

RISK & INSURANCE[®]

BY WILLIAM J. KRAMER

Period of Adjustment

An explosion levels a fertilizer plant in Port Neal, Iowa. Fire ravages a furniture factory in the Philippines. Terrorists attack a refinery in Dharan, Saudi Arabia. In Chiapas, Mexico, a natural gas plant explodes. In each of these cases and hundreds more like them, risk managers work with independent property claims adjusters to settle insurance claims.

Sometimes the risk manager and claim adjuster relationship works. The adjuster gets a thorough assessment of the damage and the risk manager's company gets paid efficiently. Other times, everyone involved in the claim suffers unnecessary pain and delay.

A claims adjuster plays a wide variety of roles: detective, forensic pathologist, wealthy benefactor, judge and jury, and protector of the insurer's interests. A claims adjuster represents the insurance company,

not your company. Even so, it is in your company's self-interest to help him or her get the job done.

Here are 10 suggestions for handling independent adjusters so you can get the most from the relationship and more quickly return to other pressing business.

1. Make your priorities clear.

When a major loss occurs, the risk manager usually can't consider the claims adjuster the sole priority. You may have deaths, injuries, toxic waste, pollution, or other critical issues to deal with. Certainly, you'll have to deal with regulatory agencies such as the Occupational Safety and Health Administration (OSHA) and the Department of Natural Resources.

A good independent claims adjuster will understand that he may have to wait in line to get your attention. After all, it's the insurance company the adjuster represents

Although claims adjusters are outsiders, it's in your company's best interest to help them get the job done. Here are 10 ways you can build a better relationship with adjusters.

who will ultimately help your company recover financially.

2. Deal with differences sooner, not later.

You and your insurance broker won't agree with everything the adjuster recommends. On the big issues, it's best to quantify your differences up front. Doing so avoids spending money on something you think your policy will cover only to find out later that it may not.

For example, at Permex Gas, a natural gas plant that exploded in Chiapas, Mexico, there were 50 large concrete stanchions supporting a pipeline. Company engineers thought that all the stanchions might need replacement.

The claims adjuster was concerned because replacing all of them would add \$30 million to the cost of the claim. The adjuster conducted engineering studies showing that only three needed replace-



ment. Because the risk manager and the adjuster dealt with this potential \$30 million difference up front, they eliminated the possibility that the plant owner would replace all 50 stanchions only to discover later that the policy would not reimburse the cost.

3. Avoid blind parallel studies.

On many major claims, two groups of engineers study the damage. One group represents the insured; the other, the insurance company. Without comparing notes, these two groups often grow farther and farther apart on their damage assessment. As time goes on, positions get solidified. Areas of potential disagreement broaden. Instead of such blind parallel studies, try working together with the insurance company's team. Frequent joint meetings can bring to the surface differences early and avoid unpleasant surprises later.

4. Establish a reporting system.

Establishing a reporting system between the adjuster and the departments in your company that are critical to the investigation can help. Usually these departments include the financial, accounting, and operations departments.

Also make sure to set up a thorough system and procedures to capture all the expenses associated with the claim. Have the adjuster review these expenses every 30 days so he can alert you to any that may not be covered. You don't want your settlement to be less than it should be because some expenses were not properly documented.

5. Encourage cooperation, not antagonism, with adjusters.

Unfortunately, it's true: some claims get nasty. Risk managers sometimes feel that "the insurer has collected our money for years. We've never had a claim and now they're trying to nickel and dime us to death. These costs should be reimbursed." Taking such a stance can prolong the claims process. And it could hinder your ability to get an advance on your claim settlement. The pain intended for the other side usually gets evenly spread over everyone involved. In contrast, everyone wins when communication is open and cooperation the norm.

6. Look for signs of impartiality.

Independent claims adjusters are professionally bound to accurately reflect and give an opinion on your claim. Although the insurer pays the adjuster's fees, independent adjusters must conduct impartial investigations.

At the plant explosion in Mexico, the adjuster had several project teams working. He also hired someone to conduct a survey of peripheral damage to the plant's offices. The survey found a million dollars in small incidental damage in chairs, desks, and office supplies. Somehow, this survey's results were not submitted in the claim.

The independent adjuster called the broker and the broker was able to include the additional damage in the final claim. A professional claims adjuster wants to be fair and help you receive every legitimate claim dollar.

Negotiation Settles Dispute

The 30-year-old boiler in a Massachusetts plant failed, and the company wanted to replace it with a new \$100,000 boiler. The claims adjuster investigated and discovered the company could repair the boiler for \$45,000. The adjuster's response: "It's a repair or replace policy. If you can repair it adequately, the insurance company pays for that repair, not for a replacement. If it can't be repaired the insurer will pay to replace it."

But the company didn't think a repair would be safe. To settle the matter, the adjuster, the broker, the risk manager, and the company's financial officer met with the repair firm that gave the \$45,000 quote and the company gave every assurance that after the boiler was repaired it would perform as good as new. Still, the company wasn't convinced.

The adjuster then suggested the company hire a metallurgist and explain to him the concerns. The metallurgist could provide an unbiased, technical assessment on the integrity of the boiler's metal. The company agreed and paid \$2,000 to the metallurgist, who confirmed that the boiler would function properly after the repair.

7. Provide resources.

Once the adjuster has a good grasp of the situation, he or she should sit down with both the insured and the insurer and explain what resources are needed to manage the job. The adjuster might need to hire an independent engineer or an independent

accountant or industry experts. Assembling the right team can make everyone's life easier and make the claim adjustment process work smoothly. Remember, a big part of the adjuster's goal is to get your company's business up and running again as soon as possible. Doing so ultimately reduces the insurance companies' exposure because it reduces what they must pay you for business interruption.

8. Realize your policy may not cover all risks.

Many risk managers don't fully appreciate all of the risks facing today's companies, especially in an increasingly global marketplace.

Several years ago, a large semiconductor facility burned to the ground in Japan. The fire created a ripple effect in the industry that caused many companies to suffer large contingent business interruption losses. The industry depended on material from Japan to build products for their own customers.

9. Avoid an over-reliance on computer programs.

Technology can make loss assessment quicker, but sophisticated computer programs are not the answer to thorough loss assessment. Computer programs can plug in unit costs for materials, equipment, labor, etc. and generate an estimate for the repair cost. They're good tools for rough evaluations of losses, but without a professional claims adjuster, effective major loss adjustments, negotiations, and settlements are not possible.

You may not be able to find a contractor who can do the necessary work for the amount the software says it should cost. Or, you may not want to rebuild your facility in exactly the same way. The adjuster can analyze the situation to determine what is and isn't covered.

10. Give peace a chance.

It's natural for risk managers to see the claims adjuster as a potential adversary. You may think the adjuster's goal is to minimize the claim. In fact, the adjuster is not there to cut claims in every possible way. The adjuster's main goal is to verify damage, make sure everyone realizes the full extent of those damages and make recommendations. Doing so enables the insured and the insurer to make good decisions at the earliest point of time.

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