# Playing the claim

**Maximising return on claims is a careful game. Andrea Kirkby has some pointers for risk managers looking for the greatest return**

A major loss will always be a stressful event for a risk manager. But it's also where risk managers can really prove their worth. And while it's easy to think of a claim as simply filling in paperwork, in complex corporate claims the process of preparation will have a major impact on what the insured receives.

Claims preparation should start as soon as possible after the incident of loss. David Henderson, claims manager at commercial property insurer FM Global says, "the first thing we want to happen is for the risk manager to contact us".

While that may seem obvious, Mike Noonan, head of strategic claims management at QBE warns that it is usually over the simple things that people stumble. Senior management needs to have the insurer's contact details at home, as well as at the office. Fires don't usually happen in office hours, and having a quick start could make 48 hours' difference.

Collecting evidence of the loss is crucial – and that's where businesses often make mistakes. For instance with employer's liability claims, Noonan says, health and safety focused investigations often fail to preserve evidence in a form that's useful to the insurer. "We want hard evidence, we need to capture it in a witness statement, not an email from the manager. You need to have documents in an evidentially useful fashion."

Many companies do now take photographs of the scene of an incident. But, he says, even then evidence needs to be properly treated. When taking a photograph, for instance, a record needs to be made of what was photographed, when, and by whom. There also needs to be something in the photo to show the scale – a 50p piece or a person, for instance.

Quarantining the location, checking on machine settings at the time of the accident, and impounding damaged equipment, are all actions that will help preserve evidence until the claim can be prepared.

Noonan mentions a claim where a fire extinguisher exploded during a fire drill, injuring a member of staff. The extinguisher parts were boxed and labelled. It was found that the wrong valve had been fitted – so the company was able to recover against the supplier. In other cases contractors have been responsible for property damage.

"If you're a risk manager that's where you can make a difference in the liability arena," he says. "Post incident conduct can make a big difference to the success of your claim."

Increasing use of outsourcing and offshoring means risk managers may need to gather evidence from other organisations, too. Risk managers need to be alert to the production web and supply chain as a whole. One of the big lessons from Buncefield was that though it was a local catastrophe, it affected the supply chains of many companies based elsewhere.

That's where global claims programmes come in as a sensible way for multi-site, multinational businesses to organise their risk.

But within the global claims programme, risk managers need to be wary of too general an approach. They first need to establish what jurisdictions are involved – and they need to use local partners to ensure the right solutions are adopted. "Don't try to export your home jurisdiction," he advises; "it won't work".

The involvement of lawyers and accountants is becoming more important in larger claims preparation. That's particularly the case with complex larger claims and with claims for business interruption. Businesses would be well advised to check the loss adjusters' figures, not just for the methodology, but because external loss adjusters may not understand the particular business. If, for instance, there is a seasonal bias, or if the loss of major contracts could have a long term impact on profitability, the calculations may need to be restated.

Obviously, the paramount issue for any business is planning for recovery. The claims process is often given a lower priority. But in fact, says Henderson, insurers and adjusters can often help the business recover. FM Global, unlike most insurers, employs its own loss adjusters – more than 200 of them worldwide. He says, "We'll advise on what businesses need to do to mitigate their loss, as well as the administrative things they need to do."

Communication is important. An oppositional attitude to the adjuster will not help the process. Instead, risk managers should be sharing information. Noonan says that insurers' priority is to understand the loss early, so ballpark figures, even with caveats, are helpful. Establishing a rough financial figure for the loss early on is vital – even if it may be changed in the light of subsequent investigation.

Henderson believes that if there's a single error that can lead to problems, it's a communication breakdown between the client and the adjuster. The adjuster needs to be brought into the process and for all parties to work together – more of a partnership approach.

Risk managers also need to communicate well internally. In particular, they need to ensure that those managing the loss locally are aware of their options. And where there is more than one insurer involved, risk managers need to keep communications flowing smoothly between the different parties. They should get assistance from their brokers in doing so.

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Consistency is also important. The current claim should be presented in a similar way to previous claims, so that progress is not hampered by issues about consistency. While many risk managers are still working on spreadsheets – there's no single software package for claims process management – they need to standardise the way these are put together.

Communication is particularly important when decisions are being taken about how to recover the business.

A good example of this is a claim where Corporate Claims International, the business interruption specialist, was involved in negotiating a settlement. The bakery company that was claiming had 'like for like' cover, but the lead time to replace the ovens was 18 months. The company would not only have been out of operation, but would have lost all its major contracts.

Instead of insisting on 'like for like', the insurer funded two much larger ovens, but which could be delivered in half the time. This enabled the firm to be back in business much more quickly – cutting the insurer's total liability.

Risk managers should be using insurers and adjusters as sources of advice. Noonan points out that loss adjusters are "repeat players". Risk managers can plan for catastrophic loss, but experience of such loss is exceptional for them. For adjusters, on the other hand, property losses are their bread and butter. Many loss adjusters have pre-sourced arrangements with salvage dealers, debris removal firms, and decontamination specialists. The fact that they know the firm working on site should also help communications.

For instance Belfor has been called in by insurers on a number of high profile claims, such as the Hilton Hotel in Prague. The hotel was devastated by the floods of August 2002. Crawford & Co called on Belfor to reinstate the building – which it managed in six weeks. Just as well, since the hotel was needed as the press centre for the 16th NATO Summit.

One thing insurers are agreed on is that the time to think about the claims preparation process is not when a risk event occurs. Henderson asserts that "Claims management often starts before we get the account to explain our approach to claims." He then meets new clients with one of his senior loss adjusters. Then, when there is a loss, clients have an existing relationship and a face they know dealing with the claim.

This also gives him a chance to go through the policy with the client, and discuss their preparations for potential incidents. Basic response levels and business continuity approaches can be put in place in advance. What's vital is to build the insurer into the decision-making process.

Noonan believes that the right actions can make a 30 or 40 percent difference in outcome – what the risk manager does can make a huge difference.

"You might think it's all over when the catastrophe happens," he says – "but in fact, it's all still to play for."