

Managing Major Property Losses Sample Action Plan

To: All Department Managers
From: Risk Management

Following the catastrophic loss of _____ it is our responsibility to prevent further damage, investigate cause, isolate costs associated with this loss, restore services and recover lost revenue from a combination of insurance, FEMA, responsible third parties, and catastrophe reserve funds.

This loss involves multiple departments and loss recovery from several potential sources with a variety of deductibles and/or legal liability limits. It is essential that we have your full cooperation and regular communication on the extent of the loss and status of full and complete restoration of facilities, employees, revenue streams, personal property and other assets of the city.

We recognize this will be an added strain on your already impaired operations. Risk Management can assist in arranging for any additional staff required to properly assess, catalog and restore operations as they were prior to the loss. Without full cooperation from all affected departments, the city stands to lose thousands of dollars in unsupported or unreported claims

We will have regular meetings with various outside consultants. For your reference, our recovery team will consist of

<u>NAME</u>	<u>POSITION</u>	<u>FIRM</u>

The adjustor (5) representing our carriers (and FEMA) are:

<u>NAME</u>	<u>POSITION</u>	<u>FIRM</u>

We will need your department to identify and isolate losses in the following categories:

1. Real and Personal Property belonging to the city.
2. Personal property of employees (or others) in the city's care, custody and control.
3. Vehicles
4. Contractor's equipment
5. Valuable Records
6. Fine Arts
7. Cash or Securities
8. Employee time (Note: It is essential to separate regular time from overtime hours)
 - Regular time with a description relating to the loss
 - Overtime with a description of work relating to the loss
9. E.D.P. Media and Extra Expense
10. Rental expenses (facilities or equipment) necessitated by the loss

This list is not exhaustive and is meant to guide you in reporting procedures. You will have questions! Please call Risk Management to discuss any item of concern.

To begin the process of recovery, we will have a workshop on _____ to:

1. Review recovery "Action Plan"
2. Meet our Loss Recovery Team and discuss how they can help your department.
3. Establish the initial scope of damages.
4. Set a time table for our next meeting

This is a coordinated team effort; therefore, we solicit your active participation, questions, and suggestions.

Guidelines for Managing Major Property Losses

For most risk managers major property losses in the high six figures are a rare occurrence. While minor first party property losses can be challenging, most have limited practical value in adding to one's expertise in managing large losses. Further, typically risk management must allocate claims resources in the liability and workers' compensation areas where losses are frequent and can increase dramatically in size if not properly managed.

It is, therefore, not surprising to find most risk managers relying heavily on their brokers, advisors or public adjusters when faced with a major first party property claim. There is a real need to have written guidelines and internal planning sessions in addition to outside assistance.

To begin a sound property loss management program, the most important philosophy for a risk manager is:

“It Can Happen To Us”

Once you are convinced that a major property loss can occur at your city, you will be motivated to take a hard look at the key provisions of your "All-Risk" policy and the resources available through your broker after the loss occurs. It is not the purpose of this paper to detail all of the possible coverages that you should consider or the service you should expect from you broker, it is sufficient to say that if you have not reviewed these key components -now is the time to start!

With that behind us we can proceed to the essential components of what to do in the event of a major loss. A major loss involves not only carriers; it can involve a major amount of time from many departments within a given entity. You will likely be faced with loss of facilities, key equipment, valuable records, vital revenue streams, critical utilities, not to mention extra expenses, and continued responsibility of revenue bond payments at destroyed facilities.

Even with proper coverage and assistance, major losses will often take over a year to finally resolve. Therefore, as risk manager you should be ready to:

1. Establish control
2. Stay in the “restoration planning” loop
 - Conduct an insurance recovery workshop for department heads
 - Hold regular meetings with adjustors and broker
 - Keep department heads moving
3. Prove the loss

Establishing Control

Before the loss occurs is the time to establish control. All departments should be advised in writing that risk management is the focal point for reporting all losses and managing all information regarding the restoration or replacement of damaged or destroyed property, lost time, extra expenses and loss of income.

The nature of large losses is such that custom loss reporting forms will be necessary in order to recover costs of the wide variety of damaged property and time element losses. This is where your broker can and will be of assistance in assessing applicable coverages and how to proceed with cost recovery. It is only necessary, at this point in pre-planning, to make sure that all departments simply notify risk management of any losses.

Beyond this general notice, it is also critical to establish a logical cost recovery system with the Auditor-Controller. For many losses this can be handled with a special work order number given to all departments after a loss occurs. Managers will be instructed to charge all costs, overtime and other expenses to the special work order number. All items should then be properly input into the computer, by supplier (if applicable) and category (i.e. supplies, equipment, rental items, vehicles, software, cleanup, etc.). With such a system in place, you can easily keep track of costs as well as know when it might be appropriate to settle a portion of the loss.

The most difficult figure to reconstruct after a loss is employee overtime. Many payroll systems do not automatically separate hours by work order number or summarize by employee the regular and overtime hours for a specific work order. This is important because regular time hours expended toward cleanup or other loss-related tasks are not generally considered as part of the loss.

On the other hand, overtime expended for loss-related tasks can be claimed as an "extra expense" item or "Protection and Preservation of Property" expense. Therefore it is critical to have a pre-arranged system to capture these important costs.

If the loss is likely to involve the Federal Emergency Management Administration (FEMA), you can key the proof of loss off the Damage Survey Reports (DSR's) required by FEMA as they are more extensive than what the insurers would require. The exception again is employee overtime.

Where widespread damage has occurred, it may be prudent to hire an independent loss adjusting firm to help compile all or a portion of the loss, such as time element figures. Frequently, the risk management department is understaffed and cannot handle all of the fine details of the loss without major interruption to normal duties. When this occurs, you should advise the insurance adjuster of the problem, provide him with an estimate of the independent adjuster's fees and request authorization for coverage under the "extra expense" portion of the claim (independent adjuster's fees can also be a separate item of insurance built into the "All-Risk" form).

Other departments that require pre-planning with risk management are those likely to be involved with the salvage and preservation of damaged and undamaged property as well as physical evidence.

This will vary by entity depending on size but generally will include:

- Facilities Maintenance
- Security/Fire Safety
- Engineering
- Purchasing

These managers must understand that risk management is to be advised of all planning once the emergency is over and salvage and overhaul operations begin. Risk management must have copies of all:

- Damage estimates
- Photographs and/or video recordings
- Press releases before issuance
- Lease agreements for damaged facilities or equipment
- Lists of damaged items
- Loss reports and witness statements
- Plans for temporary facilities rental of emergency equipment or temporary connections to water, sewer, gas or electric power
- Location of temporary storage facilities housing undamaged property or physical evidence
- Security and fire protection measures at damaged locations
- Purchase orders for replacement of damaged items
- Construction drawings for buildings that sustained heavy damage as well as management's plans for replacement

Remember property cannot be abandoned to the insurance company and all reasonable precautions must be taken to prevent further damage. The costs associated with the protection of undamaged property are covered under the "Protection and Preservation of Property" provision of the policy. It is your contractual duty and moral obligation to expend all reasonable effort and/or necessary funds in preserving, recovering and/or protecting undamaged property. Insurers feel so strongly about this obligation they will pay for all of these reasonable expenses incurred in your efforts to "Protection and Preservation of Property" for the recovery or protection of undamaged property.

When do you begin the "Protection and Preservation of Property" process? Immediately! Do not wait for the adjuster to give the orders -- act as though you had no insurance. Temporary repairs, sand bagging against rising waters, transferring undamaged property that is now exposed to the elements as a result of the loss, hiring of security guards, etc. may need to be accomplished before the loss is ever reported to the broker and/or carriers.

The above list is not to be considered exhaustive but should give you some idea of the types of things that are of a vital interest to your insurers as well as minimizing further damage and proving a loss.

Restoration Planning (Staying In the Loop)

All department heads should be given a copy of your internal "ACTION PLAN" that will go into effect after a major loss. The plan should include the following items:

- Regular communication updates from all affected departments (this will vary from hourly to monthly). The main point to convey is that you intend to be involved in all aspects and keep everyone moving toward resolution of the final claim.
- Regular meetings with adjusters, and broker. Your management should be aware of all of the outside firms involved and whose interest they represent. It is not unusual to have the surplus lines broker and underwriter involved in some of the more complex issues.
- Damage assessment meeting with and broker to identify all possible areas of loss (real and personal property, time element, vehicles, valuable papers, etc.) and identify all applicable policies, deductibles and exclusions that will come into play (often boiler and machinery and other specialty policies are also involved in a major loss).
- Recovery workshop to review all the pre-planning strategies. This should involve the broker, and all department heads. Agenda items will include how to capture costs, preservation of property, necessary documentation for proof of loss and a general review of the role risk management must take in the restoration process. This is the time to identify departments that will need outside contractors or consultants in order to complete their portion of loss documentation (auditor-controller and risk management included).

Your knowledge of fellow managers is critical. How they function and their ability to provide timely information can mean thousands of dollars in interest (+/-) on money due from insurers. Your instructions and follow up procedures must fit with their ability to perform.

Proving the Loss

The documentation necessary for proving a loss can vary from detailed appraisals to best guess estimates to complex earnings studies. Major losses will involve a wide variety of documentation and should be handled as separate components.

It is not necessary to settle the loss as whole and, in fact, it is preferable to separate the loss into major categories and file partial proofs of loss for each category as it is completed or when large amounts of money have been expended toward final repairs, extra expenses and/or engineering studies.

It is the adjuster's job to audit your records and obtain sufficient information to verify to insurers that the damaged or destroyed property has been repaired or replaced within the provisions of the policy. He is looking for the same information you would expect someone to give you for services performed or items purchased:

- An itemized list of goods, quantity purchased and unit price
- Hours expended for labor, type of labor and hourly rate applicable
- Actual rental income lost during period of restoration by building
- Description of extra expenses and supporting invoice for such things as emergency generator, rents for temporary space, sending work out to be done by others, etc.

As long as the supporting information is reasonable and the work completed or a service performed is verifiable and within the scope of the policy coverage, you will need no further documentation for that item.

It is important to realize that there will be items that cannot be recovered after a loss:

- Improvements or betterments beyond the scope of coverage (i.e., additional square footage, upgraded furnishings, etc.)
- Regular time hours expended towards the loss that are not made up by overtime or outside contractors
- Policy deductibles
- Employees who leave during the restoration period and do not return
- Revenue streams that require rebuilding after an extended interruption (lost tenants or recreational users fees, for example)
- Uninsured or excluded property
- Loss of life

Once you begin to realize how much more than just the policy deductibles are at risk, the more loss prevention will become a vital component of your risk management program. Catastrophic losses are inevitable and often unavoidable but much can and should be done to minimize damage and loss of life, as well as prepare for the major tasks associated with managing a major loss.