Duff & Phelps

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Insurance Valuation TODAY

Providing insights into current trends and issues affecting insurance valuation of real and personal property.

September 2019

INSIDE

In this issue of Insurance Valuation TODAY we cover topics of interest for insurance professionals, risk managers and others that need to determine insurable values and replacement costs of real and personal property. In one of the featured articles, experts from Kroll, a division of Duff & Phelps, discuss the importance of diligently vetting, onboarding, monitoring and auditing critical third-party service providers and vendors. Our second feature story discusses practical ways to establish control in the chaotic aftermath of a catastrophic loss and suggests alternatives that you can incorporate in to your disaster recovery planning.

Insurance Valuation TODAY

Included in this issue is a Cost Trend Update providing construction and equipment cost indices for the U.S. and UK that can be applied to building and equipment book values to determine indicators of replacement cost.

We hope you find the information contained in this newsletter useful and encourage you to contact us if you require additional support.

U.S. Cost Trend Update September 2019

Construction Cost Indices

The jump in construction costs seen in 2017 saw even greater increases in 2018 based upon three of the four sources we use to track construction costs. Through the first half of 2019 we saw construction costs fall back, even to a point below historical average increases. All four indices show annualized increases for 2019 between -1.0% and +2.2%. Steel prices, a leading indicator of construction indices, stabilized at $662 per metric ton in 2016, increased to an average of $767 per metric ton in 2017 and jumped up to an average of $907 per metric ton in 2018. In March 2019, steel dropped slightly to an average of $861 per metric ton for the month and has been on a consistent downward trend. Overall, this represents a decrease in steel prices of 5.6% to-date in 2019 from the 2018 average price and a decrease of 13.9% from the 2018 high of $1000 per metric ton.[1] With regards to labor, wages continue to rise and more experienced individuals are entering the workforce, however, there is a limit to the availability of qualified individuals. The average wages for those working in construction increased at an annual rate of 2.9% in the second quarter of 2019. This compares to an increase in the annual rate of 3.2% during the same quarter of 2018.[6]

	2016	2017	2018	2019
ENR – Building Cost Indice[2]	+2.9%	+3.3%	+3.3%	+0.8%
FM Global – US Industrial Buildings Average[3]	+1.6%	+1.2%	+5.2%	+0.6%
RSMeans – 30-City Average[4]	+0.8%	+4.0%	+5.5%	+2.2%
Marshall & Swift, US Average[5]	+0.0 to + 0.9%	+2.7 to +3.7%	+3.2 to +6.0%	-1.0 to +1.0%

Note: The range of change shown by Marshall & Swift represents different classes of construction. 2019 numbers for both construction and equipment are annualized rates of increase based upon data from the first 6 months of 2019.

Equipment Cost Indices

Three sources for equipment cost indices had significant increases in 2018, compared to the previous three years. With the annualized increases to-date in 2019 retreating back towards historical averages in two of the three indicators.

	2016	2017	2018	2019
Marshall & Swift/Boeckh - Industrial Equipment Avg.[5]	+0.9%	+2.6%	+4.8%	+1.8%
US Bureau of Labor Statistics - Producer Price Indice for Finished Goods, Capital Equipment[6]	+0.9%	+0.9%	+2.7%	+0.6%
FM Global - Industrial Equipment Composite[3]	+0.0%	+1.2%	+2.8%	+3.0%

Take care when selecting an indice to track the rate of cost change for your company's capital equipment. The three indices in the table above all track average capital equipment cost change percentages, and indicate the differences that have occurred over the past four years. Developers—as well as insurance brokers, underwriters and valuation consultants—can all recommend appropriate indices for your particular facilities. Select one that represents your capital equipment as closely as possible; there are significant differences between the average indices shown and specific industrial-sector indices.

Always remember that cost indices are just average indicators of change; they are not absolutes, and there is no average building or average assemblage of equipment. After five to seven years, you should establish a new replacement cost basis by using a qualified valuation consultant.

Sources

1. MEPS (International), Ltd, All carbon steel products composite price and indice
2. FM Global, Industrial Cost Trends
3. RSMeans, Construction Cost Indices, 30-City Average
4. Marshall & Swift/Boeckh, Marshall Valuation Service, Quarterly Cost Indice
5. US Bureau of Labor Statistics, Producer Price Indice for Finished Goods - Capital Equipment
6. US Bureau of Labor Statistics, Employment Cost Indice, Wages and Salaries for Private industry workers in Construction, 12-month percent change

UK Cost Trend Update

Since the economic crash in 2008, and the sharp decline in building costs the following year, the UK construction sector has shown a period of stability as noted by the cost increases of between 1-4% year on year, as per BCIS's Building Cost Indice. Forecasts predict that construction costs in the UK we will see rises of c. 3-4% a year over the next four years, although this should be treated with some caution due to the current political uncertainty in the UK.

The cost of machinery & equipment in the UK has also noted increased stability, with prices rising on average by 1-3% over the past four years. The exception to this is the machinery & equipment for the production of food, beverages and tobacco which showed a sharp increase in the second quarter of 2019 and has remained at this level since.

Indice	Source	2016	2017	2018	2019
Buildings					
Building Cost Indice (1)	BCIS	1.6%	4.0%	3.9%	3.1%
Tender Price Indice (1)	BCIS	1.8%	12.9%	4.1%	3.1%
Machinery and Equipment					
Machinery and Equipment (2)	ONS	1.8%	2.7%	1.4%	1.4%
Metal Forming Machinery and Machine Tools (2)	ONS	1.5%	2.9%	5.3%	0.8%
Food, Beverage and Tobacco Processing (2)	ONS	1.7%	1.1%	1.7%	6.8%

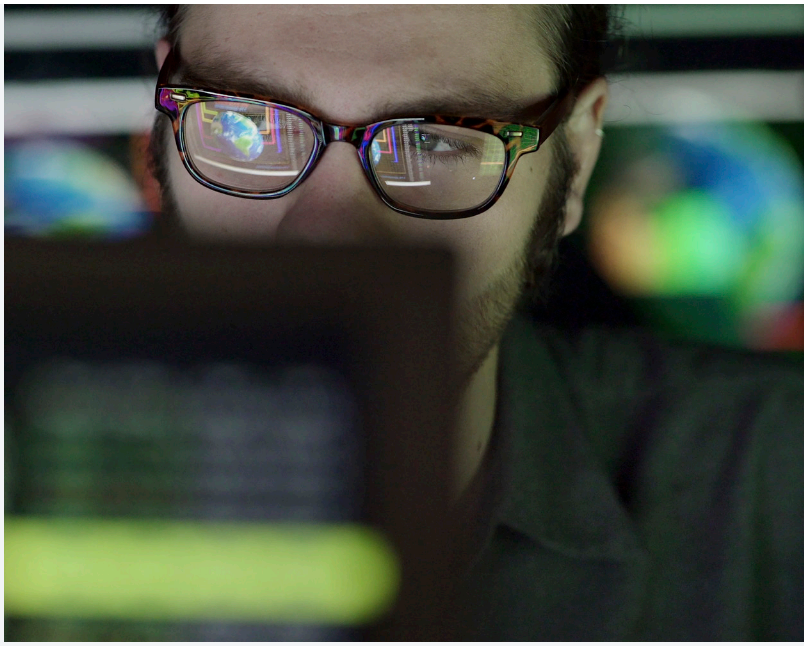
Sources

[1]. Building Cost Information Service (BCIS)

[2]. Office for National Statistics

Keep Good Company

Written by Jason N. Smolanoff - Kroll a division of Duff & Phelps, Aimee Nolan - Grainger, Antony Kim - Orrick



It has never been more important to diligently vet, onboard, monitor, and audit critical third-party service providers and vendors. These third parties exist to make life easier, more efficient, and more innovative and to help you better serve your customers. To do so, they often have access to, ingest, and store tremendous amounts of data for various processing purposes. Given this reality, it is hardly surprising that vendor-attributed data breaches are increasingly common. A recent study by Soha Systems found that 63% of data breaches may be directly or indirectly related to third-party access by contractors and suppliers.[1] And while there are certainly examples of bad press and enforcement activity against a service provider who suffers a data breach, by far, the rule is that the company bears the brunt of its service provider's cyber mistakes and mishaps. Continued corporate migration to the cloud, and the growth in outsourcing generally, set the stage for significant third-party risk going forward.

On this front, the Securities and Exchange Commission's 2018 cyber guidance is instructive.[2] Throughout the guidance, the Commission repeatedly cites to third-party "suppliers," "service providers," and "vendors" as critical to, among other things, enterprise risk, cyber incidents, and potential breach response and remediation costs. Companies are admonished to think long and hard about how service providers might be discussed in their public filings (e.g., "Past incidents involving suppliers, customers, competitors, and others may be relevant when crafting risk-factor disclosure."). Indeed, the fallout from a third-party breach can be significant for companies that have tight operational connectivity and integration with their vendors (e.g., in the supply chain). Where companies rely on third parties not only for operational support but also for cybersecurity controls, the stakes may be even much higher. The same goes for companies that rely on service providers to provide critical e-commerce support. In these scenarios, a failure in the vendor's measures designed to protect against, identify, detect, or respond to major cyber events could materially impact the company.

Despite these warning signs, many organizations still struggle to get their arms around their service providers. A 2018 Ponemon study[3] found that 59% of survey respondents reported experiencing a data breach caused by a third party. That number increased 5% from 2017, and up 12% from 2016. More than 75% of respondents believe that third-party data breaches are increasing. But nearly one quarter of respondents admitted that they did not know if they had had a third-party breach in the previous twelve months. More troubling is that only 35% of respondents are confident that a third-party vendor would notify them if the vendor suffered a data breach. And only 11% are confident that a downstream fourth-party vendor would notify them of a breach.

Much has been written about the design and execution of robust vendor management programs. We do not wish to duplicate that here. It goes without saying that vendor management can impose significant costs, and we are not advocating the outsourcing of vendor management to yet another service provider (e.g., companies that offer website/online scanning technology). Rather, we offer three tips on less notorious but (in our experience) effective risk mitigation moves that counsel might consider vis à vis third parties:

- Define "Breach" Strategically, Address Cooperation, and Seek a No-Past-Breach Representation

In the United States, the scope of notifiable data breaches is actually quite narrow as only certain types of data and certain circumstances trigger mandatory notification regimes. In vendor contracts, companies should consider what types of cybersecurity events or incidents matter in terms of managing their risk, and negotiate for definitions consistent therewith. Moreover, in our experience, companies and their vendors must cooperate with each other when a cybersecurity incident occurs that affects them both. When third-party breaches happen, regulators look at not only the security commitments that a company obtained from the vendor, but also the speed and quality of information and cooperation that the company obtains from the vendor to help to more quickly and effectively mitigate harm to any impacted consumers. Finally, we have found that it can be very helpful to include a draft contractual rep that the vendor is not aware of facts or circumstances suggesting a past "breach" (defined as discussed above). This type of rep has two benefits. First, it usually prompts a discussion with the vendor around different types of incidents that the vendor has experienced, and whether or not they are covered by the rep. Second, because many breaches trace back to hacks and other events that occurred many months or even years ago, a no-past-breach rep can provide significant leverage should the rep turn out to be untrue.

- When Bargaining Power Is Unequal, Implement Compensating Controls

In many situations, a service provider is so large, powerful, and essential that companies are unable to negotiate for customized contractual protections. In these situations, counsel are well advised to work with their clients to identify and implement compensating controls. This can be as simple as turning on a multifactor authentication option that the vendor offers, or as complex as implementing supplemental encryption strategies.

- Exercise Your Audit Rights

In our experience, when regulators investigate a breach attributable to a service provider, the fact that the company had a contractual right to audit compliance is becoming less and less acceptable. Regulators want to see more. Counsel should take time to identify critical vendors and, to the extent no audit process is in place, consider the possibility of some (any) checks on whether vendors are living up to their security commitments. And as regulatory requirements and expectations evolve, they should be reflected in both vendor management practices as well as in updated contractual provisions.

Read Tips from the Trenches: Make Your Company Less Attractive to Cyber Enforcement

This article has been published in PLI Current: The Journal of PLI Press, Vol. 3, No. 2 (Spring 2019), https://www.pli.edu/PLICurrent

A version of this article has been published in the Course Handbook for PLI's Twentieth Annual Institute on Privacy and Data Security Law.

Sources

1. Soha Systems, Third Party Access Is A Major Source Of Data Breaches, Yet Not An IT Priority (Apr. 2016) (online survey of over 219 IT and security C-level executives, directors, and managers).

2. Commission Statement and Guidance on Public Company Cybersecurity Disclosures, 17 C.F.R. pts. 229, 249 (2018).

3. Ponemon Institute, Data Risk in The Third Party Ecosystem (Nov. 2018).

Claims Management Issues:
The Catastrophic Property Loss
By Gerald Ritter & Ken Ritter

The management of a catastrophic loss begins long before the event occurs. We are all familiar with the analyses that must take place before a property risk is underwritten, including the determination of values and decisions regarding the transfer of risk. To a large degree, these judgments are carefully made, with an eye toward utilizing insurance coverage as the source of funding a business recovery. What is often overlooked, however, is the fact that the landscape changes dramatically when a risk changes from theoretical to actual. It is at this point, when disaster strikes, that the best planning is severely tested.

This essay will explore practical ways to establish control in the chaotic aftermath of a catastrophic loss. It will suggest alternatives that can be made part of your disaster recovery planning. It takes, as its premise, the fact that the placement of insurance coverage is an essential beginning to any recovery – but it is only that – a beginning. The table has been set, so to speak, for a banquet no one hopes will ever take place. To carry this metaphor to its conclusion, no banquet, no matter how wonderful the chef, can ever be successfully concluded without a trained staff prepared to serve the meal and clear the table. It is here, in anticipation of a catastrophe, that planning must begin anew.

Goals of the Policyholder

Despite its complexity, the management of risk prior to a loss has two basic components:

1. To identify the risks present in any situation; and
2. To make a conscious choice to assume that exposure or to transfer the risk to a third party.

The last thing anyone wants is the assumption of any part of a loss for which the transfer had been presumed. When a catastrophe occurs, the objective is to be made "whole." Stated another way, the object is to recover in full the entire value of the loss from the third party to whom that exposure had been transferred.

At the time of the loss, another risk can be identified – the danger of underutilizing the insurance policy. In order to minimize this possibility, an insured should give serious consideration to the preparation of a procedure manual to be followed in the event of a property insurance claim. The issues I will discuss may be incorporated in such a plan.

Preparing for the eventuality of a catastrophic loss begins with the identification of all items necessary to fully utilize the benefits of the insurance policy. It may be summarized in the answer to this question: "What action is necessary to assure that the policyholder will utilize all of the available insurance benefits while expediting the resumption of normal business operations?" As we prepare an answer, we must address that question generally, and each step along the way must be specifically designed to accomplish the following:

- Focus on the overall business goals and economic considerations of the insured;
- Establish a recovery team and protocol for working with the insurer and its myriad consultants;
- Facilitate the efficient collection, utilization, and exchange of all information relevant to the claim process;
- Develop an exhaustive analysis of the scope of loss, assuring an accurate measurement of the insured's entitlements; and
- Resolve the insurance claim in a systematic and expeditious manner, thereby reducing the risk of litigation.

Overall Business Goals and Economic Considerations

Despite the disorder caused by a catastrophic property loss, there are opportunities presented and problems to be solved. Unfortunately, there is a temptation to restore the status quo as quickly as possible without giving adequate consideration to the future. For example, a manufacturer may choose to restore an identical facility without questioning such things as production inefficiencies, location alternatives, and plant size or process flow. If the mechanism is in place to coordinate all aspects of the claim process, considering both business needs and insurance claim requirements, the policyholder will be able to use this information to make better decisions. The creation of a recovery team facilitates this global approach to decision-making.

The Recovery Team

The successful management of a catastrophic loss begins with the selection of the personnel assigned to deal with this arduous task, including both internal resources and outside consultants. It should be considered that all aspects of a business are affected in varying degrees by such an event. The expertise necessary to deal with the myriad issues (i.e., financial, legal, accounting, engineering, architectural, customer service, marketing, public relations, etc…) exceed the capability of any one person or department. For that reason, a business should consider identifying its recovery team in conjunction with the creation of its disaster response plan and procedure manual for property insurance claims. While each business and loss has unique requirements, the following disciplines from the insured's management team should generally be included:

- Risk Manager – having placed the coverage and analyzed the exposures, the Risk Manager is an essential team member. Working with the insurance broker, the Risk Manager can not only address coverage issues but often has important knowledge regarding the intent of the parties at the inception of the policy. Any prior claim experience will also be valuable.

- Financial Officer – brings the important global financial picture to the team. It is here that the overall financial impact on operations can best be assessed. The Financial officer will also be essential to the ultimate measurement of business interruption and the expenses required to reach pre-loss levels of operation.

> The last thing anyone wants is the assumption of any part of a loss for which the transfer had been presumed.
> When a catastrophe occurs, the objective is to be made "whole."

- Operations Officer – the person responsible for the business operation of the damaged facility is a repository of critical information. The Operations Officer is instrumental in bringing a business prospective to the recovery team. This individual will also have critical input into decisions regarding the extent and type of rebuild and replacement that will take place.

- Facility and Construction Departments – generally the "keeper of the keys" has knowledge of every aspect of a facility. Often they have been involved in supervising the construction or improvements to the site, and will be a very important participant in the salvage and restoration effort following a loss. The Facility Manager can be immensely helpful in piecing together a clear picture of the building and equipment prior to the loss and detailing information that may not be available from other records. In addition, the individual charged with the responsibility of overseeing the restoration of the property is an important team member.

- General Counsel – no business recovery team is complete without counsel or a designated representative from that office. A catastrophic loss means that millions of dollars are at stake and the possibility of litigation is always present. Under no circumstances do you want your lawyer playing "catch up." General Counsel should be participating in claim strategy and documentation decisions, and should be reviewing the exhibits and proofs of loss tendered to the insurer.

- Information Technology Department – the individual charged with the responsibility of overseeing information technology is an important team member. In addition to assisting in the loss mitigation and business recovery effort, the IT department is invaluable in analyzing the scope of loss for technology damaged or destroyed in the incident.

In addition to the resources from the insured's management team mentioned above, the following outside consultants should also be assembled as part of the recovery team:

- Claim Consultant – there is no substitute for experience when dealing with the vagaries of a catastrophic loss. The sheer number of issues to be addressed and decisions to be made are overwhelming. An experienced claim consultant, that specializes in the measurement and certification of property and business interruption insurance claims for the policyholder can be invaluable. Such a consultant should bring skill and experience in each of these areas: claim management, property damage assessment and valuation, and forensic accounting. The documentation of a property damage and time element claim is a specialized process requiring a familiarity with the requirements of the insurance policy and the alternative methodologies available for an effective claim presentation.

- Insurance Broker – the assistance of the insurance intermediary that placed the coverage is very important. Since they were intimately involved in the underwriting process of the insurance company and the buying decisions of the policyholder, the broker lends important insight and experience to the process. The broker often also has a continuing working relationship with the insurer and can be instrumental in ironing out the inevitable rough patches in resolution of the claim.

- Auditor – the policyholder should have the assistance of its accounting firm familiar with the business operations and the financial impact of the loss regarding financial reporting requirements.

- Coverage Counsel – most catastrophic claims involve legal issues and interpretations that are very specialized. General Counsel may want to consider retaining a law firm with particular knowledge and experience in property insurance claims. Should litigation be necessary, these specialists will be better equipped to provide guidance.

- Forensic Damage Specialists – from time to time it will be necessary to consult with other defined specialists in such areas as construction, engineering, machinery evaluation, environmental impact or causation. The team will be able to assess these needs as the claim progresses.

- Public Relations – many catastrophic claims involve sensitive issues of communication with the public. Consultation with a public relations expert can often avoid the financial impact of unnecessary information communication errors.

The actions of the business recovery team must be intensely focused to utilize all of the available insurance benefits while expediting the resumption of business. When a catastrophic loss occurs, the demands on the insured are tremendous. Business decisions must be made quickly, while at the same time pursuing the lengthy claim analysis. Attention must be given to the core business while the policyholder is simultaneously compiling, presenting and negotiating an insurance claim. For this reason, a multi-disciplinary recovery team such as the one suggested is essential. It will have an overview of the entire process and, most importantly, will be able to weigh the effect that various business decisions will have on the claim, and vice versa. It can be costly to make such decisions in a vacuum.

For example, the human resource and operations people will likely be making quick decisions about the reallocation or lay-off of employees working at the damaged facility. At the same time, those handling the insurance claim will be making judgments about insurance coverage for ordinary payroll, or the designation of "key employees" eligible for reimbursement as a continuing expense. It is very important that someone be coordinating those efforts so that intelligent decisions can be made in both instances.

Another common example involves upgrades to the structure mandated by the building law and ordinance. A policy endorsement providing for the payment of these increased costs of construction is very important. Equally important is the coordination of the efforts of those handling the permitting process and the team dealing with the claim. By way of illustration, if the insured is able to negotiate a waiver or dispensation of certain code requirements, the recovery team should identify and include the expenses for that effort as a part of the insurance claim. Conversely, if the insured finds such upgrades to be required by law, the recovery team should be working closely with the permitting and construction group to assure that such additional construction expenses will be compensable under the policy. The name of the game is communication. The failure to do so will inevitably result in some portion of the loss being uninsured.

Management's selection of a business recovery team allows the policyholder to proceed rapidly and efficiently with the claim process. The insurance company will also respond with a team of professionals to assist them with the loss evaluation and determination of coverage. This group will, at a minimum, be comprised of the lead adjuster representing the insurer(s), a building consultant (which may include a general contractor and/or engineer) a machinery consultant (if extensive equipment is damaged or destroyed), and a forensic accountant. Each of these consultants work for the insurer, and will be taking their general direction from the insurance company adjuster. This group of consultants may also include one or more attorneys who will be dealing with such issues as insurance policy interpretation and subrogation recovery from third parties. Together this group will represent the interests of the insurer in the measurement of the loss and the applicability of coverage. For this reason, it is necessary for the policyholder to assemble its management and consulting team to mirror the disciplines that the insurance company will bring to the loss adjustment.

Aspects of the Claim Process

As we review specific components of the claim, it is helpful to remember that every property and time element claim breaks down essentially into three overlapping phases, each of crucial importance to the outcome.

I. *Strategy*

This phase is focused on analyzing the full extent of loss considering the actual physical damage and the resulting impact on business operations and developing an overall claim strategy. It is essential to analyze the opportunities and risks associated with various recovery scenarios in light of the existing policy coverage. A detailed workplan should be developed that will serve as a roadmap for the entire claim process.

II. *Preparation*

This phase involves the compilation of data necessary to prove the full extent of loss to the insurer. Often divided between property and time element coverages, all documentation must be reviewed and coordinated with the workplan previously considered.

III. *Certification*

The parties to any contract, including a policy of insurance, can and will differ in the interpretation of the entitlements of the insured, the responsibilities of the parties, and the significance of data. A policyholder must not merely "present" a claim – the position must be meticulously documented and certified to the insurer.

The Claim Process

While no two claim scenarios are identical, it is useful to outline the general flow of activity that usually takes place. It may be particularly helpful to keep these facts in mind as a business is putting together its general disaster recovery plan, and procedure manual for property insurance claims. Following the structure suggested earlier, claims evolve through three stages.

The work plan that is developed for the claim preparation should reflect, as closely as possible, the general progression noted. It should also be delineated with reference to the various insurance coverages and valuation basis afforded under the policy. For example, property should be subdivided into real and personal; personal property thereafter separated between machinery and inventory; inventory broken down to its components such as raw materials, work-in-process, and finished goods, and so on. By treating each element separately, accuracy is assured. In addition, the insured can visualize, as the claim document is taking shape, how each element will be categorized under a particular policy coverage. For example, there may be a sub-limit for pure extra expenses incurred to resume normal business operations under the time element coverage. The insured has the right, however, to be reimbursed by the insurer for any expediting or mitigating expenses incurred that in fact reduce the business interruption loss. By tracking and compiling these extra expenses separate from other normal expenses, the policyholder can determine, before the claim is submitted, how close they are to an extra expense sub-limit. Therefore, the insured will know how much savings must be demonstrated to the insurance company to assure payment of these expenses, and reduce the possibility of making a business decision that results in an uninsured loss.

In order to successfully implement the type of detailed plan necessary in a catastrophic loss, there are numerous and diverse documents that must be assembled, analyzed, and interpreted to determine their relevance to the claim. This is a daunting but necessary task to assure that the insured is presenting an accurate claim of sufficient detail to achieve full indemnity under the insurance policy.

Anticipating this need, the policyholder should have a general idea of the type of data that will be required, and incorporate a system for securely retaining such information before a loss, and tracking the information following a loss. It is advisable to incorporate such a program in the disaster recovery plan and procedure manual.

Relationship with the Insurance Company

A catastrophic loss presents new opportunities and challenges for the relationship between the policyholder and its insurer. Clearly, there are opportunities to strengthen a long standing association. By responding quickly to the needs of a business in distress, a property insurer can provide a desperately needed service for a client in need. Through a cooperative working relationship, the parties can make important changes in loss control procedures, expedite subrogation recoveries from third parties, and conclude the adjustment of the claim in a fashion and timeframe acceptable to both parties.

The question then arises, “why is this scenario the exception rather than the rule?” Insurance company adjusters often view the insured with an air of general skepticism, assuming that loss presentations are either inflated, or flawed in their analysis. In addition, the claim representatives and experts retained by the insurers frequently adopt a parochial attitude toward the claim process, insisting on making every loss analysis fit in to their “cookie cutter” of previous experience. This is especially true where insurers employ computer generated claim standards, valuation models and procedures without consideration of the uniqueness of each claim.

It would be convenient to lay all of the blame at the feet of the insurance company. But by failing to recognize that there has been a change in the relationship, the policyholder may contribute to the creation of a strained or even adversarial relationship after a large loss. Policyholders often let the insurance company take over the loss adjustment process, and adopt an attitude of reaction to the insurer, rather than viewing the process as an arms-length financial transaction to be conducted in a professional and cooperative atmosphere. Instead of taking an independent course in the analysis of their loss, too many businesses confuse cooperation with conformity and realize only too late that their insurance company has changed from a guarantor to an obligor. After a loss the parties are confronted with an unliquidated debt. And like any other business relationship, the parties will differ in the measurement of that obligation.

The solution is painfully simple – treat a catastrophic loss with the same care, attention, preparation, and independent analysis that any business would give to a multi-million dollar business transaction. No corporation would undertake an acquisition without detailed planning from a multi-dimensional management task force to analyze the potential impact on operations and earnings. No business would assemble its financial records and present the data to the Internal Revenue Service to prepare its tax return. Yet with great regularity, businesses cede the administration of complex property insurance claims to the same party that must measure and liquidate the obligation. It is a process destined to fail.

If, however, the policyholder is prepared for the unexpected, and has made claim preparation an integral part of its disaster planning, the chances of a successful conclusion are much greater. The insured can then approach its loss, and subsequent claim, in the same proactive way it deals with other business issues. The insurance company is viewed as a respected participant in a large commercial transaction, necessitating the same due diligence and caution. Therein lies the beginning of a successful working relationship.

Conclusion

There is no time more critical in the life of any business than the days and weeks immediately following a catastrophic property loss. Management is confronted with numerous issues impacting its ability to continue operations. It must face important decisions about the future, while simultaneously handling the multi-million dollar transaction represented by its insurance claim. Planning is critical to management's ability to deal with the daunting challenge. Success depends on preparation, including a creation of a recovery team, creation of a disaster plan and procedure manual for the insurance claim, as well as the accumulation and protection of essential records. Only then will the insured be comfortable knowing they will survive and thrive in the face of all that nature may throw their way.

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