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Public Losses:
Navigating the
Bureaucracy
to Manage
Damage Claims



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PUBLIC LOSSES: Navigating the Bureaucracy to Manage Damage Claims

Like the proverbial "always prepared" Boy Scout, savvy public risk managers have a bushel full of preventative programs at their disposal, designed to mitigate most anticipated losses and cover their exposures, from workers' comp programs to standard liability issues. But, as a risk manager, how prepared are you should an actual disaster hit, such as a major hurricane cutting a wide swath through your city, destroying everything in its path, and causing millions of dollars in damage? What about a hazmat spill? Sure, you probably have the proper insurance coverage, but that's only one piece of the puzzle. So, what do you do now?

BY FRANKLIN S. HOROWITZ

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Let's rewind the tape first. For argument's sake, let's say you're the finance director of a small municipality in the Midwest. This task needn't be daunting or overwhelming if you've already taken the time to gather the other pieces of the risk puzzle. When you were putting together your risk management plan and placing your insurance coverage, did you develop partnerships with your fellow department heads so they would all know their roles should a major disaster hit? The point is to get them on board before anything happens so you can rely on them to respond quickly as part of a disaster team. The members might include an environmental expert, facilities manager, finance director or CFO if you're the risk manager, a transportation department head, and any other executive critical to getting your operation up and running again quickly and safely.

In this advance planning stage, your role is to work as the coordinator, determining which departments would need to be included in specific types of catastrophic events. For example, in anticipating a terrorist attack — unfortunately, something we do need to plan for in today's political climate — biological or other hazardous materials might be the central problem, so your environmental department would need to be represented on your disaster team. By adopting this advance team approach, you'll be able to respond much more quickly to a property loss and make it more efficient for your insurance company to settle your claim, too.

Consider the following scenario, and how the claimant's objective plays an important role: A large school district suffered extensive property damage when a major hurricane blew through the city, causing destruction to 350 schools. Some damage was cosmetic, running up to \$50,000, while more widespread damage climbed as high as \$2 million at a single location. The response team included the risk manager and the facilities department, which was, fortunately, available 24/7.

With a school district, the primary objective after a loss is to reopen the schools as quickly as possible, while also ensuring they're safe for the students and teachers. There are many decisions to be made at each damage location, such as: Is this particular loss covered by the insurance and, if so, does the cost of the repair exceed the

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deductible? Are there environmental issues? How much should be fixed to make it safe without jeopardizing the insurance coverage?

As the risk manager, you walk a fine line between working with your facilities department to make emergency repairs while preserving the damage evidence for the insurance adjuster, who may not be able to get to the scene for a couple days. Without the forensic evidence — which could be altered if the facilities department makes permanent repairs — it may be impossible for the insurer to determine the extent of the damage and the value of the claim.

How do you avoid this dilemma?

- Obviously, set up your team of department leaders ahead of time and define everyone's role, so when disaster strikes, like a well-oiled machine everyone leaps into action, making the appropriate phone calls and getting to the scene quickly.
- Of course, immediately report your loss to your broker or insurance carrier. Don't just assume they know about it because they've seen the news of the major hurricane on television.
- Document everything. Think like the insurance company. Preserve as much of the damage as possible. Get to the damage site quickly and make sure someone accompanies every repair

worker so everything that's ripped out and every screw and nail can be photographed and logged. Save the damaged materials for the adjuster's review. List every property by location. Remember, it may take a few days for the insurance adjuster to get to your site, so there's no such thing as too many details or photos.

- Be sure to coordinate all the decisions that need to be made and make yourself the conduit for every repair. Everything needs to go through you. For repairs that need to be made immediately in order to reopen a school, for example, collect receipts for parts and document the labor costs, along with an explanation of what was fixed and why. You'll need to pass that along to your insurer as part of your claim.
- Shepherd the claim through your system and the insurance company's claim system. The settlement might take months or possibly years, depending on the complexity — and, frankly, on how well you did your job of preserving and documenting the damage.

During a disaster, risk managers should also look to FEMA, the Federal Emergency Management Agency, now part of the Homeland Security office. FEMA grants are designed to pay for losses not covered by insurance, providing for weather-related catastrophes such as hurricanes

and tornadoes, to manmade disasters, such as hazmat contaminations and terrorism acts. In most cases, your insurance should adequately cover major losses. But when your insurance stops after taking care of the burden of coverage, FEMA will kick in depending upon the type of event, the location and the severity. Here, too, don't wait for disaster to hit to start searching FEMA's Web site for what to do next. Learn all you can about FEMA now, before you need to call upon them.

This process is much simpler if, in addition to creating your response team with your fellow department heads, you've already built relationships with the range of forensic consultants you might need to help flesh out your claim. These experts might include restoration contractors, public adjusters, coverage counsel, forensic accountants and cause and origin experts. They will be valuable resources as you work to prepare a comprehensive claim of all the physical damage for both your insurance company and FEMA.

Consider another scenario: Hurricane Georges slammed the city of San Juan and surrounding areas in September 1998. The city was inoperable, with power outages disabling hospitals, traffic and street lighting systems, and the storm ravaging recreational areas. Initially, the city's facilities department made the necessary repairs to resume municipal operations, hardly missing a beat. However, the municipality did run into some

headaches with its insurance claim due to the nature and extent of some of the repair work. This is where advance teamwork most likely could have averted the claim issues. For example, the restoration contractors would have already been apprised of what kinds of repairs constituted the allowed "emergency" work, and what would have been deemed "permanent." Plus, due to prior relationship building, the contractors would have known to carefully document the entire process.

With a claim of this nature, be aware of the following caveats:

- It may seem illogical, but your first concern should not be how quickly you can collect on your insurance claim. Actually, that should be your last concern, because you wouldn't be in the best position to file your claim until after your team reacts and mobilizes to document the damage and makes only emergency repairs.
- Again, don't assume that if something is broken it is okay to fix it until the insurance company's adjuster arrives. If the repair can safely wait, then hold off on it.
- Remember that the insurance company will want to inspect all the damage in relation to its surrounding area. For example, after repairs were made to a part of a San Juan gymnasium floor, the contractor replaced the



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entire floor. Even though the repair was documented, was the insurance company obligated to pay for the entire job? How could the insurer determine whether the entire floor needed to be repaired?

In the real estate industry, the standard maxim is "location, location, location." With public risk management, streamlining the claims process means advance teamwork, teamwork, teamwork — and, after disaster strikes, successfully navigating your public loss claim means that you must also remember to document, document, document. •