MAJOR & COMPLEX LOSS REVIEW 2014

Cunningham Lindsey

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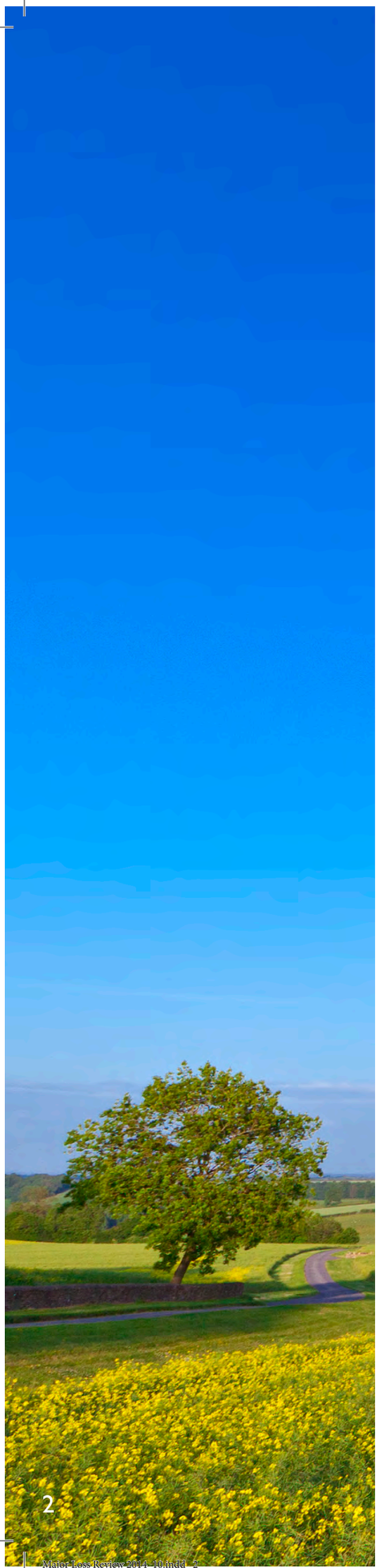


A foreword from Neil Gibson

The insurance market has prioritised professionalism in recent years, and technical excellence is something we are passionate about providing to our clients. But without highly developed soft skills, delivering that technical excellence may not pay sufficient attention to the customer dimension of a claim.

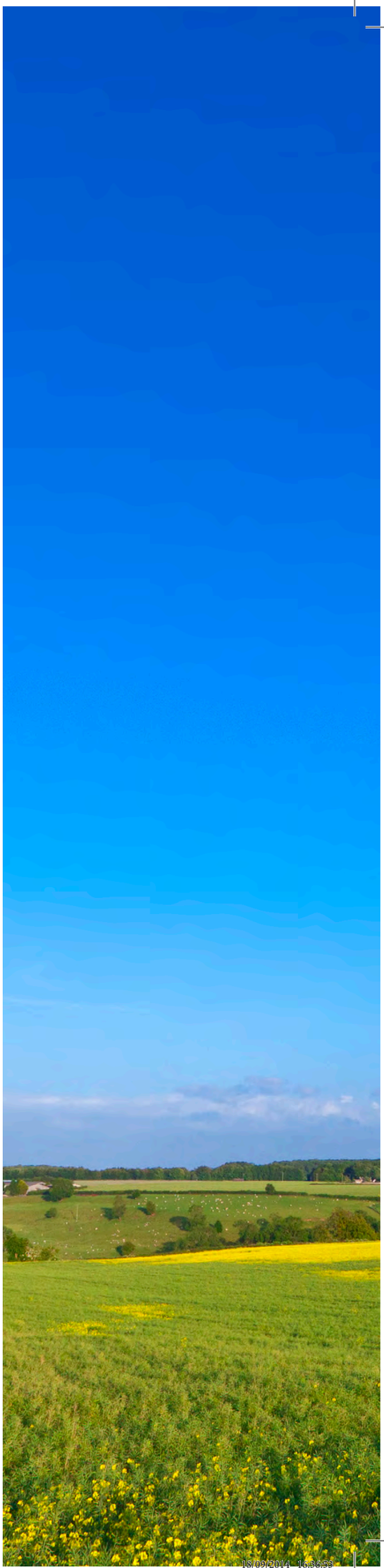
But what exactly are 'soft skills' and how do they make a difference in practice? Soft skills encompass everything from communication and leadership, to decision-making and problem solving. They include the way we discharge our responsibilities, the way we work under pressure and the way we adapt to suit individual situations.

In the world of major loss, a faceless, process-driven approach doesn't work. A major loss often involves a large number of people, so the professionalism must be delivered in person and by people who react expertly to the evolving situation in front of them.

In particular terms this isn't easy and the first challenge is often dealing with the large number of stakeholders.

Major losses can involve multiple insurers, brokers and clients. There are then public authorities, investigatory bodies and third party consultants to deal with.

When there are so many people, communication channels must be clear and meticulously managed to avoid confusion. Providing such clarity keeps claims moving forward and makes sure everyone is up to speed with developments as they happen.



FOREWORD

In a major loss the mix of stakeholders is often international, and so dealing with potential language barriers is another challenge to overcome. Working through a common language or employing multilingual adjusters is only part of the solution. Different countries have different cultures and factoring this in from the very start is important to keep everyone working collaboratively.

Unpicking the legal, financial and regulatory aspects of a loss is a highly skilled job and individual stakeholders often have very different views. These technical issues add another dimension to the challenge that a major loss presents.

So we, as adjusters, need the ability to see things from all sides, while promoting what we believe is the best approach to the claim. These demands mean we have to have a highly technical understanding of the situation, so that we can manage the claim persuasively and effectively.

In many major losses the best solution is rarely the most obvious and so being able to look laterally at a loss is a core skill for an adjuster. For example, will additional up front expenses on the material damage claim create an overall saving on the business interruption claim? Can damaged commercial premises be reconfigured to maintain a basic level of operation while remedial work is carried out? In one loss featured in this edition, what initially seemed an obvious case of water damage turned out very differently, proving just how important it is to be open-minded and thorough in our investigations.

At the end of our investigations, the conclusions we reach aren't always those that people want to hear. Cover may not extend as far as a policyholder thinks or they may be underinsured. Whatever the issue, we have to present our case in a way that is firm, fair and transparent. To do this we must take our technical understanding of the situation and communicate it in a way that is both clear and considerate.

Adjusting a major loss demands technical expertise, but to reach a successful settlement we also need to have a high level of soft skills. Our role is to provide a deep technical understanding of the situation and quickly ascertain the individual priorities of each party. We then have to provide reassurance, control and constant communication to all involved so they have confidence in our strategy and the settlement we are proposing.

In the major losses set out in the following pages technical expertise was supported by many different soft skills and all of these play their part in allowing us to achieve settlement of complex claims in a way that all parties felt was both technically correct and empathetically delivered.

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The show must go on

We would never want to disappoint the 12,000 Glaswegians who bought tickets to see Rod Stewart open a new venue and play live in their home town. Helping to avoid this potential disaster was a challenge that landed on our desk last summer.

The Scottish Exhibition Centre Hydro is an iconic new venue that played a central part in hosting some of the high profile events at the 2014 Commonwealth Games, and which has quickly become a centre piece in Glasgow's cultural scene.

But, it took a highly professional performance in communication, project management and hard work to get the venue ready for Rod Stewart's opening concert on 30 September 2013.

A fire three months earlier, on 8 June, meant that there was a real possibility the construction project would miss its scheduled completion date. This would've led to the cancellation of some of the early concerts and events already booked into its calendar.

In turn this may have triggered a delay in start-up policy and it was essential that we helped facilitate the quick instruction of repair works while managing their cost, to make sure that we could agree a satisfactory settlement of the fire claim.

From our Glasgow office, our Scotland and Northern Ireland major loss team was quickly on site to view the damage. The fire had started when a welder didn't realise there was combustible material behind the section of guttering he was working on.

The first he knew of it was when smoke started pouring out from underneath him and, although he had a fire extinguisher and attempted to put the blaze out, it was difficult to access the flames.

The fire spread along the combustible material and being at roof height it was awkward for the fire brigade to tackle, even with specialised high-reach appliances.

The fire caused significant damage, but given the closeness of the scheduled opening date we had to get the ball rolling quickly, allow the construction of unaffected areas to continue and begin incorporating repairs into the ongoing programme of works.

Our construction specialist adjusters were on the ground immediately and whether a loss occurs in Glasgow, Belfast or any other part of Scotland and Northern Ireland; they all have an excellent knowledge of the local market. Working in conjunction with our international team in London, our adjusters can access a specialised level of technical expertise where needed. This joined up approach lets our team provide an excellent up-front response backed by the additional resource that the London team provides.

There were a number of particular challenges presented by the fire at the Scottish Exhibition Centre Hydro. The first was to understand the extent of the damage and ascertain exactly what work had been completed before the fire broke out. We secured an up-to-date programme of works and teamed up with specialist project analysts to complete the assessment.

The next challenge was working on the negotiations with the sub-contractors.

Prices had already been agreed before the fire struck, but the blaze meant that some of the work would need to be carried out again and that the timeframe to complete the sub-contract work packages was put under substantial pressure. The sub-contractors wanted this additional time pressure to be reflected in the new costs agreed. We were directly involved in the negotiations to make sure that the figures came out as close as was reasonable to the original quotes.

This was a detailed and potentially volatile negotiation process involving many different parties. There were dozens of smaller contractors working on site and getting them to scope, quote and agree a price for the work needed, took a proactive and well co-ordinated approach from our team on the ground.

The final major challenge was to make sure that the additional resources needed were actually employed, so that all of the work was completed on time. The associated short-term extra costs were necessary to avoid more significant costs that would be incurred if the project overran. Again, this put our team at the centre of negotiations as the claim moved towards a settlement that would work for everyone involved.

In the last six to twelve months the construction sector in Scotland and Northern Ireland has begun to gear up again. More construction projects mean more losses, and we're already seeing an increase in enquiries regarding our involvement pre-loss when a claim situation arises.

Working from our Glasgow and Belfast offices, our Scotland and Northern Ireland major loss team brings local knowledge and gets adjusters on-site quickly. Backed-up by the international team in London it can rely on unrivalled technical expertise and adjusting resources.

This combination worked well for the 12,000 Rod Stewart fans that were able to see their idol open the Scottish Exhibition Centre Hydro. Our role might've had a much lower profile, but it was no-less important in letting the show go on.

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Increased activity in the Scottish and Northern Irish construction sectors is putting pressure on the cost and availability of building contractors and tradesmen. In particular, the growth in housing construction is placing increasing demands on tradesmen, which reduces their availability and allows them to increase the costs they seek to charge.

Where losses occur on major infrastructure projects, this may not be as much of an issue, as remedial work will generally be carried out by the works contractors themselves. But where the remedial work has to be put out to tender, the improving construction market is reducing the number and diminishing the competitiveness of responses. This will inevitably have an impact on claims costs moving forwards.

High levels of media interest and potentially adverse publicity surrounding major infrastructure projects pile on the pressure to hit deadlines. Furthermore, where these deadlines are missed the delay in start-up losses can be hugely significant.

Assessing the toll of a toxic train crash

How much testing is too much when a fatal train crash leads to a toxic spill and operators have to remove 3,900 cubic metres of contaminated sludge? This was one of the many problems we had to get to the bottom of when a train derailed near the Belgian city of Ghent, killing one person and injuring several others, whilst hundreds of people were evacuated from the local area, for up to three weeks.

When the train derailed in the middle of the night, it set off an explosion, followed by an inferno allowing an unknown quantity of Acrylonitrile (an organic vinyl-structure, deemed to be toxic/carcinogenic) to pollute the surrounding area. Close to the crash site a stream runs into the river Schelde, one of the biggest rivers in Belgium, and there was also a protected bird habitat nearby. It was a major and complex loss from the outset.

In the first instance, it was important to contain the spillage, which had overwhelmed the sewage system of a nearby town and required three barges to remove the polluted sewage water.

Thereafter it was essential to get all involved parties to move forward in a constructive manner and progress towards a satisfactory solution and settlement. In such a major loss this is never easy given the number of varying individuals involved.

There were; the landowners, the train operators, the local residents, and all associated insurers, brokers and consultants. Officers from provincial and national authorities were present covering everything from the local police and fire brigade, to health and safety officers and crash investigators.

We were instructed by the insurer of the company licensed to run the track, which was ultimately a little complex. Our insured had a license to operate the track, but they didn't run the train, that was managed by another company. And then there was the issue of the track running across land that was owned by someone completely different again. So, we were trying to understand the position of responsibility that each interested party held.

In addition to the complexities created by the number of parties all trying to understand their own positions and protect their own interests, an environmental loss of this nature can fall under the jurisdiction of different pieces of legislation. This often creates the potential for an argument over which is the most appropriate.

In this instance it would've been possible for the Environmental Liability Directive (ELD) to apply. Had this been the case it's likely the train operator would've been held liable for the costs of the clean up. The ELD puts the responsibility to pay on the polluter – in this instance the rail operator.

But, behind closed doors the local authorities decided the ELD wouldn't be applied, and that national legislation would be used to assign responsibility for the accident and thus liability for the subsequent remedial work needed. This meant it was the landowner that was ultimately held responsible.

We didn't question this decision and it had little impact on how the pollution was approached at a practical level and throughout the clean-up operation. But,

it did have a huge impact on who paid the bill, and had it gone against our client – the track operator – we would've pushed to understand the reasoning behind the decision and could have potentially contested it.

Thereafter our efforts were focussed on keeping a tight control of costs for all parties following the accident. Given the toxic nature of the crash it was important to establish the geographical extent and severity of the pollution.

As increasing amounts of data came to light it became evident that the degree of testing was unnecessary. Simply put, there were too many samples taken, too many tests carried out and too much analysis done. By the same token, the water treatment facility put in place was too big for the problem at hand and all of these factors combined to bump up costs by tens of thousands of Euros.

There were also discussions about the fees charged by a number of contractors. Did they reflect fair value or had they been inflated given the demand there was for their services at this difficult time? These negotiations are ongoing and the fees in question run to hundreds of thousands of Euros.

Pinpointing such problems and being able to proactively question them is difficult when so many parties are working together and relationships have to be maintained and nurtured.

This is where extensive environmental expertise is needed to enable an understanding of both the legislation in play and the practical logistics of the clean-up. We have this depth of knowledge and the experience found in our environmental team lets us make these proactive interventions from a position of strength and in a constructive manner for the future outcome and settlement of the loss.

At the time of writing, it's been over a year since the train crashed and following the initial media attention and immediate burst of frantic activity, the challenge is now to make sure all associated mediaries remain focussed on taking care of completion of the case. As of April 2014 all contamination was removed, and a request to the authorities had been sent to close down the case on an environmental level. However, though such a complex pollution has already been cleaned-up; all parties are still waiting for the case to go through the courts.

This expertise guides the insurers that instruct us, helps us win respect from other associated parties, whilst maintaining constructive relationships with all involved. In such a complex loss, this is, and continues to be, essential.

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The Environmental Liability Directive (ELD) isn't always applied in the wake of a loss and this was the case following the train crash in Belgium. It's likely, however, that this will change as the European Union pushes member states to enforce the ELD more rigidly.

One aspect of the legislation demands that where a species or particular habitat is damaged, it is either restored to its former position or a substitute habitat is created. This has the potential to add significant cost to a loss.

This is an issue the insurance market needs to raise awareness of and make sure that policyholders understand their potential liabilities. This is particularly true for clients that believe they don't have sizeable environmental liabilities.

In the UK we often have issues, mainly following large fire losses, where various chemicals, which are low risk, get mixed together. These more toxic compounds then contaminate the site and spread to affect neighbouring property and/or water courses, natural habitats and even protected species.

It's important that businesses realise environmental liability is something that virtually every company has to think about, and that they understand the potential impact a fire or flood at their premises could have in terms of leading to polluting the surrounding area.

Denial of access

In the complex world of major loss it's always good to have a plan B up your sleeve. This was certainly the case when we were denied access to a collapsed Canadian shopping mall for weeks on end.

The Algo Centre Mall in the City of Elliot Lake is unusual. The car park is housed on the roof and when a 12m x 24m section collapsed on the afternoon of 23 June 2012, it had deadly consequences.

Two people in the shopping arcade below lost their lives and twenty others were injured. In the immediate aftermath of the collapse, recovering the casualties and securing the building took priority.

Our nearest team is based in the town of Sault Ste. Marie, 150km from the Algo Centre Mall.

Although our adjuster was on site within four hours of the collapse, it was a lot longer before physical access was granted.

Within days it was announced a class action lawsuit was going to be launched and it was clear there would be numerous investigations led by different organisations including, the Coroner's Office, the Ministry of Labour and the Provincial Police Department.

Ultimately we weren't able to gain access to the site for six weeks, and even then we were restricted from actually entering the building. This was because the Ministry of Labour feared the building wasn't safe and demanded the entire structure was braced if people were to enter it.

Given that much of the mall had been demolished in the various search, rescue and investigation efforts, it was deemed that there was little for the owners to gain by bracing the structure at a cost of many millions of Canadian dollars.

Within six months the mall had been demolished and we were left without ever gaining access to the inside of it or getting the chance to inspect it in any meaningful way. But this didn't prevent us from taking alternative measures to understand the full extent of the loss and getting a detailed insight into what had happened. It just meant we had to take quite a few diversions to get there.

Instead of relying on a physical inspection, we had to locate and interview witnesses to gain firsthand reports of the events. We picked over the evidence and information given during the public inquiry that began in March 2013 and lasted for eight months.

Given the high media profile the loss attracted, journalistic investigations also threw up many details and points of interest. So, we monitored the press reports in fine detail, using them in addition to our own investigations and document searches.

We also gained access to the engineer's report commissioned by the Provincial Police Department, which pointed to the failure of a weld connection caused by extensive corrosion. The corrosion was the result of poor waterproofing on the car park surface and the subsequent ingress of road salt, which is used in very large quantities during the harsh Canadian winters.

The findings of this investigation helped to inform our own thinking and to resolve many of the difficult issues that arose in dealing with both the first and third party aspects of the loss. These difficulties are outlined in more detail overleaf.

RETAIL

There is also an ongoing criminal case against the engineer who'd certified the integrity of the mall a month before it collapsed. He is charged with negligence causing death and the case is likely to take a number of years to be heard in full.

This major loss hit the local community hard and robbed it of two citizens. The town also lost its focal point, as the mall had contained many of its shops, its largest hotel and a retirement residence.

For our adjusting team, denial of access to the site really challenged them. Many business records for the commercial units within the mall were never recovered and ultimately we never inspected the inside of the building.

By realising early on that access was going to be difficult we used alternative sources to gather evidence and piece together information, we were able to work effectively and demonstrate professionalism in the most sensitive and difficult of circumstances.

First party coverage and quantum issues that arose:

- What was the measure of loss?
- Was it confined to the section of the building that collapsed?
- Were there resultant damages or was the proximate cause for the area of collapse excluded?
- What was the proximate cause?
- Would the measure of loss include additional damages to the structure as a result of search and rescue efforts?
- Would the measure of loss include damages to the structure as a result of the investigation by authorities?
- Was the owner's decision to demolish the structure warranted?
- Should the policy respond for the full value of the mall?

Third party claim issues included:

- Assessing the chain of events leading to the collapse and the massive potential exposures
- Investigating and understanding the long standing history of issues with the design of the car park, extensive leaking over a period of many years, and the actions taken by a succession of mall owners
- Understanding the extent of fundamental knowledge that many consultants, contractors and municipal authorities had of the issues with the roof prior to its collapse
- Quantifying potential losses if the insured is found even fractionally liable for damages incurred by deceased and injured parties, mall tenants and owners of affected adjacent properties

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ORDER OF EVENTS

- Loss occurred at 14.20 on 23 June
- Our adjuster was onsite the same day
- Ontario Ministry of Labour took immediate control of the site, taking responsibility for the workers trapped inside and the rescue teams trying to find them
- The bodies of the two casualties were recovered four days after the collapse
- On 28 June it was announced a class action lawsuit was going to be launched
- Once it was established there were no other victims the site was turned over to the coroner who controlled the site for almost two weeks
- The Provincial Police Department then had charge of the site to carry out their own investigation
- Only six weeks after the collapse was the site turned over to the building's owners and access granted to the adjusters
- But the Ministry of Labour still had ultimate control and refused access within the building unless the entire structure was braced

Denial of access is more common than people realise following a loss. The following can keep adjusters off-site:

- Fire scenes under investigation by authorities as to causation
- Where there is a danger to the public and/or investigators
- Potential crime scenes
- Where a fatality has occurred

This makes it difficult to complete an independent causal or failure analysis, and to accurately quantify potential first and third party claim exposures. To get round this problem, co-operation with the official authorities is critical in gathering information from the investigations carried out by police and other investigative and regulatory bodies.

Digital record keeping can assist with recovery of the data necessary for business continuity and assessment of claims. However, if data isn't backed-up off site, recovery of electronic data storage equipment can be as difficult as recovery of physical records when access to the loss site is prohibited.

When the storm is the calm before the real storm

Although it was a sunny afternoon in the Rotterdam office, where our Global Marine Practice is based, storm clouds and high seas had gathered 370km off the coast of Yemen where the Mol Comfort container ship was breaking in two. Kinked in the middle, like a bent piece of copper piping, the initial reports from the internet suggested that this large container ship had sunk. Immediately we began speaking to clients and contacts to verify the reports we were hearing.

At the same time, multiple instructions began to flood into the office from cargo owners, brokers, lawyers, underwriters and for clients via our colleagues, who all wanted to find out what had happened to their own particular shipments.

As both time and conversations progressed it became clear that the Mol Comfort, though in real distress, hadn't actually sunk. As the first pictures came through, it was clear to see the severe hogging of the ship's hull and that a number of the 4,832 containers on board had already fallen into the water.

The challenge that now faced our five-strong team handling this loss from the Rotterdam office was to verify the containers still aboard, ascertain their position on the ship, and then gain details of each specific cargo.

In the early days of such a large loss it's often difficult to get interested parties to share information. They tend to be nervous about how that information will be used and whether it could affect their own interests.

Because we were representing so many containers, we were in a strong position to get the information we needed. As time progresses, so the internet also improves giving us access to information and websites such as gcaptain.com, which are extremely useful.

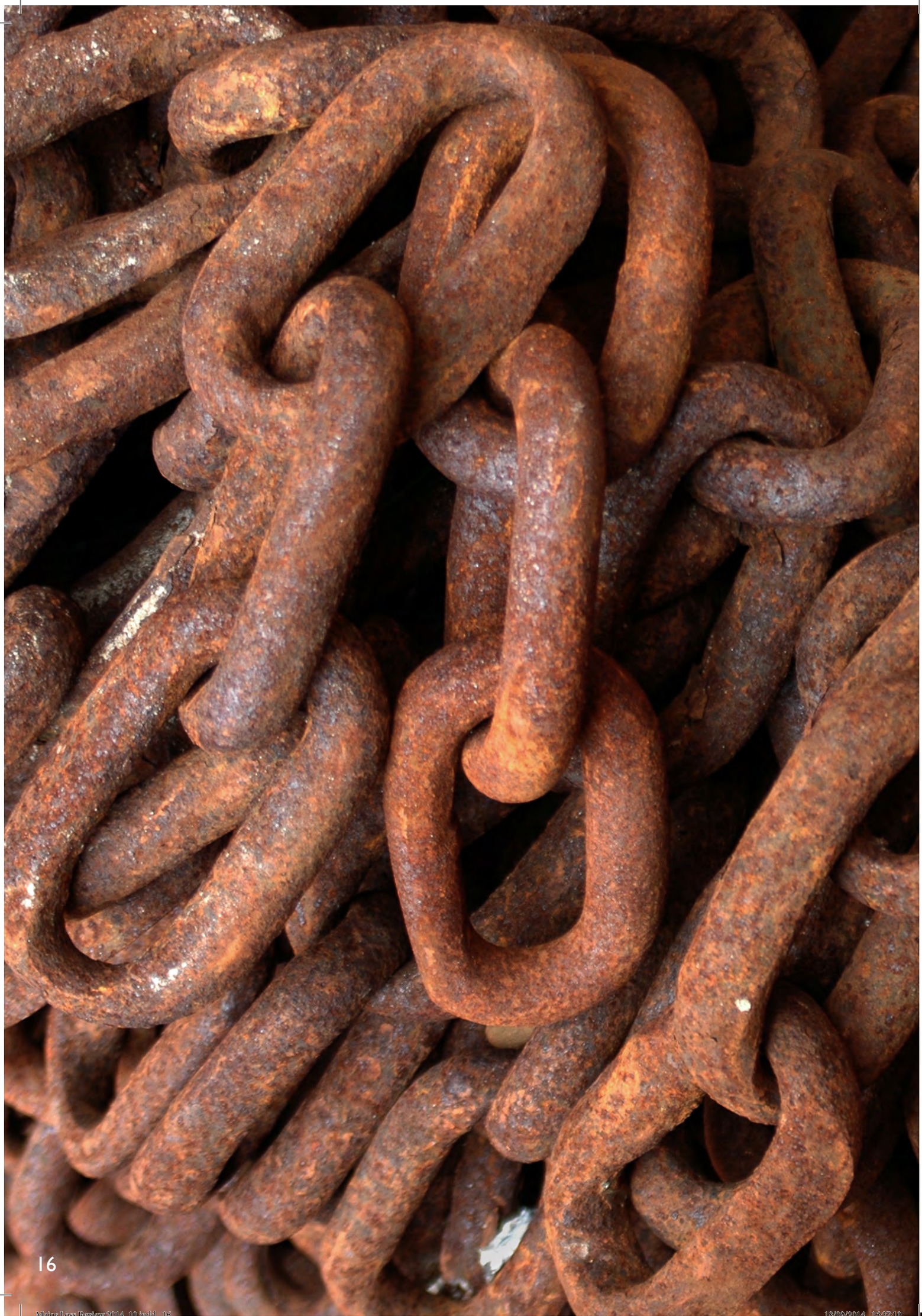
We successfully secured an up-to-date version of the ship's stowage plan at an early stage in the proceedings, enabling us to immediately set-up a database detailing exactly where each container we were acting for was located on the ship. We could then match their location with the pictures we had and offer a view to the policyholder on whether they were likely to be overboard or still afloat on the upright bow and aft sections.

This was a drawn out and difficult task for a number of reasons:

- Firstly, the stowage plan is never 100 percent accurate, and the carrier will sometimes decide to send particular containers on another ship for any manner of reasons
- Secondly, it's often the case that two or three different cargoes share the same container. Pinning down multiple cargo owners to a single container complicates the administrative task significantly
- Finally, it might be that a container is taken off the ship at one of the ports it calls into

The latter problem happened with one Vietnamese container we were looking for. It transpired that it had been offloaded at Hong Kong and put on another vessel to complete its journey to the US. Therefore, although listed on the Mol Comfort stowage plan, it had actually arrived safely at its destination on another ship.

Understandably, owners, brokers and insurers wanted immediate information on their cargo, especially whilst the two sections of the ship were afloat and there remained a chance to salvage it.



Our online database made this easier for us, and helped the many parties we were acting for by giving them almost live information as we received it.

For owners with chilled or frozen cargo the situation was slightly different. With no power to maintain refrigeration, we were able to write-off their containers as total losses after a few days.

While the majority of our initial efforts focussed on detailing the location and contents of the containers that were on board, we also had to keep in contact with the salvage operators to understand their plans and ascertain the long-term outlook for the containers that hadn't fallen overboard.

Our enquiries told us the plan was to tow the two broken parts of the ship back to port and, although a difficult procedure, it seemed possible. On 24 June, tug boats arrived at the scene and the salvage operation began. However, on 27 June, the aft section of the Mol Comfort unfortunately sank to a depth of 4,000m while under tow.

Things moved from bad to worse when, on 2 July, the bow section that had been under tow, broke free in bad weather. Although the towline was successfully reattached the next day a fire then broke out on 6 July, damaging the remaining containers on board. On 10 July, the bow section finally sank and the last vestige of hope disappeared for the cargo owners.

In addition to the administrative and logistical challenge of dealing with so many owners, brokers and underwriters, as well as trying to verify the changing fate of each container in real time, there were difficulties in ascertaining exactly what had happened to the stricken vessel. When both parts of the ship sank, they took with them any physical evidence that would've thrown light on its desperate demise.

Container shipping is a highly sophisticated activity, with immense levels of organisation. When a ship the size of the Mol Comfort runs into trouble with a cargo of almost 5,000 containers on board, it becomes drastically apparent just how complex it is to validate each and every item on board.

From day one our Global Marine Practice in Rotterdam led the adjusting on behalf of many parties for this loss, and their confidence in us is testament to our experience and expertise in this market.

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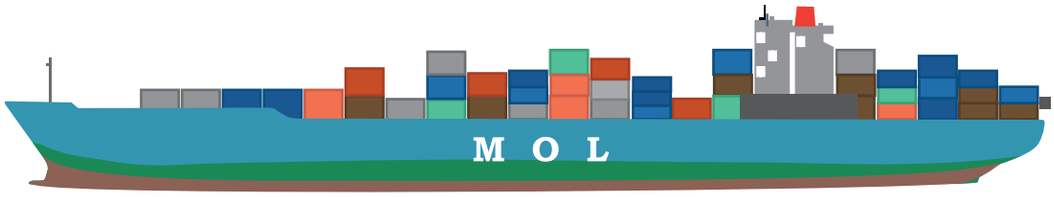


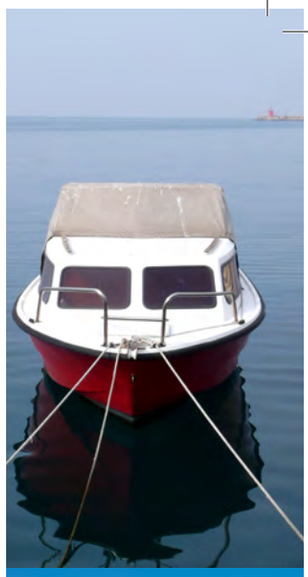
TECHNICAL SPECIFICATIONS: MOL COMFORT

Type:	Container ship
Built:	2008
Flag:	The Bahamas
Tonnage:	86,692 Gross Tonnage 48,825 Net Tonnage 90,613 Dead Weight Tonnage
Length:	316 m (1,037 ft)
Beam:	45.6 m (150 ft)
Draught:	14.5 m (48 ft)
Depth:	25 m (82 ft)
Installed power:	Mitsubishi-Sulzer 11RT-flex96C (62,920 kW)
Propulsion:	Single shaft; fixed-pitch propeller
Speed:	25.25 knots (46.76 km/h; 29.06 mph)
Capacity:	8,110 Twenty-foot Equivalent Units
Crew:	26

The shipping market is under pressure to keep costs down. We are seeing a trend towards using cheap crews and officers from countries with lower wage demands. Ship maintenance budgets are also being squeezed, so the global container fleet isn't in the best health. These factors have an impact on both the number and size of losses in the market.

The increasing size of vessels also creates potential issues for the insurance industry, as today's container ships are so big that they can easily carry a total cargo of $950m. This can generate unwanted accumulation risks for insurers and they need to monitor exactly what exposure they have to the cargo carried by any one ship.

Recently a Triple-eClass container ship carried as much as 17,603 twenty-foot equivalent units (TEU), the highest number ever loaded on a vessel. Beyond the obvious, these larger ships also mean far more cargo is stored in port. This leads to larger losses when natural catastrophes strike, and so there is a focus on the length of time cargo will be stored on the quayside and the facilities in which it will be housed.



Good communication is as important as accurate calculation

Tight technical accounting might lead to a correct calculation, but it doesn't always pave the way to a popular outcome for the policyholder. Where significant adjustments are required, the ability to communicate complicated technical considerations in a clear and compassionate way is essential.

In many major losses, assessing the business interruption claim is often the most challenging part of the work; something our Forensic Advisory Services (FAS)team deals with daily. This was certainly the case in a claim made by a tourist park when a natural catastrophe caused widespread damage to the city where it was located.

The tourist park itself suffered only minor material damage and repairs were completed in a matter of weeks. But the damage to the surrounding area was much more extensive with local roads and hotels being hit hardest.

The local police kept the only road to the tourist park closed for four weeks, which made access difficult, as well as stopping the tourist park shuttle bus from running its usual service of ferrying tourists to and from local hotels. Even when the road was opened, damage to other roads in the area meant the shuttle bus was unable to operate at full capacity for several months.

The tourist park lodged a claim of $50,000 for the material damage suffered and approximately $1,000,000 for the business interruption loss. The policyholder argued that it had suffered losses (1) under the basic cover for gross profit; (2) due to the denial of access; and, (3) due to damage to customers and suppliers (the hotels) premises. The policyholder's brokers argued that the hotels provided accommodation to the customers (tourists) and the closure of the hotels reduced the number of tourists visiting the city.

The policyholder did'nt have a wide area damage/loss of attraction extension to its business interruption policy and (4) insurers sought to rely on *Orient Express Hotels v Assicurazioni Generali SpA (2010)* to restrict the business interruption loss. Also, cover was ultimately denied under (3) as the policyholder was unable to demonstrate to insurers satisfaction that the hotels were genuine suppliers to the business.

Although there was no doubt the policyholder had suffered financial losses to the value claimed, our FAS team was asked to calculate exactly what portion of the loss was actually insured under claims (1) and (2), subject to the impact (4) should have on each component.

Just how big an impact the natural catastrophe had had on market conditions was critical to our investigations. The policyholder acknowledged a short-term drop in trade – less than one month – was due to the wide area damage to the city in general, and that this was uninsured. But ongoing revenue after this period was still down on average and the policyholder believed this was covered.

Our task was twofold. In the first instance, to achieve a mutually agreeable settlement, the expert accountant had to clearly explain technical accounting adjustments

in a way that was understandable to the policyholder and consistent with the policy's terms and conditions.

Secondly, it was necessary to be able to provide true statistics by which the change in the market could be accurately measured. Importantly, natural catastrophes don't result in the same effects on every industry within a region; tourism and luxury car industries may decline, but timber and building supplier businesses may experience a surge in demand. The effects of wide area damage will, therefore, be specific to each business.

Our analysis of the financial records of the policyholder showed that it got the majority of its revenue – 80% – from overseas visitors. We sourced data from the national customs and border agency for incoming passengers. We correlated the historical level of incoming passengers who selected 'holiday/vacation' on their customs arrivals card against the revenue generated by the policyholder.

Applying this correlation to the actual decline in tourist numbers following the natural catastrophe we convinced the policyholder of an appropriate adjustment to standard turnover. Contrary to the policyholder's belief we showed that the number of overseas visitors was down by up to 90% on usual volumes and continued to be depressed 12 months after the incident.

After we had investigated the revenue generated by international visitors, we then looked at how the domestic market had changed. Anecdotal evidence had suggested that up to 15% of the residents had decided to move away from the area either temporarily or permanently. We were able to source data from Visa and MasterCard, which showed a significant drop in the volume of transactions made within the city from those who held a credit card registered to a residence in the area. This decline was approximately 10% and provided actual accounting data more precise than the anecdotal evidence had suggested.

On this basis it was concluded that as much as 10% of the city's population had relocated to a different city in the aftermath of the natural catastrophe.

Having correlated all of this data to the policyholder's revenue streams we demonstrated that the tourist park would've experienced a decline of approximately 90% in its revenue following the natural catastrophe, regardless of any damage to its own premises.

FAS' calculation of business interruption loss ended up totalling approximately $50,000; well short of the claimed $1,000,000. Understandably, this wasn't an outcome welcomed by the tourist park. We had to take great care in explaining the rationale behind the settlement figures and negotiating with the policyholder to accept this value as being fully representative of the cover provided by their insurance policy.

In such situations we may have the backing of the technical data to support our case, but it's important to tread carefully, and deliver our findings in a totally transparent and sensitive manner.

It demonstrates the importance of undertaking robust accounting investigation that can be supported by appropriate documentation. It also demonstrates the need to communicate the outcome in a way that leads the policyholder to understand and accept it.

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This loss highlighted important issues that need careful consideration. The first is the expectation gap that policyholders often have between what they perceive to be losses stemming from an insured peril and the actual loss a standard policy will cover as a result of specific damage from the peril.

Similarly, the measurement of wide area damage is a difficult and subjective task, and while a policy may not insure these losses it can be very difficult for an insurer to demonstrate how much of the loss is due to wide area damage. Robust accounting information is needed to justify the market impacts of wide area damage on each policyholder as catastrophic events have different impacts on different industries.

Policy extensions need to be identified and considered carefully. Without the right policy extensions in place, policyholders can end up receiving far less than their actual financial losses.

In the wake of a loss, it can be difficult to measure and allocate individual elements of loss from concurrent causes. What loss is due to physical damage to the policyholder's premises and what loss is due to damage to a supplier or customer's premises, may not be precisely ascertainable. This will have significant issues where one cause of loss is restricted by a policy sub-limit.

Vodafone - power to you

On 4 April 2012, one of Vodafone's five switching centres (wireless telephone exchanges) in the Netherlands was put out of action by a fire in adjoining premises. The Vodafone Netherlands CEO described it as "one of the worst network failures in the history of Vodafone".
Key issues included:

Fixed line, 2G and 3G mobile services failed

One million customers were unable to call, text or access the internet

Corporate customers, including the Dutch government, were affected

Vodafone's roaming services were affected in 30 countries

Potential loss of Vodafone's largest customer – a Mobile Virtual Network Operator (MVNO)

The method of extinguishment adopted by the Rotterdam Fire Service was focussed around the containment of fire spread from the adjoining premises into Vodafone's property. Whilst this restricted actual fire damage to equipment therein, it did result in a not untypical scenario whereby the combined effects of radiated heat and extinguishment water caused damage to highly sensitive electronic transmission and monitoring equipment.

Whilst the building and contents were'nt destroyed, the effects of the fire rendered the whole site inoperable with a significant question mark hanging over the extent of damage that may have occurred to equipment contained within specialist compartments in the building.

The policyholder was obviously focused on the resurrection of their business at the earliest possible time. The purchase of readily available new equipment, installed at alternative locations as a temporary measure, was a major element of their recovery strategy. The fate of the damaged, but potentially repairable, equipment didn't form part of their contingency plan.

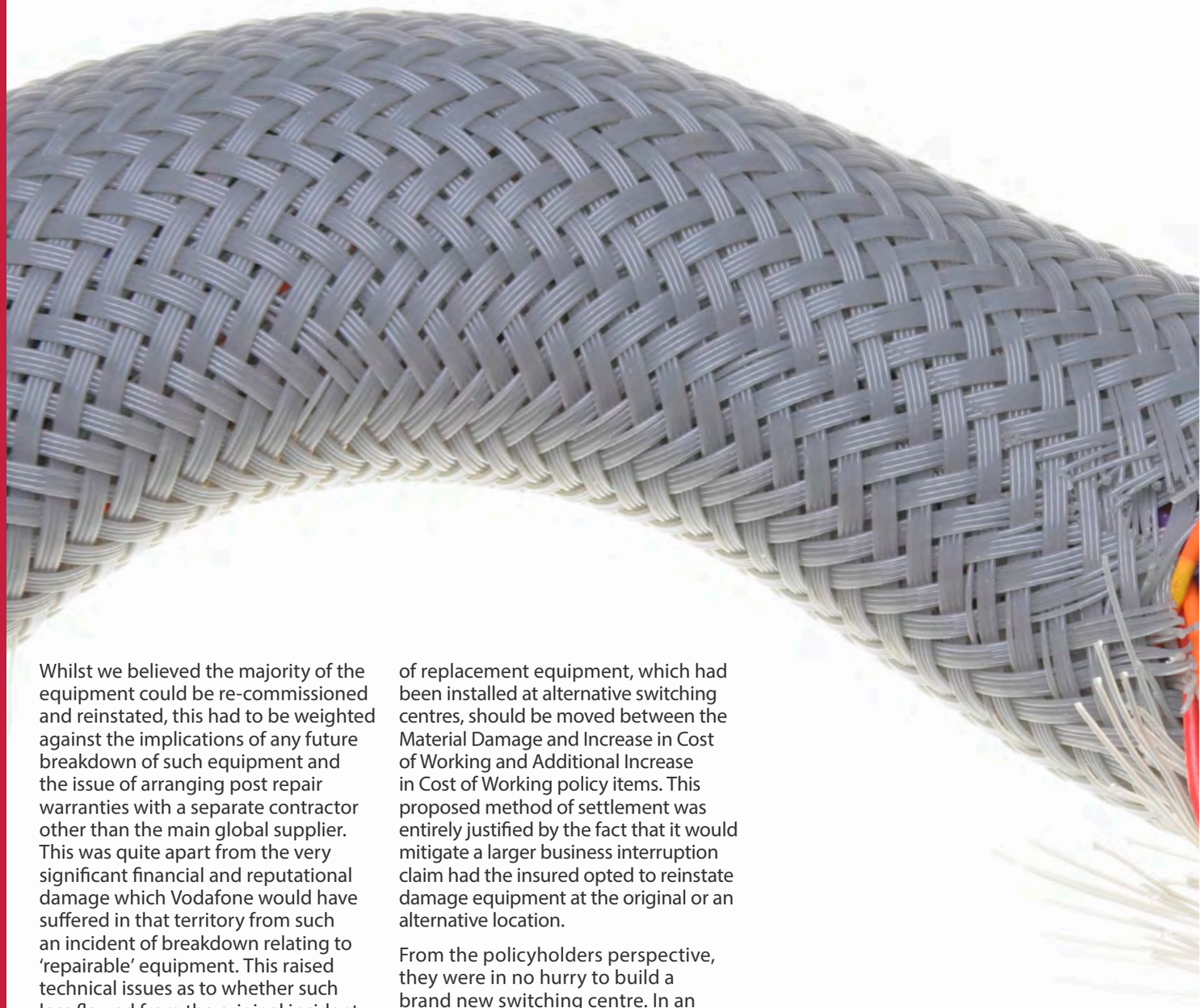
Trust is an implicit element needed to settle a claim to the satisfaction of both the policyholder and insurer. As the fire had only occurred four days after our appointment to this account, we had to inspire trust – and fast. It was essential that we clearly demonstrated our specialist knowledge of the technical issues attached to the damaged equipment, as well as the complex financial loss arising from this incident.

The composition of the team involved in this claim was key to its progression and ultimately would impact on the outcome for all parties. To underpin our credibility and provenance in the telecoms sector, we used local knowledge from an engineering perspective that also had the benefit of working with competitors, plus imported technological expertise from our Cunningham Lindsey Group and key suppliers.

As important as the technical proficiency was, it was the communication and management of all parties – including brokers, insurers and reinsurers and their appointed experts – that became the prime focus for us.

The potential loss of one of their largest Mobile Virtual Network Operator (MVNO) customers gave us the opportunity to build our relationship with the senior management team at Vodafone Netherlands. We provided guidance and settlement claim parameters, almost akin to remote control loss adjusting, which meant that their senior personnel could reach an agreement to retain the customer at an acceptable cost to both the business and insurers. This exercise set the benchmark for future transparent negotiations on both the property and financial elements of the claim.

In regards to the equipment claim, experts were appointed on behalf of the insurers to conduct tests in the post loss aftermath – the results suggested the affected systems might be repairable. The repair of such technologically advanced equipment and its continued support under a global maintenance contract and/or breach of Original Equipment Manufacturer (OEM) warranty (a perennial claims problem), was very much the 'elephant in the room'.



Whilst we believed the majority of the equipment could be re-commissioned and reinstated, this had to be weighted against the implications of any future breakdown of such equipment and the issue of arranging post repair warranties with a separate contractor other than the main global supplier. This was quite apart from the very significant financial and reputational damage which Vodafone would have suffered in that territory from such an incident of breakdown relating to 'repairable' equipment. This raised technical issues as to whether such loss flowed from the original incident. The impact of a subsequent incident would've been devastating to revenue and retention of the customer base.

We were fully mindful that the captive and reinsurers would need to agree to the reinstatement cost of equipment, which was considered economically and viably repairable without there being an accommodation to the policy wording which was in force. We needed to satisfy all parties, providing insurers with a true indemnity, and a solution to Vodafone, which protected their network from further physical damage, as well as their financial and business reputation.

Rather than interpret the submitted material damage and business interruption claims to ascertain whether the circumstances of the claim fitted within the policy wording, we interpreted the policy coverage in the light of the methods adopted by the client post loss to resurrect their business. At a market meeting, we suggested that allocation of the cost of replacement equipment, which had been installed at alternative switching centres, should be moved between the Material Damage and Increase in Cost of Working and Additional Increase in Cost of Working policy items. This proposed method of settlement was entirely justified by the fact that it would mitigate a larger business interruption claim had the insured opted to reinstate damage equipment at the original or an alternative location.

From the policyholders perspective, they were in no hurry to build a brand new switching centre. In an industry where technology develops rapidly, the opportunity to look to the next generation, rather than having to pursue the debate over fixing damaged equipment that was outdated, proved compelling.

Both parties saw significant benefits in an early resolution of the claim. Had the policyholder opted to fully reinstate, this would've taken a minimum of two years, and yet the claim was agreed in its totality within just eight months of the loss.

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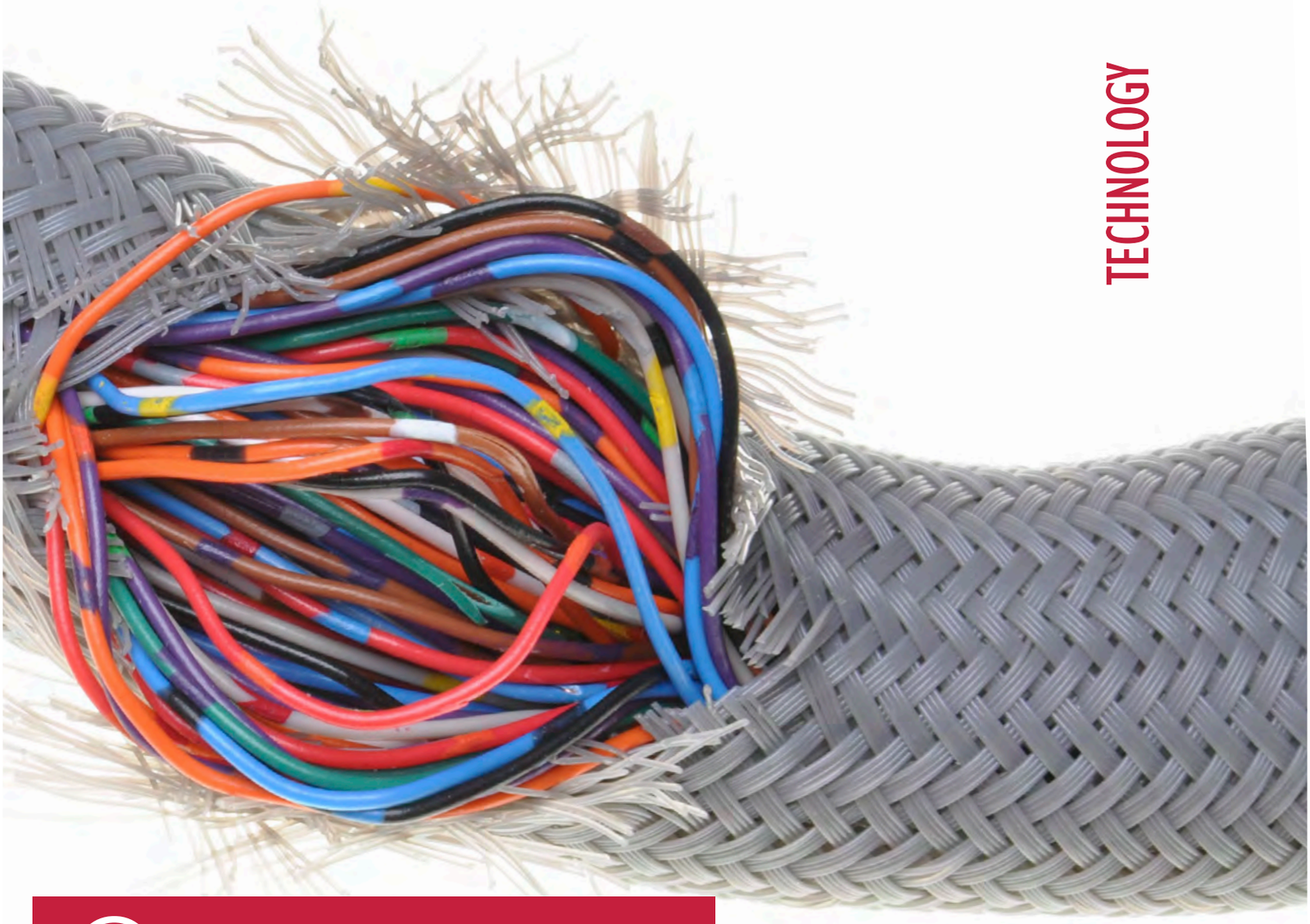

The commercial angle to any major loss is a significant and delicate issue as, at times, the policyholder and their insurer may have differing desired outcomes.

As ever, we seek to provide solutions to our policyholder's issues in the major loss arena. Subsequent to settlement, there has been ongoing work relating to a review of policy coverage to deal with issues such as the continued warranty repaired equipment. If repaired, the global maintenance/warranty contractor will not provide support going forward. Is repaired equipment providing the policyholder with a true indemnity if it is no longer supported by the pre-loss maintenance contractor?

From a risk management perspective, there's a heightened awareness across policyholder, broker and insurers of the exposure of shared building risks. There are other generic items such as compensation to customers, and having a group insurance response team which have been driven forward, so we are better placed for any future loss of this magnitude.

We continue to develop the complex global claim response to this policyholder involving: brokers, insurers and policyholder, to provide a service which fits the unique claim challenges of this section.

Waiting for the cows to come home

On 14 October 2013, a dairy farm that supplies nearly a third of the UK's milk was struck by a fire. When flames tore through their state of the art dairy, the firm were under real pressure to keep deliveries running, and make sure the nation could still enjoy a cuppa with their breakfast.

The site is an extremely sophisticated, modern dairy, which processes up to 12 million litres of milk every week, stores a further 2.5 million litres of unprocessed milk on site, and supplies a major supermarket chain with 50% of their milk.

At the height of the fire there were 60 fire fighters tackling the inferno. Production at the site was stopped immediately and couldn't be restarted until the dairy had been completely decontaminated, meeting all statutory obligations set by the Food Standards Agency.

In a loss of this scale a swift and sure response is essential to maintain production, minimise loss, and help the policyholder sustain strong relationships with both suppliers and customers.

The dairy's focus was very clear: keep the milk flowing to customers while they assessed and repaired the damage.

To allow this to happen, the dairy needed support from its insurers who, in turn, relied on the expertise we provided and the ground support we offered to give them the confidence to make fast and effective decisions.

As soon as the fire was extinguished, we had a team on site to support the insurer-led presence. This let us offer immediate expert opinion and insight on the scale of the loss, and give guidance on how best to minimise it moving forward.

Contingency plans were put to action and production at the policyholder's five other dairies was ramped up. But, given that these other dairies are spread across the UK, there were logistical issues to deal with to make sure increased volumes and delivery schedules could be maintained. In addition to meeting contractual obligations and keeping customers happy, the dairy wanted financial certainty over the loss and needed an understanding that money would be available from its insurer as needed.

Their insurer understood how important it was for the policyholder to protect its cash flow. Our ongoing adjusting of the claim, tight co-ordination of remedial work, and required analysis, made sure that staged payments were made promptly. Indeed, within twelve weeks following the fire £11m had been transferred to the dairy as part of their settlement.

Although maintaining milk processing volumes was a priority for the dairy, there were also other pressing concerns to take care of. The firm has a contract with another milk supplier to market its milk in Great Britain and Ireland, creating additional supply chain issues to contend with.

Such contracts are commonplace with large producers in the food and beverage industry, but they serve to illustrate the complexities that need to be dealt with in a major loss due to the multiple parties whose needs all have to be considered and taken care of.

It wasn't just insurer, broker and policyholder relationships that needed managing effectively, there were also investigations taking place by the fire brigade. In addition decontamination experts and forensic accountants were on site and we had to assimilate their work into the overall adjusting process.

For the dairy to meet its processing demands, they didn't just turn to their other five UK dairies, but also enlisted the help of other dairy firms. This let them meet their contractual obligations, but also threw up another round of negotiations that had to be concluded swiftly and successfully.

In short though the fire at the dairy was relatively small in terms of major commercial blazes, it had the potential to hit the business hard and within a remarkably short timeframe.

In such scenarios it isn't just the speed of the response that counts, but also the accuracy with which it is delivered and the nature in which expertise is brought to bear. We immediately gave confidence to the insurer and helped it reach a fast decision on liability. This ensured the policyholder got the practical and financial response it needed.

Major losses tend to hit the headlines when the settlement becomes acrimonious. In this loss, we showed how effective insurance can be when things are orchestrated skilfully and all parties work proactively and willingly together.

In the long-term, such an approach is beneficial for everyone. It minimises immediate loss and helps the policyholder to recover quickly. This demonstrates the value that insurance programmes bring and cements commercial relationships for the future by creating reputational benefits for all involved.

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- The complex supply chains in today's food and beverage sector demand a fast response to any major loss to make sure contractual commitments are met, business interruption losses are minimised, and reputational damage is avoided.
- Relatively small events can lead to large losses given the output of modern production facilities in the food and beverage sector. This demands detailed business continuity plans are in place and they should be updated and tested regularly to make sure they perform when needed.

Responding to an alarming escape of water

An Olympic athlete might expect to give regular urine samples, but for a loss adjuster it isn't something that is in the normal line of duty. But, following water damage at a radiation research company, it was all part of the daily routine for our adjusters and engineers.

In addition to the unusual testing regime, the case also threw up some puzzling inconsistencies around the scale and nature of the loss. It took a detailed, determined and diplomatic investigation to unravel these issues successfully and reach the right decision on both the nature of the loss and the associated liability.

During a fire alarm test the alarm company inadvertently set-off the sprinkler system in one of the laboratories, soaking it and everything inside. Following the unwanted deluge, two hundred litres of toxic water were drained and disposed of.

A claim was then made for damage to the laboratory equipment and initial estimates put the total loss at £180,000 – it looked like an expensive fire drill to say the least.

Radiation should never be treated lightly and there were strict house rules regarding access to the loss and the way we conducted our inspection of the contaminated laboratory. The protective measures included the usual boots and over-suits, with all equipment to be inspected had to be swept over by Geiger Counter before it was touched. Our engineers also had to produce urine samples before and after each visit to check whether they had ingested any radiation, certainly a new feature to their traditional adjusting regime. Despite the unusual environment, the investigation was no less thorough and we came up with some unexpected findings.

When going over the equipment we could find no traces of water, no water marks and no tiny spots of rust, despite the fact that the laboratory had been drenched by the sprinkler system. In light of this we asked the equipment manufacturers to give us their view on the extent of the damage.

But, the policyholder was anxious to move ahead and before any intervention from the equipment manufacturer, the insured provided us with their contracted Equipment Test House Report, which advised that all the equipment was waterlogged and needed to be replaced.

This created a number of problems. The report wasn't independent and it wasn't actual evidence of damage. Instead it was based on an assumption that the equipment must be damaged given the fact it had been in the laboratory when the sprinkler system had been activated. This was contrary to the visual evidence that seemed to indicate no water had fallen on the equipment.

Given these issues, the insurers agreed to instruct an independent damage control expert to work with us and the policyholder. Several instruments were stripped down and found to be bone dry – the internal dust layer showed no trace of moisture.

The claim was potentially contentious and it was important to get to the bottom of what had actually happened to make sure the loss was treated in the correct manner by all involved parties. The policyholder believed the circumstances of the incident and the water, which was found in the laboratory, was known and undisputed.

They felt, therefore, that it would be strange to suggest the equipment hadn't been soaked when the sprinkler system went off. It followed, they claimed, that the equipment was unserviceable and should be written-off. Despite its logic, this point of view was simply not supported by the evidence we had found. There had to be another explanation.

To avoid an impasse, we arranged an inspection and recalibration tests by the equipment manufacturers with the intention of re-certifying the machinery. We felt such rigorous testing would determine whether the equipment had actually been damaged and if not believed the manufacturer's stamp of approval would satisfy both the policyholder and the statutory obligations they had to meet.

Since the equipment was, to a slight degree, irradiated, nothing could leave the laboratory. This meant all of the testing had to be carried out inside the laboratory under the strict radiation protection rules.

At this point, the equipment manufacturer saw the possibility of a sale. They became overly enthusiastic in presenting a picture of damage, which they thought the policyholder would want to hear. Indeed one company representative said he knew the equipment would be alright, but it was old and it made sense if he wrote a report to scrap it so the policyholder could have new equipment. There was a long silence when he suggested this and then realised that our team was instructed by the insurer and not the policyholder.

The test and re-calibration on all of the suspect equipment was completed without issue and the policyholder conceded that the equipment was as good as, if not better than, before. The final costs were less than the policy deductible and so there was no claim – but the policyholder was given sufficient evidence by us to recover their costs from the alarm company.

But how did the equipment avoid the deluge and remain dry? We concluded that the contractors carrying out the alarm test must have taken the precaution of covering all of the machinery with polythene sheeting.

As part of the clean-up we believe the sheeting must have been removed and disposed of almost immediately as part of the toxic waste material from the laboratory. This would have prevented the insured from seeing it and when they viewed the sodden laboratory for the first time, the machinery would've been unprotected.

On this basis it was reasonable for them to assume the equipment had been drenched and must be damaged.

What this claim highlights so well is that there is never any substitute for seeing something in the flesh. It also proves that claims can't just be accepted at face value and while something may seem obvious, there is often a more complicated or intricate truth lurking in the background.

Using our experience and expertise to unpick these complexities is where we add value, and this claim was an excellent case in point. For the insurer it turned out there was no claim to pay, and our detailed investigation delivered benefits for the policyholder too. We documented our findings to make sure they could successfully claim the costs they had incurred from the alarm company, and so they weren't out of pocket.

In not making a claim, the policyholder also avoided the negative impact it would have had on the renewal terms and conditions or the premium that was attached to a new policy.

We worked closely with the insurer and the policyholder to determine exactly what had happened and in doing so both parties benefited from what were unusual and intriguing circumstances.

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The pace of technological advances means electrical equipment can become obsolete very quickly. It's also becoming far more difficult to isolate individual parts and replace them when faulty, making repairs more expensive. Where equipment has to be written-off, the latest version is often significantly more expensive than the damaged item. These rising repair and replacement costs can create underinsurance problems and it's imperative to keep sums insured up-to-date.

Where electrical equipment suffers water damage, being able to quickly blast out moisture with compressed air and then dry it thoroughly often sees full functionality restored. Even if only some of the damaged equipment can be brought back to life, this lets the policyholder maintain skeletal operations whilst minimising the business interruption loss.

Trouble down mine

In February 2013 the largest fire in a UK coal mine for over 30 years devastated a colliery in Warwickshire. Following the fire the mine was inaccessible, forcing us to adjust the loss without inspecting the physical damage and to rely on the extensive technical expertise of our adjusting team. The high profile loss attracted national media attention adding a further level of complexity to an already difficult claim.

The fire, which started as a result of spontaneous combustion, broke out at a depth of 740 metres and some eight kilometres from the bottom of the main shaft. Working in cramped, dangerous and remote conditions, 14 miners tried valiantly to tackle the fire. Ultimately, they had to abandon their efforts and leave the fire to burn itself out. Unfortunately the closure of the colliery became unavoidable and was announced three weeks later, with the loss of 570 jobs.

We were appointed by the primary layer insurer and the excess layer insurers to handle all aspects of the claim, with damage to underground assets exceeding £140,000,000.

We were well positioned to provide the technical expertise needed, because our lead adjuster was formerly a mining mechanical engineer for British Coal and had been instructed in relation to previous fires at the colliery. We knew the lie of the land very well.

Despite this, adjusting a loss without actually seeing it firsthand is never easy and it was important to establish if the site operators had managed the site well on a day-to-day basis. Had reasonable precautions been taken to prevent the fire? Had every effort been made to contain and/or extinguish it? Was it reasonable to abandon the mine?

Getting an accurate and reliable answer to these questions would be fundamental in establishing liability and getting the claim settled quickly.

We began an extensive review of the daily practices at the colliery, to establish and evidence the rationale for closure. This was specialist work, needing a thorough understanding of coal industry practices and regulations.

Our team provided this technical level of knowledge and insight into the mining industry, keeping the number of additional consultants to a minimum and enabling the claim to progress quickly. The work entailed examining:

- Daily practices at the mine
- Preventative maintenance records
- Underground layout plans
- Strategy records
- Commissioning documents
- The magnitude of the fire
- Whether the coalface was 'in production' or 'in salvage'
- Whether the colliery could have continued to operate had the fire not occurred

Through this detail analysis of operating procedures at the colliery we could show how the mine operator had met the conditions of the policy and this enabled the insurers to quickly accept liability for the claim.

Initial meetings with the primary layer insurer quickly established that the loss for the power roof supports alone would exceed the initial insurance layer of £10m. This was agreed and detailed in the report we issued on 14 March, less than three weeks after the outbreak of the fire.

Attention quickly turned to the excess layer insurers who held cover for £30m and there were a number of issues that needed to be clarified.

Was the fire actually as big as believed? Was the affected coalface 'in production' or 'in salvage' at the time of the fire? Would the colliery have continued to operate had the fire not occurred?

Could the colliery return to production in the future?

Answering these questions meant providing in-depth technical expertise and using it to professionally analyse the data available. Our team has this knowledge and was able to use it to great effect.

In regard to the major assets and machinery, we needed to establish the purpose, ownership, value and location of the equipment and this was done by strict cross-referencing with the Asset Register and analysing the operator's working knowledge and formal records of the colliery.

Our technical knowledge of the mining industry meant we immediately understood what all of the machinery, equipment and integral structures of the mine referred to, were. This enabled us to handle the vast majority of the claim through our own internal resources.

By early June, less than 15 weeks after the fire had broken out, all parts of this complex claim had been investigated and resolved.

This was exceptionally fast and it wouldn't have been unreasonable to expect a claim of this technical complexity to take up to 18 months to settle, especially given the inability to conduct a physical examination of the loss.

The closure of the mine was a bitter blow to both the local community and the UK mining industry. Given the political sensitivity and difficult circumstances surrounding the loss, it was incredibly important to bring certainty to the situation as quickly as possible.

Although the closure wasn't the outcome that any party wanted, our swift deployment of technical expertise enabled insurers to accept liability, the loss to be adjusted accurately, and settlement to be reached rapidly. In a bad situation, this was the best outcome that could have been reached.

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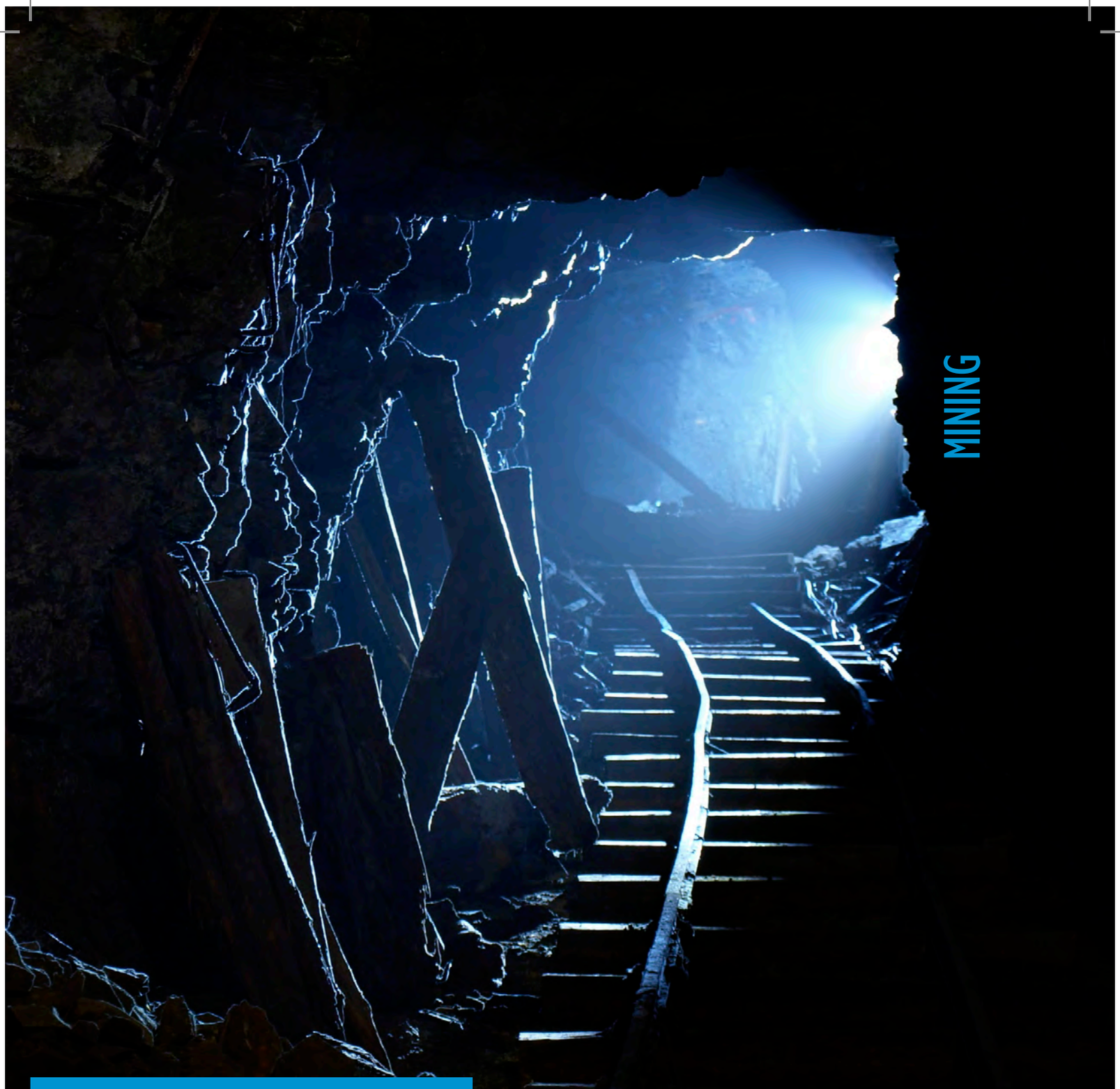

MINING

This loss highlights the value of having in-house technical expertise and using it to reduce settlement time as well as effectively project manage the loss. Deep Mining is a sophisticated and complex industry and a detailed practical knowledge of machinery and operations is needed to bring confidence to insurers, brokers and their clients. This is especially the case in a major loss where access is denied and a physical inspection is impossible.

As the UK reduces its mining activity and turns to new forms of energy extraction – such as fracking – working with partners who understand the technical aspect of this work and have a detailed knowledge of the risk profile it represents will be essential to protect the interests of all stakeholders.

Avoiding a penny wise but pound foolish settlement

Settling each aspect of a claim for the smallest amount possible is often false economy, but to make sure any up front additional spending delivers future savings there has to be a marriage of trust, expertise and experience between all involved parties.

One of the most important areas where we add value is in our ability to evaluate the overall financial cost that different approaches to a loss will generate. This is essential in major losses, where there are many different aspects that all have a bearing on each other.

In particular, it's important to establish whether more costly solutions to the material damage loss will ultimately reduce the business interruption loss and to be able to quantify this saving accurately.

This isn't difficult when all of the facts are known and there are no variables to contend with. But, in a major loss there are always unknowns and variables to manage and that's why trust, expertise and experience are so fundamental to a successful settlement.

A severe fire at a secure hospital in the north of England exemplified the importance of understanding the best way to adjust a loss to create the most valuable outcome for both the insurer and the policyholder.

The hospital provided mental health services to the local community and had numerous contractual obligations to fulfil. The blaze created substantial damage and rendered part of the hospital uninhabitable. The immediate concern, therefore, was relocating the 32 residents that could no longer stay on the fire affected premises.

The fire hadn't damaged a new wing of the hospital that was close to completion and so a third of these residents were able to be accommodated here. Enquiries and arrangements were made with similar health providers in the area who were able to take some of the residents, while the rest were safely returned to the community.

Now the residents had been looked after, the work of settling the claim in the most effective manner possible began in earnest. Speed was of the essence and so it was agreed to implement a cost plus option with the insurer's preferred contractors and to agree the scope of the work as the project progressed.

This wasn't the cheapest option, but from the start it saved three months on procurement and meant the repairs could be started quickly – two enormous benefits. This head start made sure the new roof was in place quickly – completed by Christmas Eve – which meant the building was weather tight and didn't sustain any further damage by being open to the elements. This enabled the contractors to carry out drying work over the quieter holiday period, minimising the disruption it caused.

The second benefit was that by progressing promptly the business interruption exposure was reduced by a figure of around £500,000.

The decision to use a cost plus option with preferred suppliers was only part of the overall solution. By rearranging the ways in which the undamaged part of the hospital were used, it was possible to isolate the area under construction.

Living off the construction site allowed contractors to work faster and enabled the undamaged part of the hospital to operate more effectively. This reduced the overall business interruption exposure and helped the hospital meet its contractual obligations.

As the damaged part of the hospital was fitted out, the programme of works was designed in such a way as to enable completed units to be put immediately into operation. This approach allowed the hospital to grow its operational capability throughout the period of the remedial works, once again helping to reduce overall business interruption loss.

Assessing the different aspects of a major loss, and implementing the most appropriate solution for all parties, is a technically demanding and difficult job. However, when it's done effectively it delivers very positive financial and operational benefits.

The trust the insurer had in our approach was demonstrated by its willingness to start making substantial and regular payments within a month of the fire breaking out. This shows just how much confidence the carrier had in our approach. It also gave the policyholder huge confidence in their insurance programme and the response it delivered in their hour of need.

The approach we took might have generated additional costs in dealing with the material damage claim and it certainly involved some lateral thinking. But it reduced the overall cost of the claim, reduced the time it took to settle the claim and gave the hospital the biggest operational capacity possible throughout the claim process and remedial work.

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Insurer comments

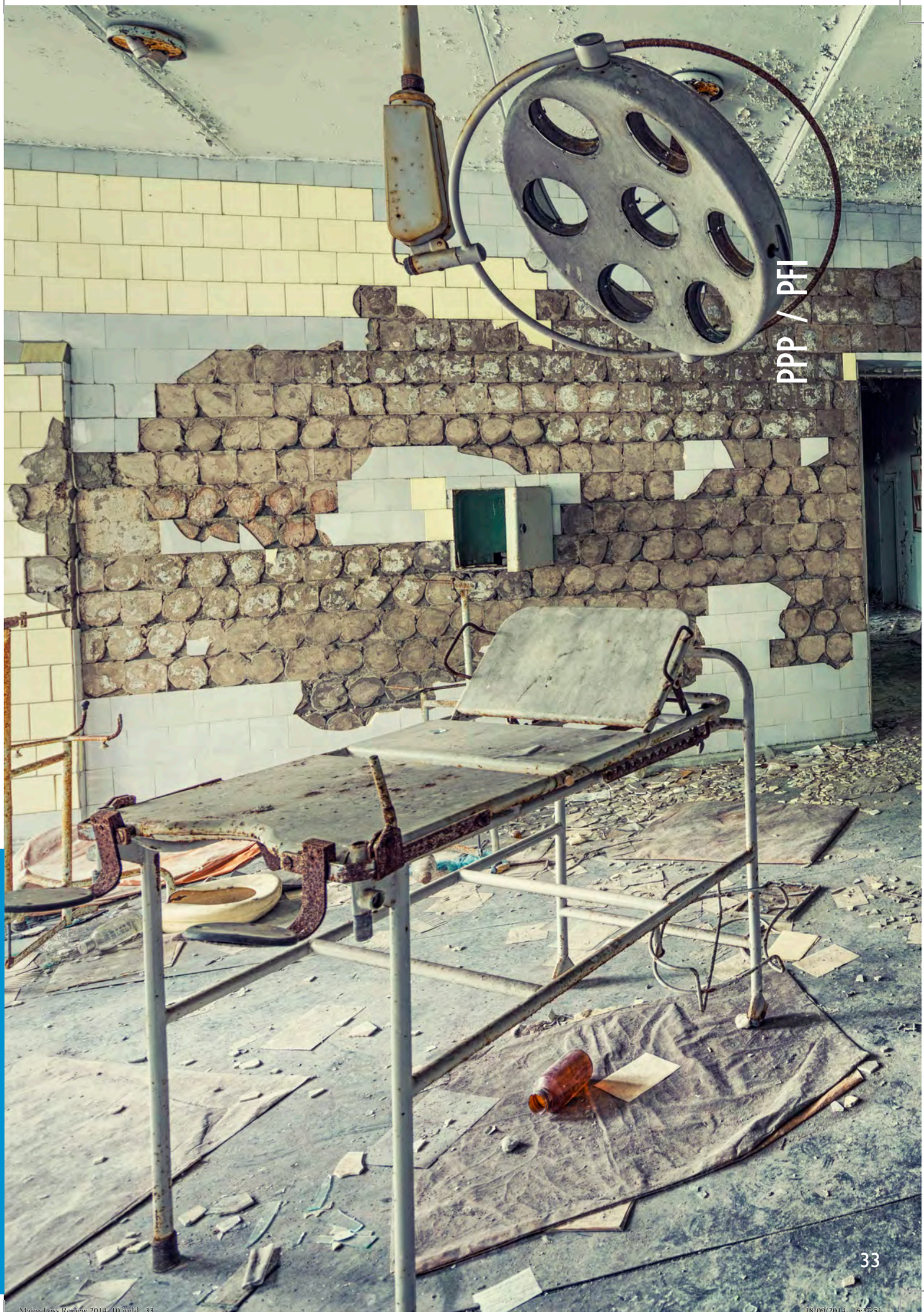
The following comments from the insurer highlight some of the issues at hand, and the positive impact that our approach created:

"It was a large loss and from the outset it was clear the biggest consideration would be the business interruption. We had to develop a solution which would ensure these facilities were operating again as quickly as possible so our client could maintain its position in the market."

"As soon as the first wing was completed, the hospital was able to start taking new patients. In total the rebuild only took five months, much faster than the ten to twelve months that everyone had initially expected."

"The relationship between all the parties involved really helped with this claim. It was complex but by working together we were able to get the client's business up and running much faster and smoother than expected."

- It's important to assess a major loss in its entirety from the start and to evaluate whether additional costs in settling the material damage aspect of the loss could result in lowering the business interruption loss.
- Sophisticated planning around the remedial work will often enable repaired parts of a commercial property to be put back into use while other work continues and so reduce the overall business interruption loss suffered.
- Communicating the full details of the proposed settlement strategy quickly and clearly lets all involved parties buy into the plan and work collaboratively to ensure its success.



PPP / PFI

The work starts when the catastrophe stops

Four years on from the earthquake that tore up everyday life in the New Zealand city of Christchurch and its surrounding Canterbury region, the reconstruction challenge is well-underway, yet still far from over.

We've been involved since day one and have a dedicated team working hand-in-hand with Christchurch City Council to help it adjust thousands of individual property losses, affecting tens of thousands of people, and amounting to billions of New Zealand Dollars.

In the wake of such a destructive event it's a massive task to assess exactly how insurance cover will respond, decipher the extent of the loss, and instruct the most appropriate and effective remedial work.

A task of this scale and intensity is laced with tension and volatility as people protect their cultures and communities whilst seeking to look after their loved ones and livelihoods.

But just how do these challenges manifest themselves on a day-to-day basis, and what stresses does it place on an organisation trying to provide the adjusting resource required?

One of the biggest issues has been around understanding and negotiating the exact extent of the insurance cover in place. Christchurch City Council had a sum insured of $1.8bn covering 1,600 properties listed on its asset register, with the individual sum insured given for each.

New Zealand doesn't recognise the average condition and so there's no pro rata reduction in settlements for underinsurance. But where the sum insured isn't sufficient then the policyholder will still be left out of pocket, especially when an event affects so many assets at the same time.

In addition to the issues of dealing with so many individual losses that had a shortfall in insurance cover, there was also an enormous diversity in the properties affected, creating another level of complexity.

As one would expect the asset register comprised of such civic jewels as the AMI Sports Stadium, the Art Gallery, and the Town Hall, butalso listed the less glamorous, but just as important, urban requirements such as the Bromley Water Waste Treatment Works.

Indeed, the assets register went as far as listing the barbeque shelters in the public parks, and so a large proportion of the work has involved adjusting the extent of the loss to each one and deciding on the best and most appropriate means of reinstatement or repair.

A lot of these discussions are ongoing, and as new facts come to light and additional information is uncovered it's necessary for all involved parties to adopt a flexible approach in what is a fluid environment.

Having a dedicated team based in Christchurch means we have a positive impact on negotiations and, having deployed experienced colleagues from around the world for six to twelve months at a time, a skilled hub of New Zealand staff.

In reconstructing their city, the local community are determined to make it resistant to any future earthquakes. This desire to strengthen buildings puts a strain on the scope of the insurance cover therefore self-funding from the policyholder is needed where it falls short in their cover.

Agreeing who pays for what isn't always easy. And once that decision is reached there's a need to effectively co-ordinate the work that each party instructs and make sure it dovetails properly.

In a single loss where there's one property in question, this can sometimes be challenging. When there are thousands of losses being adjusted and managed it takes very sophisticated levels of communication and management to see them through to a successful settlement.

When communication channels collapse, the results can be devastating, as was proved by the unfortunate fate of the Sydenham Methodist Church, detailed later.

There are lessons for all involved parties to learn, and from our own perspective we have gained experience that will make us more effective in dealing not only with the ongoing Christchruch loss, but also others in the future.

One of the issues we have come across regularly in New Zealand is the variance between visual aspects of a building and the underlying damage. It hasn't been uncommon for buildings to look virtually unscathed, but on closer inspection to find that they're actually out of kilter on many different levels and resting on highly unstable ground.

This means nothing can be taken for granted and emphasises the fact that there's no compromise for a detailed physical inspection by a qualified individual. In turn this helps make sure the correct priorities are set; in terms of those properties and the work that needs to be carried out first.

When a natural catastrophe strikes it's all over the headlines and gets carried by news bulletins around the world. But once the immediacy of the event has passed the reconstruction effort rarely gets covered in any detail. This is a shame as the rebuilding effort deserves our attention and can be instructive on many different levels.

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Appendix 1: Sydenham Methodist Church – when communications break down

The privately owned Sydenham Methodist Church was built of Oamarua stone in a Gothic Revival style in 1877 and was one of the oldest churches in the city.

The front façade collapsed in the quake and gained repair costs of over NZ$500,000 – far exceeding the sum insured. In spite of the financial and practical difficulties involved, the local community set about planning the rebuilding of their church. Civil disorder escalation meant that a strong security presence, with both police officers and the civil guard on the streets, to prevent trespassing and looting. Sydenham Methodist Church was one of the buildings being guarded.

In the aftermath of the ongoing events, communication was necessary between civic authorities had been so weakened that the remains of the church were demolished without the knowledge, or consent, of the owners but also without the authority of: the Historic Places Trust, the council archaeologist (who approves demolition applications), or the National Civil Defence Controller (who oversees earthquake responses). A police complaint was lodged and it seems probable another public body exceeded its powers by ordering the works. It's an ironic circumstance that the owners of the building, the Sydenham Heritage Trust, were engaged in a renovation programme, which would have incorporated earthquake strengthening. The congregation of Sydenham Methodist Church says its vision for 2014 is "new ways and new places". Hopefully it will have a new church sooner rather than later.

- Where a client has a wide range and large number of assets it's essential to make sure the asset register is up-to-date in terms of both the individual assets on it and their sums insured.
- In the wake of a natural catastrophe a visual inspection doesn't always give an accurate picture of the underlying damage. To the naked eye the damage from effects such liquefaction often remains unsighted, only becoming apparent once detailed measurements are taken.
- Excellent and ongoing communication is central to finding the best solution following a major loss. The number of stakeholders and the different priorities they all have, meant patience, empathy, and flexibility are needed to progress claims quickly and professionally.

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