



Accounting[®] *Report* New Year 2009

**Insurance claim preparation - Material Damage and Business Interruption
Business Interruption insurance coverage advice Consequential Loss claims
Fraud investigations**



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A question that frequently arises for insurance brokers and agents when arranging coverage for a client is: *What is the appropriate amount of cover for claim preparation expenses?* This article provides some suggestions. Information is also provided on the types of issues that are commonly encountered in claim situations concerning claim preparation cover and steps that can be taken to maximise cover for clients. This will be of use to readers in explaining to their clients the reasons behind the amount of cover under the claim preparation/professional fees heading.

Recommended claims preparation costs coverage levels

The claim preparation expense coverage levels recommended by ISR Accounting are set out in the table below:

Annual Turnover/Income	Recommended claim preparation cost cover
Up to \$200,000	\$20,000
\$200,000 to \$500,000	\$40,000
\$500,000 to \$1 million	\$60,000
\$1 million to \$2 million	\$100,000
Over \$2 million	\$250K to \$500K
Large corporate	\$1 million

The claim preparation process is a labour intensive one that includes the obtaining information from clients and other service providers, calculation of the value of losses suffered, preparation of draft submissions for client review, project management and the analysis and exchange of information with the appointed loss adjusters. It is difficult to tell ahead of any loss what costs will be incurred in the claims preparation process. If the claims process runs smoothly, the costs are lower. If an organisation has more than one branch or division, claim preparation costs for Business Interruption losses are likely to be higher. If the claim process complicates or runs into difficulties, the costs are greater. Complications can take the form of, amongst others, disputes with the insurer over the extent of repairs required to restore damaged property, difficulties in extracting financial information needed to quantify the business interruption losses and additional calculations needed to assess cover adequacy for a group as well as the affected branch if the cover has been arranged on that basis. Claims preparation services are normally charged for on the basis of an hourly rate.

Market rates are in the region of \$250 to \$350 per hour. This represents a cost of \$1,875 to \$2,625 per day or \$9,375 to \$13,125 per week.

In the light of this, ISR Accounting recommends the values set out above. Often with smaller business', the amount of work required to prepare the claim is the same as a larger organisation, even though the final values are lower. The recommendations seek to balance the ability of the client to pay with the need for cover. The recommended levels should be adequate in most circumstances, however there is always the possibility of exceptions, especially with lower sums insured.

The market norm at present is for organisations with turnover in excess of \$2 million to have Claim Preparation/Professional service fee cover of between \$250,000 to \$500,000.

Maximising the claim preparation benefit for clients – the ISR Accounting approach

In addition to offering competitive hourly rates and supporting your clients claim submissions with the Chartered Accountants professional status, at ISR Accounting:

- Our administrative staff are trained in tasks such as data capture. This reduces the cost of processing information needed to quantify a claim,
- Certain tasks requiring a lower the degree of skill are charged at a lower rate than other work types,
- The rates charged are differentiated on the basis of the skill and experience of the staff member concerned.

These procedures combine to reduce the total cost for a client and maximise the coverage for a client.

Useful endorsements concerning claim preparation expenses

A useful endorsement to include in ISR policies is the endorsement 'Claims costs extended'. This expands the coverage to include the costs of proving the loss as well as preparing the same. This reduces the ability of loss adjusters and insurers to argue against claim preparation costs incurred after the submission of progress claims on the grounds that the costs incurred were incurred for purposes of proving and negotiating of claims and not for the purpose of preparing the same.

Automatic claim preparation expense covers included in policies – are they enough?

A number of the business pack or specialist industry policies that are available in the market include an automatic claim preparation cover. These covers are seldom adequate and separate additional cover should be arranged.

Policies that provide little or no effective claim preparation cover for a client

Certain policies available on the market have a heading termed accountants fees but in effect provide little or no effective cover to an insured client for the claims preparation process. For instance, the CGU policy packs typically limit the cover to the professional fees and other expenses, necessarily incurred in producing or certifying the bills, accounts or particulars required by CGU.

In other words it is questionable whether any cover is provided for the calculations that are necessary to quantify the claim.

Under this policy wording, an insured client that does not have the means to employ its own accountant to prepare its claim is subject to the opinion of the adjusters attending to the claim and is unable to obtain independent professional advice on its entitlements under the policy.

Given that after a major insured event Business Interruption losses are often the greatest component of the loss, this can place a client at a considerable disadvantage in the claims negotiation and settlement process.

Care should also be taken to ensure that the claims preparation coverage includes the cost of preparing both Material Damage as well as Business Interruption aspects of the claim.

Suggested course of action if a client only has limited or no claim preparation cover but needs assistance with a claim

In these circumstances, it is suggested that contact be made with the claims preparer and an attempt made to negotiate a fee arrangement that is acceptable to both parties. At ISR Accounting we have successfully negotiated fee arrangements for clients that have limited resources available to them as a consequence of limited claims preparation cover or other circumstances.

This fact sheet has been prepared for the information of clients of ISR Accounting. It contains brief comments that are not a substitute for professional advice in the individual circumstances of a business.

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