

# **What Every CFO Should Know About Large Property Claims**

**By William L. Myers, CPA, CMA**

Even the most comprehensive insurance coverage does not pay for everything, and after a large property loss, CFOs will need to work even harder than usual to ensure that the claim settlement process is on track and that their companies will receive everything to which they are entitled. Successful claim settlement takes place over an extended time-frame and requires copious amounts of documentation, extensive claims expertise, coordination, and leadership.

## ***Picking the Right Team***

Resolving a large property claim requires a great deal of time and involves many people. Insurance companies have experienced teams ready to go, and you will need to act quickly to level the playing field by assembling a claim team that can represent your company's interest. Usually you will need senior risk management, corporate financial, location accounting, legal, and operations personnel on your team supplemented by your insurance broker's claims professionals and professional loss accounting consultants. To function effectively, you will need to make sure that your team has a clear leader.

The insurance adjuster will play the leading role for the insurer and will be supported by a variety of property loss experts such as engineers and accountants. The insurer's attorneys and other key decision makers will play a major role, but they are likely to remain in the background. Although the adjuster will typically suggest that their "independent" accountant can put the claim together for the insured, this is generally not a good idea. The insured will be much better served if it has its own independent loss accountant.

## ***Communicating with the Press***

While your company's communications must strike the right balance between accurately reporting the facts and unnecessarily upsetting customers and the financial community, be aware that the insurance company's claim team will be scrutinizing these communications and may use them against you. If not handled well, corporate communications can cause unnecessary difficulties. Statements like "all orders will be delivered" may be interpreted as stating that no loss of sales will occur when in fact orders have already dropped off.

## ***Financial Reporting***

Assuming the loss is material, there will be a variety of financial reporting issues to deal with. While insurance usually acts to smooth earnings, it can sometimes increase income volatility. If the loss is reasonably estimable but the insurance recovery is not, a timing issue will result. This is not usually a problem as it pertains to the physical damage component of a claim, since it is much easier to estimate in an unbiased way. However, timing differences may arise when a claim has relatively large business interruption and extra expense coverage components, since there are often substantial disagreements about what the insurer is obligated to pay under these coverage parts. Since the portion of the

insurance recovery that is in dispute will not be known until the claim is fully settled, it may not show up as income until many accounting periods after the loss.

### ***Securing Progress Payments***

The adjuster will need a great deal of information soon after the loss so that he can set up a loss reserve for the insurer. The faster you can provide the information he needs, the easier it will be for him to recommend an advance payment. The insurer will make partial payments, but only if it has the information it needs. Claim process timetables should be used to keep the flow of information on track, help manage expectations, and improve payment speed.

### ***Controlling Documents***

Good document control makes the claim process much more efficient. While most of the documents and data needed by the insurer's team will be identified during the claim preparation process, other information requests will be presented to the insured as interim claims are submitted. One of the most valuable claim resources within my company is our *MyClaim Web Portal*. This system organizes document requests and responses in one place giving concerned parties access to all the relevant information and eliminating the hassle of determining what documents have or have not been provided.

### ***Estimating Settlement Time***

Assuming interim claims have been submitted throughout the loss period and there are no show-stopping disputes, companies can expect a loss to settle two to three months after the end of the length of the business interruption or the indemnity period.

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