

MAJOR LOSS PREPARATION

KEY STEPS TO SUCCESS

A Guide from Crawford & Company® Global Markets



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Key Steps to Success

Industry data suggests the global economy experiences an average of \$175bn in economic losses from man-made and natural catastrophes every year.¹ Meanwhile insured losses in excess of \$1bn are becoming more common and are no longer restricted to the US alone, with the influence of complex, global supply chains drawing exposures in from around the world.²

Crawford & Company® adjusters have been appointed on numerous \$1bn+ catastrophes over recent years, however many of those affected by these major insured events are often surprised by the nature and magnitude of the losses they face and the complexity of the claims process that lies ahead.

While there have been considerable advances in enterprise risk management and business continuity planning, many corporate insureds undervalue the resources required to deal with a claim, underestimating their own part in the process, which can lead to costly delays and even disputes.

The process of Enterprise Risk Management has evolved significantly in recent years. At board level, C-suite executives need only look at their peers to realise how new and unusual scenarios have caught out corporations, damaged reputations and impacted shareholder returns. The drive to improve the quality, knowledge and input in the area of risk, has moved forward significantly with a more probing and evidence-based approach being required by analysts and investors.

If your organisation can demonstrate a robust approach to major loss as outlined in this three step guide, the risk management function will be doing its job well.

Claims preparation in three steps

Few organisations have direct experience of dealing with a large claim, but would benefit from some understanding about the level of resource required and the amount of detailed information needed to make a quick and full recovery.

A loss adjuster to include forensic analysts, crisis management consultants, and legal experts will be appointed by insurers to investigate and manage a loss, to assist in the claims process and to request from the policyholder increasingly detailed evidence. Claims preparation clauses are a useful way for insureds to seek assistance with claims preparation with brokers offering add-ons to accommodate this type of support at the point of need.

However, beyond the addition of a claims preparation clause, prudent risk managers should always consider carefully how their insurance programme will respond, with the following three steps a helpful guide.

Step 1: Stress Testing – Can your policy perform under pressure?

For quite understandable reasons, policyholders' preoccupations with premiums can mean the policy wordings and restrictions applied to their insurance contract become something of an afterthought.

However, mapping this wording to their risk exposures and ensuring that the policy will respond properly and promptly in the event of a claim is arguably the most responsible step a risk manager can take.

Stress testing involves analysing how your policy will respond in the event of a loss. For instance, an organisation heavily dependent on its supply chain with one or two key suppliers should consider what the impact on their business will be if these suppliers stopped producing following an insured event.

Could they source products from alternative suppliers? How long will it take? What are the contractual terms of the supply chain?

Swift settlement of a claim can mean the difference between a business surviving or going under. However, large claims are often complex, onerous and time-consuming with greater potential for disagreements and disputes. A course of action that can readily be agreed ahead of time (such as whether to use a preferred contractor) could otherwise turn into an argument that takes weeks to resolve.

¹ Source: Swiss Re Sigma 2017

² Source: Allianz Global Claims Review 2017

Step 2: How quickly can you react?

Establishing a procedure to deal with a major loss can help smooth the way to settlement. Knowing who will take charge and who needs to be involved is essential. The person in your organisation who is responsible for the claim should know where and from whom to access crucial information and what resources they need to draw upon to help them handle the claim effectively. The first 24 to 48 hours following an incident can be critical, more so in the event of data breach-related claims where regulatory demands can mandate specific and potentially onerous reporting periods.

Loss adjusters will immediately want to establish the potential size of a loss, using the basis of such estimates (which may include business interruption costs) throughout the claims process. From that point on a wealth of information will be asked for to substantiate the claim and evidence.

A clear communications strategy is essential – all information should be routed through a senior individual before going to the loss adjuster. This plays a vital part in avoiding unnecessary duplication or inaccuracies, which can hamper the claims process.

A Major Loss Plan should consider:

- Resources – who will you need, how will you access them?
- The major loss team – who will be in charge?
- Immediate response – who does what?
- Loss mitigation – how will the major loss team interface with the company's business continuity plan?
- Information – where in your organisation is the data held that you will need to evidence the claim? Who will record and capture it and how?
- Loss quantification and preparation – what is the process?
- Communication and reporting – who are the stakeholders, internal management and external parties involved?
- Do you need specialist, external claim preparation support?

Step 3: Agree a claims protocol with your insurers

Don't wait until a major incident occurs to establish a relationship with your insurer's claims team. Discussing each parties' role, responsibilities and wishes beforehand can help you avoid many of the pitfalls commonly associated with claims handling. By virtue of this process, insurers will have to be more transparent about their claims process and service delivery.

As mentioned earlier regarding claims preparation clauses, brokers are instrumental in this process, helping both parties (insurer & insured) agree which experts will be used and in many cases, direct instruction and pre-nomination of adjusters can prove extremely effective, reduce delay and enable adjusting resources to be put in place immediately after a loss occurs.

This is also an opportunity to agree on any other advisers or specialist third parties that will be involved.

Information to include in Claims Protocol:

- Roles/responsibilities – Which experts will the insurer use?
- Communication procedures and response times that have been agreed upon
- Preferred lawyers and/or other advisers and specialist third parties with whom you have pre-agreement
- Procedures for dealing with any confidentiality issues – will you have a Non-Disclosure Agreement?
- What information will you provide?
- Clarify any ambiguities in the policy wording, e.g. claims conditions – what do they mean? Agree how they will apply
- Claim notification procedures and timescales
- Procedures and timescales for interim payments and basis for valuation of claims



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