

Some policies
don't provide the
expected cover

Finding the right cover

Some companies' confidence in their insurance policies is at a low point, following the slow or non-payment of large claims. Greater upfront communication between insureds, brokers and insurers is needed to ensure policies really provide cover when companies need it most.

By Candy Holland, Managing Director of Echelon Claims Consultants

Almost 30 per cent of risk managers have little trust in their insurers when it comes to paying claims, found a survey conducted by Gracechurch Consulting in October 2013.

These findings and the failure of some large or complex claims to be fully paid have shone a spotlight on the issue of 'insurance efficacy' – whether companies' insurance really is fit for purpose and whether claims will actually be paid as companies expect.

During a recent roundtable discussion of the subject, held by the UK's risk management and insurance association, Airmic, it was not suggested that insurers were routinely evading their obligations. Instead it was agreed that problems with large claims are frequently attributed to

inadequate evaluation of the risk exposures and policy coverage at the time of placement.

Rising threat of business interruption

Organisations typically have business continuity plans that are invoked to maintain operations and protect their customer bases. But it is surprising how few organisations

have large loss plans to protect the value of their insurance claims. And it is even more surprising that many companies have not stress-tested their insurance policies to ensure they will respond as expected.

As global supply chains become more complex, we have seen an increase in businesses suffering complex contingent business interruption losses. Although fire claims, for example, have reduced in

frequency, the cost of claims has increased. Companies caught up in insured events, whether 'traditional' perils like fire, flood, machinery breakdown or emerging risks, can be surprised by the impact of the losses they face and the complexity of the resultant claims process.

Questions to ask of your insurance policies

1. Will your insurance policy respond as you expect?
2. Do you know what is and is not covered?
3. Have you tested it?
4. How would your organisation deal with a large claim?

We find it is rare for large claims to be straightforward and they are never settled as quickly as the policyholder expects. Issues and challenges frequently arise that have not been anticipated.

Recent examples include:

- A tenanted, listed building subsided because of building works being carried

- Damage to a public utility caused a process plant to immediately halt production. The utility outage lasted 24 hours but the plant suffered damage as a consequence. It was also affected by solidification of material in process. A one-line exclusion, effectively removing the business interruption cover, was

interim payment one month after the loss, this was refused by the insurer, on the basis they hadn't satisfactorily demonstrated their loss, despite the loss reserve being several million pounds.

In all cases the organisation thought they had valid claims that would be paid swiftly by insurers. In reality, their policies did not respond as they expected because of coverage issues and/or the insurer's approach to the claim.

Settling such claims satisfactorily can take several months, which can prove costly to the insured in time expended and delayed claim settlement. The more work that companies, brokers and insurers can do to prepare upfront, before a big claim, the more confidence companies can have that their policies will respond as they expect. ■



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out to the adjacent premises. The council served a dangerous structures notice and insisted that the building façade was retained. Reinstating the building with the façade in situ significantly increased the cost of the works. This resulted in an inadequate buildings sum insured and the prospect of considerable uninsured losses for the insured.

applied. Although there was physical damage, this meant there was also a concurrent uninsured cause of loss, leaving the insured company to prove which event was the dominant cause of loss.

- A leisure business badly affected by flooding was anticipated to be closed for at least five months. Upon requesting an

Gaining greater confidence in your insurance policies

1 Stress-test your policy against potential loss scenarios to find out how it will operate in practice and identify potential gaps in cover and inadequate loss limits. This will prevent unexpected problems arising and ensure claims are settled quickly, without dispute and lengthy negotiations. Ensure your policy includes a claim preparation clause to pay for the cost of preparing and evidencing your claim.

2 Agree a claims protocol that sets out how claims will work in practice. This will give you improved transparency of insurers' claims processes and their service delivery, including: what's expected of you, the role of appointed experts, claim notification procedures, the information you have to provide, and interim and final settlement timescales.

3 Create a large-loss plan which sets out your internal processes in the event of a major or complex loss. This should outline: how you will ensure you have the right resources/experts to settle your claim, and how you will capture the information, evidence the loss and prepare the claim.

For more information

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