

# Show me the evidence

One of the most common reasons companies do not recover what they are entitled to from their insurers is because they underestimate what is required when substantiating a claim. How can claimants prepare now for this eventuality? **By Lynda Hardy Maskell**

**W**hen it comes to disaster recovery, most large businesses are well prepared and have good plans in place. However, the sheer number of potential risks – from bad weather to man-made disasters such as terrorism – can result in potentially huge insurance claims, particularly business interruption (BI). Lack of preparedness to gather the information needed to present these claims can put companies at risk of not being able to recover the full and proper value.

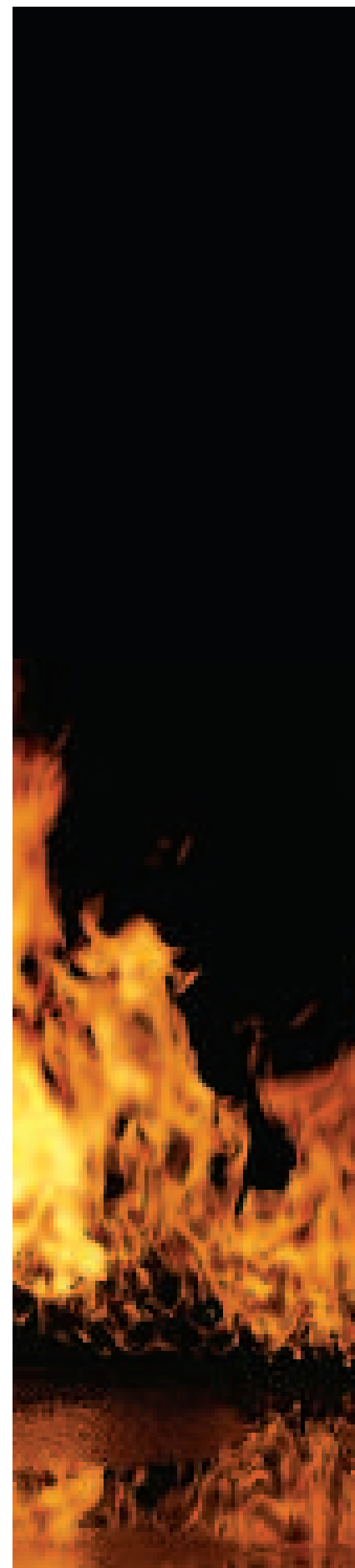
It would be easy to rationalise that business recovery after a major loss is simply a matter of good risk management and an effective business continuity plan that swings into action, allowing a business to continue trading with minimal impact on the customer. Yet many insureds do not recover what they are entitled to from their insurance claims and one common reason is that they underestimate what is required of them when it comes to substantiating their

loss. So, how do claimant companies respond to the insurers' drive for greater detail? Put simply: "Forewarned is forearmed," says Candy Holland, Managing Director of Echelon Claims Consultants, which specialises in managing large, complex or problematical claims.

"You have to understand how the claims process works and prepare for it," insists Holland. "In a major claims situation, insureds must maintain credibility with the insurance market. They have a contractual obligation to provide information as a condition of the policy. They need to be ready with the right processes in place immediately after a loss."

## Forensic detail

Unsurprisingly, given the scale of the industry's losses following a catalogue of natural and man-made disasters in the last decade, when it comes to large claims, insurers and their loss adjusters are now paying far greater forensic attention to the loss evaluation process than ever before. Neither do they hesitate to bring on the





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heavy guns – in addition to loss adjusters, they routinely appoint expert forensic accountants and lawyers from the outset.

According to the terms of most insurance policies, the onus is on the policyholder to substantiate their claim, typically providing “such books of account and other business books, vouchers, invoices, balance sheets and other documents, proofs, information, explanations and other evidence that the insurer may reasonably require for the purpose of investigating or verifying the claim, together with, if required, a statutory declaration of the truth of the claim and any matters connected with it.”

In short, that means insurers will want to substantiate every element of the claim, drilling down into the detailed documentary evidence of timesheets, day-rates and purchase orders. Given the difficulty in locating the relevant department, let alone the people who hold this information in a large company, the scale of the problem becomes clear. But insureds unable to provide this level of detail could find the omission a costly one. AIRMIC (the Association of Insurance and Risk Managers) believes a claims performance index would help restore the industry’s reputation for handling claims fairly, but presented with insufficient documentary evidence on a large case, most insurers will apply a heavy discount.

### **Tensions rise**

According to Leo Dixon, a consultant at Echelon, making a



“The single most important part of the policy is the claims preparation clause. Never under-estimate how much time it takes to gather the information. You have to think about how you will capture the data before the loss. Few companies have a physical paper trail now, and if you don’t code information to allow you to extract it from the system and present it to the loss adjuster, you’re toast.”

»»» large claim is a time when there can be tensions between two important priorities for a company as it struggles to recover: “Collating and preparing information for the insurance market after a major loss can consume a significant amount of time and resources,” he says.

“That’s when risk managers and business units need the support of the board, because if they are going to optimise recovery of their losses, they have to produce as much evidence as possible. It’s a different perspective to the business operations

manager, whose sole purpose is to get the business up and running again. Insurance is not usually on their radar.”

Equally important is the need for someone to review each piece of information, making sure any commercial, claim-sensitive or unnecessary information is not passed to the loss adjusters. Wise claimants will question whether what they are being asked for is part of a reasonable ‘shopping list’ of documents required to prove the loss, or something altogether less pertinent to the claim.

But, while many insureds are ill-prepared for the onerous process of pursuing a BI claim, beacon companies such as BT have seized the initiative. The telecoms giant has developed a ground-breaking protocol that defines the information that will be supplied for each area of its business in advance of a claim – streamlining the whole process of claims handling.

### Be prepared

For a business of BT’s size, working with a large number of insurers on claims could have made the claims process a cumbersome one. Instead, the company called upon the resources of its broker Jardine Lloyd Thompson and Echelon Claims Consultants to devise a loss management protocol that would minimise the complexities and length of the claim process.

One loss adjuster and one external forensic accountant were appointed to represent all the insurers and these two

professionals have worked with BT to agree the methodology and data to be used for each element of the business should a claim arise. It is the methodology that is agreed, not the value, and insurers have given assent for this to be agreed on behalf of the whole market. Called the claims quantification methodology (CQM), BT intends to apply the methodology to all major revenue streams in the business.

For Chris Maurice, BT’s Risk Finance Manager, the rationale for developing this protocol was a simple one: “It’s about good corporate governance. We need to protect our balance sheet on behalf of our shareholders. That means having a robust process around a claim which demonstrates that we have a reasonable expectation of recovering those funds. This allows our accounting colleagues to write back the recovery into the P&L in the year of loss.”

Maurice also believes it is hard to understand the pressure this process puts upon a company until you’ve experienced it for yourself. “The single most important part of the policy,” he says, “is the claims preparation clause. Never under-estimate how much time it takes to gather the information. You have to think about how you will capture the data before the loss. Few companies have a physical paper trail now, and if you don’t code information to allow you to extract it from the system and present it to the loss adjuster, you’re toast.”

“Big organisations can be fragmented, so don’t be afraid to buy in external resources,” Maurice advises. “Do it early, agree a rate in advance, and get the loss adjuster’s agreement for them to assist. It makes the loss adjuster’s role easier if they are dealing with professionals.”

### Presentation is key

How data is presented to insurers and their advisors is key to optimising the recovery of insured losses. Claims consultants, such as Echelon, combine specialist insurance claims, industry and accountancy expertise. They can provide companies with a useful resource to prepare and settle large losses as well as smooth the claims process.

Ultimately, if you want to pursue a successful claim, the onus will be on you. Be prepared. **RS**

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## SIX GOLDEN RULES

- 1 Plan how you will deal with a loss before it happens.
- 2 Stress test your policy and procedures. Understand what your obligations are under the policy and the type of evidence you will need.
- 3 Establish a claims protocol to streamline the process and agree it with your insurers.
- 4 Appoint a senior, board-level sponsor with access to operational teams and information.
- 5 Nominate or appoint someone to review all of the information before it is submitted to the loss adjuster to ensure it does not prejudice your claim.
- 6 Do not be afraid to call in external experts to supplement your in-house resources.



## Claim your ideal partner

Working in a large, fast-paced environment for a long time, together with your company, you may find yourself facing a team of experienced professionals in a challenging market. It's time to get the right people on your side.

Having the right partner will address your needs and help you achieve the results your business deserves.

Echelon's team of professionals will work with you to help you understand your goals and define the key areas of responsibility that are required to get the job done. And, above all, we'll ensure you're satisfied.

With an excellent track record in providing exceptional customer service, Echelon is a team that's ready to help you get the most out of your business.

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