

Complex Loss Mitigation

A necessary measure every time!

Whether an incident leading to a loss involves expansive damage or significant business interruption, there are various aspects to consider in how Insureds, their Insurers, and the involved consultants can work together to mitigate the associated costs. The rectification period is not the time to let things drift but rather a time to stand up and grapple the problems head on.

Some of the mitigation measures can include inter alia early physical intervention during the incident; strategic refinement of logistics as part of the procurement / reinstatement process; and then in respect of the insurance determination, some careful audit work based on experience, the facts at hand and the cover available.

In this article **Andrew Hodkinson, Regional Head – Australia & New Zealand and Nigel Lloyd, Senior Engineering and Resources Adjuster of Charles Taylor Adjusting** consider these and other mitigation activities that can be undertaken to ultimately reduce the overall exposure of a devastating loss.



Pre-loss considerations

Firstly, there is obviously pre-loss risk mitigation work that can be undertaken by Insureds to prevent or mitigate losses. Such work can include installation of blast walls or suitable fire suppression systems, implementing adequate tie downs for cyclone or transit, the general consideration of safe work practices ahead of certain works such as crane lifts, effecting the appropriate isolation of process equipment, strategic spares and so on.

Often with operational risks the chance of damage during shutdowns is real – this is because interference with property is occurring which is not the norm during operation. In such situations planning is key, along with the use of suitable experts during any such maintenance or overhaul works. With the attitude that things ‘can go wrong’ what can be done to mitigate or avoid a worst case scenario? This is the realm of risk engineers and other specialists to consider.

During the loss – what can be done at the outset?

There is a cost tension with respect to pre-loss work and not all risks can be fully removed. An example on this front is an earthquake. Whilst design codes and standards seek to ensure safe construction and operation of property, they will have to be cost effective. So once substantial damage has occurred, some consideration of how to reduce ongoing property damage or to reduce ensuing business interruption is required. Such actions might include:

- Engineering solutions to protect remaining property – isolation or making safe
- Taking a certain approach when fighting a fire i.e. removing process flows which may serve to fuel the fire.
- The early engagement of suitable recovery specialists – restoration companies / consultants. Such consultants can assist in avoiding mould formation, cleaning of equipment post fire to avoid corrosion attack or even developing engineering solutions which mean that a total loss of equipment is avoided and repair determined viable.
- Protecting undamaged property or undertaking salvage of items.

Whether the loss involves substantial fire, water damage or equipment failure it is possible to take immediate steps to reduce the loss. In the case of an iron ore derailment the immediate focus is on removal of debris and reinstatement of track. The larger iron ore companies have such recovery down to a fine art given that every hour lost could cost millions.



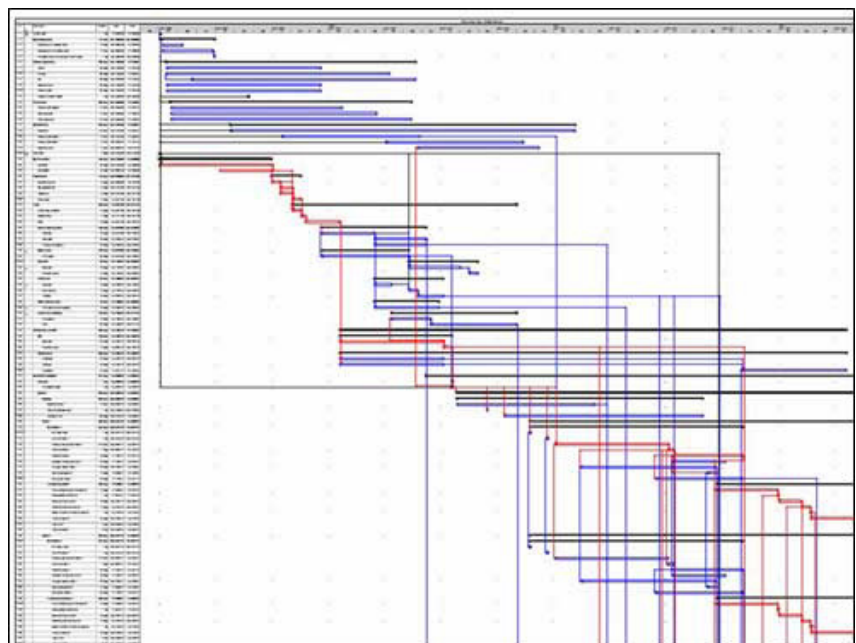
Reinstatement Strategy – thinking outside the box

Once an understanding of the damage and cause is gained then attention can turn to how reinstatement might be accelerated. Indeed depending on the potential business interruption at play, such work may take some precedence regardless of the status of damage assessment.

In the situation of replacing heavy industrial equipment such as transformers, turbines, generators, or process equipment it is most likely that a review of the contemplated manufacturing timeline and critical path is required.

Such a review would be focussed on identifying those production tasks that can be accelerated or truncated. This consideration would likely benefit from deep conversations with the manufacturers and also the use of an experienced 'recovery' expert.

Often there can also be a 'stop gap' solution possible whereby the use of second hand equipment which is readily available could be used on a temporary basis to mitigate the production loss.



In terms of accelerating the manufacture of replacement equipment, consideration of 'queue jumping' ahead of other unrelated projects might be possible. Incentive payments or simply discussing matters with the involved parties can yield schedule improvements.

If the quantifiable interruption of the process can be reduced using alternative methods at a cost which is still less than the ultimate value of the daily indemnifiable loss, then these should be considered. An example of such an increased

cost of working (ICW) could be simply using trucks to haul material when a conveyor has suffered a fire. Some policies do not require an economic test and Additional Increased Cost of Working (AICW) expenses could be incurred to maintain the business processes even if the costs to do so are greater than the associated loss. Such cover is often purchased when the Insured is more concerned about contractual penalties with its customers or reputational issues.

When equipment is bespoke and or specialised it is often manufactured overseas. This may mean that there are limited manufacturers to choose from. If limited to a single manufacturer which is a common issue in respect of generators, then focus on transportation from the supplier to the site becomes an area of schedule improvement. It can be a simple matter of sea freight compared to airfreight. The use of a logistics expert can yield considerable savings in transportation days and this can materially reduce the business interruption exposure. For example CTA has been involved in some claims where the use of an Antonov chartered cargo plane has saved millions of dollars off the business interruption claim.

Ahead of receipt of any replacement equipment or materials required in a rebuild, it is also important to determine what pre-works can be undertaken to ensure that delays during reinstatement are minimised. This may include crane lifting assessments, removal of other plant such that access is ready, checking of other equipment to ensure that it is undamaged and fully functioning. Such planning is essential such that reinstatement is achieved without hiccup or delays. The success of this work can often depend on the calibre of the Insured's staff and involved consultants.

We mentioned the use of 'recovery' consultants. These firms are rare and largely function as a source of guidance, speciality contacts, and expediting nous. Utilisation of the

right personnel in respect to recovery can lead to material improvements in schedule and 'getting things done', such that the business interruption is mitigated. Often the greatest strength of having a recovery expert on hand is that they can flex their contacts to ensure rapid logistics and also can engage with the manufacturers and engineers on a technical level to understand the true critical path items and how they might be improved.

These people tend to be by nature proactive and given schedule reduction is their deliverable they tend to be fairly resourceful. This is not to say that engineering rigour is out the window, far from it; these experts need to understand the engineering and use a 'think outside the box' approach which still achieves a like for like reinstatement as afforded under the policy.

When business interruption is large then time is of the essence.



Insurance Response – bringing expertise to bear during the audit



Once the physical recovery is underway or complete and the Insured returned to their pre-loss status, then the extent of policy coverage comes into focus.

Having a serious and complex incident resulting in damage and production interruption is one thing, but is the purchased insurance going to pick up all the costs? Often the answer is 'no' because there will be certain costs which Insurers simply do not cover, albeit that the expending of money towards such items may make reasonable sense by the Insured. Cost categories which Insurers wish to avoid are often driven by claims experience or that the risk is simply too high for the Insurer. An example is where underground mining assets once were 'covered' but now it is rare to find such Insurance.

Having said the above, it is common for unallocated progress payments to be made to assist the Insured's cashflow or allow it to service debt. In practice the audit of costs or losses incurred in the early days of a claim are often high level (geared towards a minimum payable position) and the real audit is done towards the end of the matter.

Costs which typically may not fall for cover may fall within the following categories:

- Betterment
- Maintenance
- Excluded property
- Costs incurred to rectify damage from Excluded perils or damage / defects
- Excessive or unnecessary consultant costs that are not directly related to reinstatement

At the outset of any major loss an assessment of the pre-existing property and production is required. What existed immediately prior to the loss taking place? This is important to establish as often the underlying principle of the purchased Insurance is to return the Insured to the position they enjoyed immediately before the loss. Only after understanding what was in place and how it was producing prior to the loss can an adjuster determine if the reinstatement is 'like for like'. To establish this

understanding the various engineering information requires review. Needless to say that dual qualified engineering adjusters like those employed by CTA have a better insight into what such information may mean in the context of policy response.

Often in large loss scenarios the Insured may not be able to rebuild exactly as per the original due to various reasons such as space constraints, obsolescence, changes in legislation etc.

Betterment tends to be an improvement in the property which provides a benefit to the Insured which they did not have pre-loss. This could be replacement of undamaged equipment accessories or purchasing machinery with a greater output. Betterment could also be a more expensive design which addresses pre-loss defects.

The policy may only provide for an indemnity position in the basis of settlement and not outright replacement of damaged plant, in which case allowances for depreciation need to be made.

Maintenance can often be something that makes sense to undertake to undamaged equipment whilst reinstatement is being completed. Obviously such costs would not pass the 'rectification of Insured damage' test. Opportune maintenance during repairs is a common issue with respect to large rotating machinery claims.

Various policies will not cover certain types of property and consequently careful review of the policy wording is required such that an understanding of what is insured can be determined. Normally the property definitions are clear and there is little doubt regarding such items. That said the Insured can

on occasion submit costs for items which are uninsured.

The use of consultants in reinstatement can often be necessary and vital to a speedy reinstatement. Care needs to be taken by the adjuster to control the scopes for these consultants and to ensure their activities are required solely for reinstatement. If the Insured is in control of the consultants then they need to discuss the activities contemplated with the adjuster before proceeding so that there are no 'surprises' when the claim is ultimately audited.

All of the above issues will be considered in the audit of the final claim or interim claims. A skilled adjuster with the appropriate experience and technical background would be best placed to ascertain items which are uninsured. Thus if certain activities are undertaken or property replaced which are

uninsured, then this may be material to the business interruption assessment. Identification of such items can reduce the magnitude of the business interruption claim. Clearly careful review and early advice to the Insured throughout the course of the claim will be important such that expectations are kept in check.

For all the above reasons Insurers should take care to avoid 'claims leakage' by employing the 'right' adjusters to the claim. A focus on adjusting fees rather than the big picture of what is covered or what can be mitigated can be detrimental to the overall claim magnitude ultimately paid by Insurers. Furthermore having a non-technical adjuster utilised on such claims may reduce the Insured's confidence in Insurers and the process generally; errors in the assessment are sure to follow.



Conclusion

Mitigation of complex loss is in everyone's interest. Whilst it is not always possible, one can be surprised as to what can be achieved if the right minds are applied to the matter with the focus of mitigation.

Obviously cost benefit analysis is ever-present in the consideration of how a claim might be mitigated. With the right adjusters and consultants utilised at an early time post loss then usually there are significant gains to be made.

CTA has been involved with many losses over the years involving large power generation equipment failures, mining, construction with DSU and energy property. Often the larger component of these losses can be the business interruption element. The reduction in reinstatement schedule will go hand in hand with the reduction of the business interruption quantum.

Whilst every claim is different and holds unique challenges, there are some approaches to mitigating losses that can be considered. The above discussion is not intended to be an exhaustive list of 'answers' but simply to demonstrate that if the right people are involved then better outcomes can be achieved which ultimately save money and benefit all parties.

About Us

Charles Taylor Adjusting (CTA) is one of the leading loss adjusting businesses in the market. We provide loss adjusting services across aviation, marine, natural resources, property, casualty, technical and special risks along with average adjusting services for ship owners. The business primarily focuses on larger and more complex commercial losses arising from major insured incidents and claims. CTA is a business of Charles Taylor Plc (www.ctplc.com) which is quoted on the London Stock Exchange (CTR).

Charles Taylor plc is a leading provider of professional services to clients across the global insurance market. The Group has been providing services since 1884 and today employs over 2,000 staff in 76 offices spread across 29 countries in the UK, the Americas, Asia Pacific, Europe the Middle East and Africa.

The Group offers services, principally on a fee-based model and operates through three businesses – Management, Adjusting and Insurance Support Services. It also own insurers in run-off. Charles Taylor's vision is to become the professional services provider of choice to the global insurance market

Charles Taylor Adjusting (CTA) Expertise

CTA has qualified engineers on staff throughout all Australian offices with diverse backgrounds ranging from "big picture" Project Engineering / Construction right through to detailed design work.

Our Engineering Adjusters hold Adjusting qualifications and are members of the Australian Institute of Chartered Loss Adjusters (AILCA), the Australian & New Zealand Institute of Insurance and Finance (ANZIIF), or other UK-based professional bodies of equivalent or higher standards.

We ensure outcomes are concisely reported to Insurers to match their requirements in documenting the circumstances of the loss in a clear and logical manner, allowing them to reach a conclusion in respect to policy response.

Andrew Hodkinson

BE Mech (Hons), CPENG (2000-2012), ANZIIF (Snr Assoc), ACLA Regional Head – Australia & New Zealand, Senior Engineering and Resources Adjuster
T: +61 8 9321 2022
M: +61 458 585 999
andrew.hodkinson@ctplc.com

Nigel Lloyd

BE Mech, AICLA (Aff), ANZIIF (Snr Assoc) CIP
Senior Engineering Loss Adjuster
T: +61 8 9321 2022
M: +61 448 021 460
nigel.lloyd@ctplc.com



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