

Property Risk Alert: Property and Time-Element Claims in 2021

Best Practices for Documenting a Property and Time-Element Claim

Businesses have faced numerous challenges over the last two years. Beginning with the impacts from COVID-19 then the rebound from COVID-19, businesses have faced incredible swings in revenues from historical norms. Following re-openings there were constraints on labor, raw materials and other shortages which were then exacerbated by the Freeze of 2021 to further complicated an already stressed supply chain. These and other issues have made the task of preparing a business interruption claim even more complex. Historical data is typically utilized as the basis to project sales or production, however the issues experienced in 2020 and early 2021 will require additional scrutiny to properly evaluate the financial effects from the most current claim events. For those organizations experiencing a loss, they must develop a comprehensive strategy to quantify losses and properly tell their story of financial loss within their claim submission.

Below are several suggested best practices to leverage existing systems to help track and gather relevant claim information.

Prepare a Daily Timeline of Impact and Changes to Operational Activities

For any claim, be prepared to tell the story behind the numbers. Document the effect of the loss on operations and/or facilities, resulting changes to operational processes and any relevant authoritative orders (i.e., executive, governmental, other) or utilities (power, water) that are impacting business activities. This information should be tracked daily or weekly as conditions warrant.

Cost Tracking Code

At the onset of any incident that may result in a claim, set up a cost tracking code and/or general ledger account to capture incident-related expenses. Communicate this code to all personnel tracking costs and make sure they use it from the beginning through the duration of the event. It's far easier to track these costs as they occur; it often is a significantly more challenging exercise to go back afterward and try to reconstruct this information.

Gather Financial Information for Evaluation of Business Impact

Direct Expenses

Identify and capture any expenses directly related to physical damage at locations (i.e., Building, Machinery and Equipment, FF&E). These will likely include expenses that will hit the cost tracking code such as restoration costs, supplies, repairs, equipment, but will also include other items such as capital items that may not be able to be coded to the tracking code. For all external expenses, purchase orders and invoices should be gathered for inclusion in the claim package. To the extent that a charge is non-descriptive, it is advisable to have the person authorizing the expense to hand write a description on the invoice.

Internal Labor

Identify and capture internal labor utilized to assist in cleaning, restoration, and mitigation efforts performed at the impacted location(s). Include employee names, hours, rates (including variable fringes), and a description of the work performed on a daily basis.

To learn how Aon can empower results for your organization, contact:

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Inventory

Immediately following a loss where the inventory is believed to be compromised, a report should be run from the internal system to identify all of the inventory at risk. Once the property can be safely accessed, an inventory count to the extent possible of the good and bad product should be undertaken and reconciled to perpetual inventory record.

Extra Expense / Expenses to Avert Business Interruption

Identify incremental and/or abnormal costs for the development of a methodology to capture the margin impact. Examples of operating inefficiencies may be incremental (above normal) overtime labor, freight or the cost of running a generator as opposed to utilizing the normal utility. These operating expenses should flow through normal accounting systems and be reflected in the financial statements.

Business Interruption

To document the financial impact due to the inability to operate or use the affected property, the following minimum information should be gathered for review and analysis:

- Key business metrics (which will vary by industry but can include 2 years of historical budgeted and actual profit and loss statements, budgeted and actual production, occupancy statistics, rent rolls).
Any documents pertaining to rolling forecasts generated through the normal course of business that change over time should be saved prior to being over-written.
- Identify any customer or vendor impacts on your supply chain. Document the impact and identify incremental costs, loss of margin, or revenue.
- Track event-related impacts on business activity and gather information, such as:
 - Copies of canceled contracts or orders;
 - Lost opportunities, refunds, abatement and customer complaints (supported by written correspondence); and
 - Incremental discounting or other special promotions to mitigate the loss.

If you require any additional guidance on how to document expenses/losses, Aon's Claim Preparation Team is available to provide your business with details of these guidelines.

Aon's CPAV: Proven Methodology Backed by Unparalleled Technical Expertise

Aon's Claim Preparation, Advocacy and Valuation (CPAV) practice is expansive and geographically diverse, consisting of an industry leading team of property claims specialists. CPAV helps guide global businesses to seek comprehensive expedited recovery of complex losses, across the globe.

With technical knowledge that includes loss adjusters, forensic accountants, engineers, project managers, and investigators, Aon's CPAV practice manages property and business interruption claims using proven and proprietary methodologies fashioned from 40 years of industry experience. Our work touches virtually every industry, across geographic locales, and all forms of first-party insurance. That's why over the years, we've helped clients recover more than \$20 billion in loss proceeds.

About Aon

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