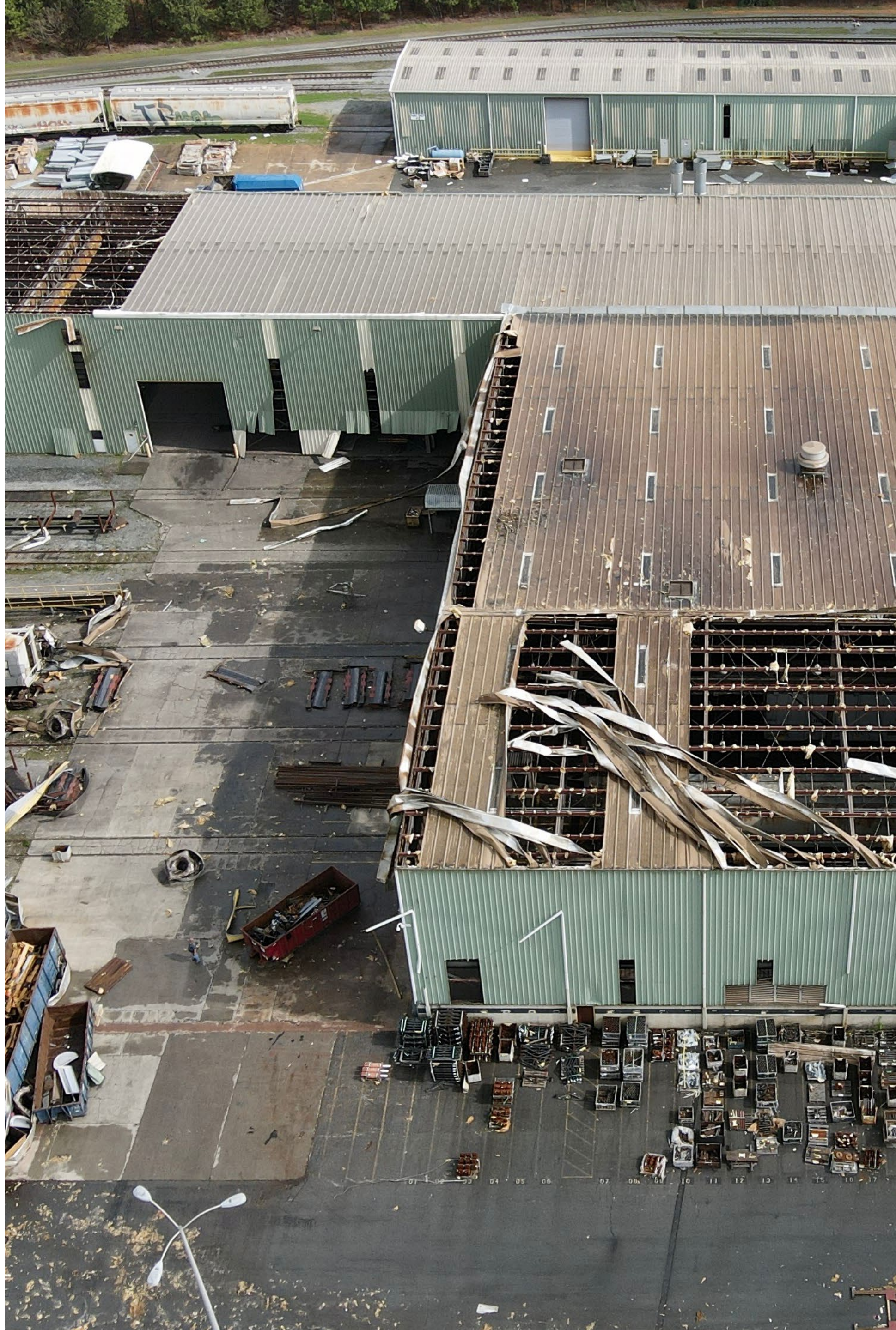
Unlike expense to reduce loss, extra expense must be purchased as a separate coverage under most policies. It’s important to conduct a careful assessment of what costs might be incurred to continue normal operations when purchasing insurance and identifying limits for business interruption and extra expense.

There are several types of extra expenses to consider when evaluating your coverage needs. For example, if you can continue operations by putting on an extra shift, you are entitled to collect this extra expense — including the premium portion of your payroll.

In the same category, overtime or incentive pay to outside contractors, air freight charges, special handling charges, and similar payments are recoverable to the extent they make continued operations possible.

Whenever possible, get adjuster approval on any expenses before going ahead. This action will minimize the possibility that part of your claim will be denied.

Another similar coverage to consider is expediting expenses. While the above expenses are related to continuing normal business operations, expediting expenses are costs related to making temporary repairs or to expedite the permanent repair of covered property. These potential costs must be evaluated separately and likely require a separate sublimit stated in the policy.



Rental value

Rental value insurance, also on an actual loss sustained basis, covers three key areas:

- Gross rental income from tenant occupancy.
- Charges that were the tenants' legal obligation.
- Rental value of property occupied by the insured.

In general, expenses that discontinue (for example, utilities) because of the loss will be deducted from the gross rental income.

The adjuster also will use past and probable experience in reviewing the loss.

Service interruption

Service interruption may provide coverage for time element losses arising from property damage to a utility that prevents your location from operating. Some issues to be aware of include:

- Distance limitations.
- Waiting periods and time duration of coverage.
- Whether transmission and distribution lines are covered.
- If you have coverage for damage by a covered peril versus "accidental occurrence".

Civil authority/ingress egress

These coverage extensions are important if there is damage to property not at your insured location that prevents or prohibits access to or egress from your location. These coverage extensions have language that must be carefully reviewed, including:

- Distance limitations.
- Waiting periods and time duration of coverage.
- Requirements for physical damage versus presence of a covered peril.
- Coverage for periods prior to damage from a covered peril such as named storm versus once damage occurs.
- Ability to document the order from an authority and that the covered location falls within the order territory.
- Is prevention of access or impairment of access covered.

Period of interruption

The first step in determining your time element claim is to establish the period of interruption (sometimes referred to as period of restoration), that is, as stated in most policies: "the time required with the exercise of due diligence and dispatch to rebuild, repair, or replace the damaged or destroyed property."

Note that the policy only provides coverage until the property is restored or replaced. Additional time required to get operations to the same level as if no loss had occurred can be purchased in specified increments of time — as extended period of indemnity coverage.

If you rebuild the damaged property as it was before the loss, your claim will be based on the time for actual replacement of the damaged property. However, if you decide to make major changes in rebuilding either the structure or equipment, the adjuster will base the loss on the time necessary to repair or rebuild the property as it existed before the loss. In this case, you may need opinions from your contractors and architects to support the period of interruption you intend to use in your claim. This is also true if you decide not to rebuild.

Providing information

The data required to document a time element claim can be voluminous. Since the coverage is for what would have occurred rather than what actually existed (as under a property damage claim), much extrapolation of previous results is necessary. Although the replacement cost of a building changes little from year to year, operations can be affected by economic conditions, competition, seasonal swings, product obsolescence, and more. To quantify your loss, you probably will need much of the following information:

- Profit and loss statements, general ledger, production schedules and records, inventory records, cost summary records, and sales projections — showing minute detail on elements of the variable and fixed costs.
- A detailed breakdown of your hourly payroll fringes and the percent of fringe benefit to hourly payroll.
- Increased costs to get product to customers.
- Rental costs of any assets while your damaged assets were being repaired or replaced.
- Documentation on the peaks and valleys of your production and/or sales year.
- Possible scenarios for the successful transfer of operations to another site.
- Contracts or agreements with your employees, their bargaining agencies, or vendors that compel you to pay employees though no work is available.
- Schedule of plant maintenance, turnaround, or other downtime that falls within the loss period.

KEY TAKEAWAY: BUSINESS INTERRUPTION

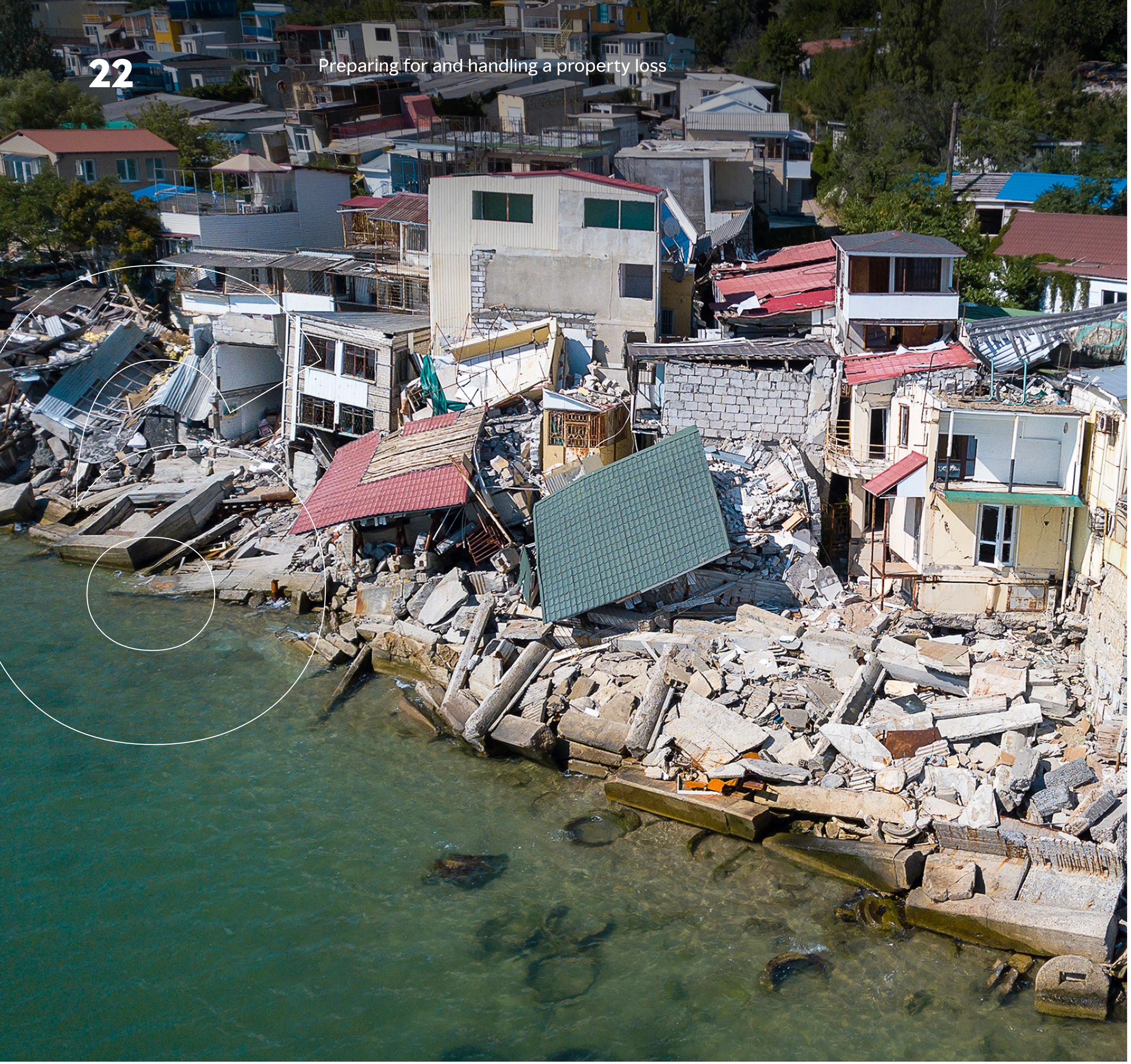
Our experience shows that most problems in adjusting a business interruption claim can be traced to three sources:

- Failure to communicate with the adjuster on planned procedures and proposed extra expenses.
- Lack of sufficient documentation.
- Failure to demonstrate a true loss of business.

In some cases, interruption of operations might not result in a loss of business because you can maintain sales. Insurers require proof that a loss of sales actually resulted from the interruption. The shorter your period of interruption, the more difficult it is to substantiate a loss of sales.

As a client said after a major business interruption loss, “You have nothing to fear but your own accounting system.” If you are not completely familiar with all aspects of your operations, be sure to have the appropriate people available to answer any adjuster questions.

It’s important to create an atmosphere of competence when dealing with the insurer’s representatives. If your facts are incorrect or your presentation is confusing, you may reduce the recoverability of the claim.



Potential claim resolution problems

Certain situations/losses can lead to adjustment problems. Although these can be affected by future ordinances, legal precedents, policy language, and laws, they are valuable considerations in preparing for a loss.

EXCLUSIONS

In the broadest sense, all property insurance policies are either named perils or "all risk" contracts.

In a named perils policy, you are insured for only the perils specified. Even then, there are limiting clauses in the definitions and exclusions. An "all risk" policy, on the other hand, covers all perils unless they are specifically excluded. Check the definitions and limits, and be sure you understand what the policy includes.

Whether the policy is named perils or "all risk," some types of property are not covered. Review both the property and peril exclusions to be sure they do not exclude what you are intending to cover. Many excluded perils and property can be covered by endorsement or under other policies.

VALUES AND LIMITS

Values and locations must be reported as completely and accurately as possible at each renewal — and reflect the policy's valuation provisions. For example, if the policy covers fine arts, values should be reported if your organization does own fine arts. Your policies may have specific requirements for reporting locations and specifically requesting coverages. These must be adhered to or, if possible, modified to suit your ability to provide the information.

Whether or not your policy contains a coinsurance penalty or an occurrence limit of liability provision, the adjustment process and coverage will be tenuous if the loss occurs where values are under-reported or at an unreported location.

Values should not be the determining factor in setting policy limits. Using the largest location's value as the policy limit ignores coverages for items with no reported values that are part of the covered limit (such as business interruption interdependency, extra expense, debris removal, demolition, and increased cost of construction).

The property limit should be carefully reviewed with your Marsh property team.

RED FLAG LOSSES

No matter how much care goes into making the policy as clear as possible, the black and white contract language can get very gray after a loss. Although some losses can be resolved easily, some losses create adjustment disputes for which you will have to aggressively press for the most favorable coverage interpretation. Examples include:

- Electrical equipment — arcing versus fire and explosion
- Earthquake and concurrent causation
- Hurricane losses with accompanying storm surge and surface water
- Business interruption versus idle periods
- Application of deductibles for losses at multiple locations over extended periods, such as from flood or named storm
- Pollutants and contaminants
- Asbestos removal
- Boiler and fire box explosions
- Freezing
- Joint losses
- Design defects
- Land versus land improvements

Your Marsh property claim consultant can assist you in preparing and presenting these difficult claims.

APPRAISAL AND SUIT

Despite all efforts to communicate, compromise, and settle the loss, you and your insurer may come to an impasse regarding your claim's value. When only part of the claim is in dispute, the insurer should make payment of the undisputed amount. These funds will allow you to begin reconstruction, minimizing the dispute's financial impact.

If the problems cannot be worked out, either party can make a written demand for dispute resolution under the policy's appraisal provision. This process resolves disputes as to the amount of loss, not coverage.

In this process, you and the insurer will each appoint an appraiser to provide an expert opinion on the claim's value. These experts then appoint an umpire. When two of the three parties agree, the claim can be settled.

Whether binding or nonbinding, this appraisal provision must be complied with. The policy also sets a time frame for legal action against the insurer. Dispute resolutions involve extra costs and should be pursued only as a last resort.

Coverage disputes, if not compromised, can be resolved through arbitration, mediation, alternative dispute resolution, or legal action.

INCREASED COST OF CONSTRUCTION AND CODE IMPROVEMENTS

In many instances, local or national building codes will change after a building is constructed. The building will be exempt from application of the code until a loss occurs and the building must be reconstructed. Compliance with the codes may increase costs above those to replace with like kind and quality. Examples include earthquake upgrades, adding fire protection, changes in electrical or plumbing systems, meeting sustainability requirements, handicapped access, and other upgrades associated with the Americans with Disabilities Act (ADA).

Some policies cover this increased cost of construction and accompanying business interruption, while others need to be endorsed. Awareness of policy requirements and communicating with the adjuster are crucial to prevent problems.

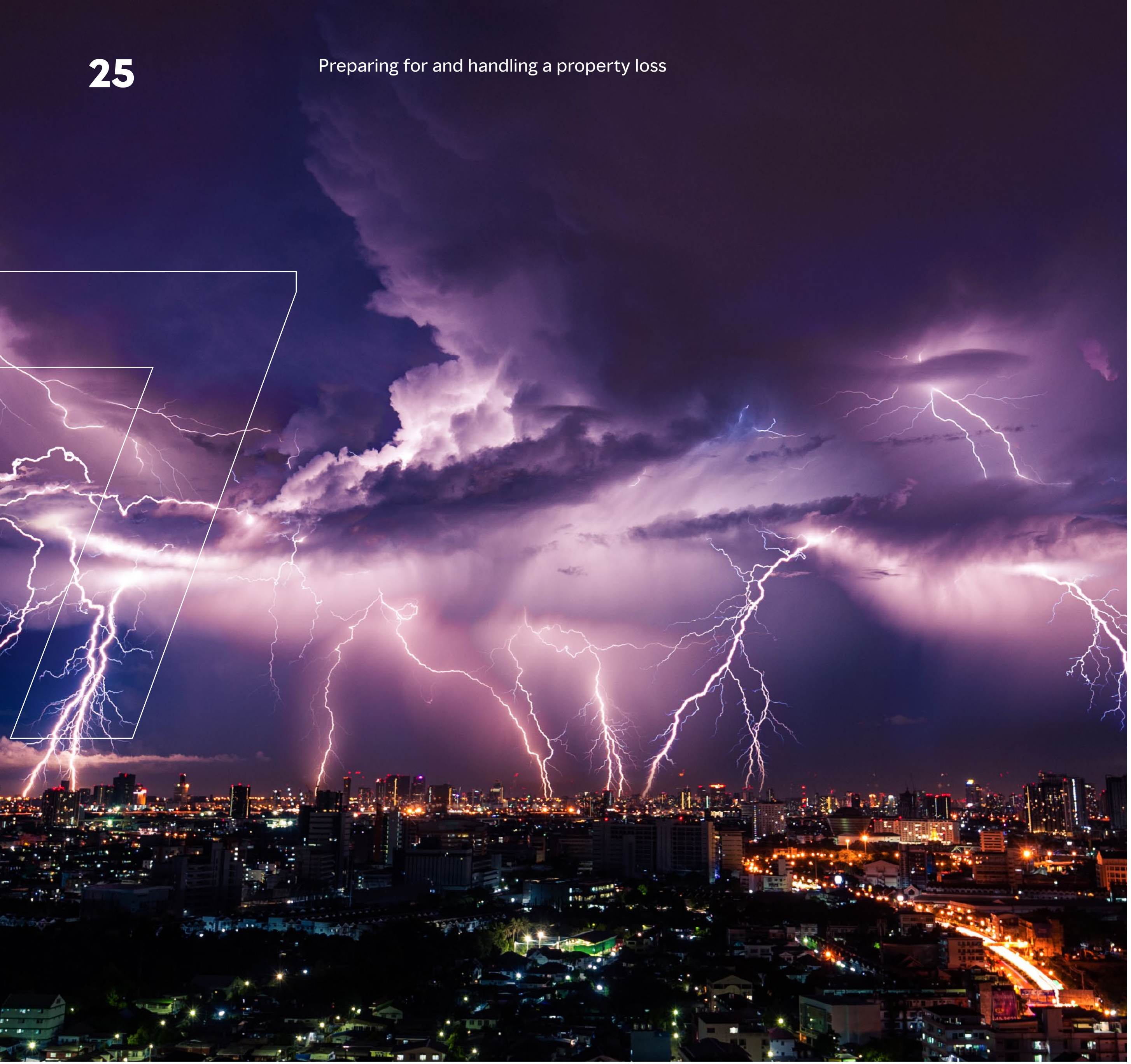
In addition, following a loss event with widespread damage — such as a hurricane, tornado, or explosion — many insureds may find that the true cost of repairs is significantly higher as the cost of labor and materials increases due to high demand and shortages.

DOWNSIZING DUE TO ZONING REQUIREMENTS

Over the years, laws governing land use have become more restrictive, and this can have a significant effect on reconstruction and recovery.

Laws regulating the replacement of buildings after a loss may require extra green space (lawns, plants, and trees), extra parking, and height limits. If the building cannot be rebuilt to the same square footage as before the loss, not only has the property damage claim been reduced, but this reduction in usable, rentable, productive space may cause a time element loss that lasts forever.

Adjusting these losses is very difficult. Although the policy may allow rebuilding at another site, location may be critical to operation.



Appendices

- Appendix 1: Sample property claim reporting procedure
- Appendix 2: Loss checklist
- Appendix 3: Potential claim items
- Appendix 4: Potential extra expense
- Appendix 5: Time element questions
- Appendix 6: How to calculate a business interruption claim
- Appendix 7: Useful catastrophe management resources

Appendix 1: Sample property claim reporting procedure

When a loss occurs that may exceed the deductible, the following steps should be taken.

- Notify your insurer and Marsh as soon as possible by phone, email, text message, or fax.
- Provide the following information to the extent possible:
  - Name and address of loss location
  - Date and time of loss
  - Cause of loss
  - Detailed list of damage
  - Name and phone number of person(s) to contact
  - Probable amount of entire loss
- Restore fire protection to full operation.
- Protect your property from further loss.
- Take photographs or videos of the damage.
- Report all theft losses to the police, and obtain a police report case number.
- Begin salvage or clean-up immediately.
- Make temporary repairs.

Appendix 2: Loss checklist

Date	Notification list at time of loss
	Notify senior management and affected departments
	Notify insurer and Marsh
	Notify emergency team

Date	Loss information to report
	Name and address of insured
	Location of loss
	Date and time of loss
	Type of loss (fire, explosion, etc.)
	Property involved (building, contents, EDP, etc.)
	Extent of damage (dollar estimate)
	Contact name, phone, e-mail, and fax number

Date	Steps to limit further damage
	Restore fire protection (sprinklers, hoses, etc.)
	Make temporary/emergency repairs
	Secure vital records and ledgers
	Begin salvage and clean-up
	Expedite long-term repairs to essential equipment

Date	Property damage claim submission
	Request advance/partial payment
	Obtain repair estimates or appraisal documents from contractors for structural damage
	Assemble blueprints, plans, drawings
	Copy and store invoices for completed work or clean-up
	Get replacement invoices for business personal property
	Document insurable interest in damaged property
	Acquire copies of police or fire reports
	Prepare photos or videos as proof of damage
	Gather asset records (physical or perpetual) to support damaged property
	Set up special work orders, job numbers, or accounting procedures

Date	Business interruption claim considerations
	What type of operation is affected?
	Is there interdependency with other operations?
	What is expected downtime?
	Is production partially or totally down?
	Are sales affected? Partially? Totally? At all?
	What steps can be taken to get you back into operation sooner?
	Can alternative facilities be used?
	Can rental equipment, overtime, or additional shift work be used to reduce the loss? If so, differentiate between normal and increased expenses as well as rent and overtime.
	Are major product lines affected?
	Are there limited markets or major suppliers?
	Can the product be purchased/produced in the marketplace?
	Could sales or services be conducted elsewhere?
	If you can demonstrate the monthly business interruption value of the affected part of operations, request partial payment.

Appendix 3: Potential claim items

- Depreciation
- Repairs and maintenance
- Rent
- Postage
- Telephone
- Utilities
- Supplies
- Dues and subscriptions
- Travel
- Vehicle usage
- Labor (direct and indirect)
- Overtime
- Payroll tax
- Unemployment compensation
- Holiday, sick, and vacation time
- Workers’ compensation
- Insurance and benefit cost
- Consulting fees
- Legal fees
- Other outside fees
- Advertising
- Real and personal property tax
- Other taxes
- Claim preparation expense
- Corporate charges
- Experimental expenses
- Recruiting
- Bad debts
- Discounts
- Interest on loans
- Profit on loans
- Tooling
- Bonuses
- Sales department
- Research and development
- Engineering service
- General/administration expenses
- Commissions
- Licenses
- Tax penalties

Appendix 4: Potential extra expense

- Rental of temporary premises
- Rental of temporary equipment
- Relocation expenses (to and from)
- Preparation of temporary premises
- Telephone and data processing installations
- Extra labor
- Overtime
- Transportation expenses
- Heat, light, and power (temporary location)
- Security service
- Extra engineering service
- Additional manufacturing expense
- Advertising
- Bonuses
- Insurance on temporary location travel allowances

Appendix 5: Time element questions

Certain pieces of information are needed to prepare time element claims.
As you answer these questions, you will see how the concepts apply to your organization.

- What is the production capacity of your operation (office, store, plant, line, or machine) that was damaged?
- At what percent of capacity were you operating at the time of loss?
- At what rate did you expect to produce during the loss period?
- How many shifts a day do you operate?
- How many shifts a day, week, or month do you dedicate to maintenance?
- Will all products lines be affected, or just some?
- Will you be able to supply customers from inventory during the loss period?
- Are you able to access other production facilities in your system to produce while you are down?
- If you have other facilities produce for you, are their costs higher or lower than yours?
- How much production was lost during the downtime?
- How much production can be deferred?
- How much production can be made up with overtime and how long will it take?
- If you have to draw down on inventory to meet orders, how long will it take you to replenish inventories to the quantities before the loss?
- At what point does depletion of your inventories become critical?

Appendix 6: How to calculate a business interruption claim

The key tasks in developing your business interruption loss claim are to:

- Identify the period of interruption and determine what would have happened if the loss had not occurred.
- Compare that projection with what actually did happen.

The difference will be your loss. A simple approach to calculating the full claim amount is to measure the sales lost and deduct non-continuing expenses (for example, raw materials and supplies).

Your business interruption claim — in basic form — might look like this:

Expected sales during period of interruption	$500,000
Less: Actual Sales	$200,000
Sales Loss	$300,000
Less: Non-continuing expenses*	$225,000
Business interruption value of sales loss	$75,000
Add: Extra expense to reduce loss	$15,000
Total business interruption claim	$90,000

**Note: Deduct ordinary payroll if excluded from coverage.*

Appendix 7: Useful catastrophe management resources

GOVERNMENT RESOURCES

- National Hurricane Center
- National Oceanic and Atmospheric Administration (NOAA)
- Federal Emergency Management Agency (FEMA)

NON-GOVERNMENT RESOURCES

- American Red Cross
- The Salvation Army
- United Way

For more information about how Marsh can help you prepare for and manage a property loss, please visit marsh.com, reach out to your Marsh representative, or contact us at www.marsh.com/us/contact-us.html.

Marsh

About Marsh

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