

# ASSET VALUES AND INSURANCE CLAIMS



Insurers, Brokers and in-house Risk Managers face numerous challenges once an insured loss has occurred.

The broker often provides invaluable advice to their client, the Insured, in supporting and documenting their claim and guiding the client through the claim process. Equally the Insurer can often rely on their own internal claim management teams as well as the support of third-party loss adjusters, to assess and manage a claim. In this context, asset owners and risk managers may feel that they have little worry about.

However, it is crucial now more than ever for businesses to be mindful of the conflicts that exist in loss situations and the potentially damaging impact that out-of-date valuations or undervalued assets could have when making an insurance claim.

## The Claims Process

Before a settlement is reached, a claim is investigated on behalf of the insurers by loss adjusters, who study the loss, damage reports and supporting claim papers submitted. Following this, the insurer's claims management team checks the coverage; the policy is interpreted and applied to the loss; and a decision is made if payments are approved or rejected.

For insurers, the rise in climate events, changing supply chains, demographic changes, societal changes and the fast developing legal and regulatory framework are all affecting their appetite for risk and are likely to have huge implications on their pricing and coverage for facilities, making insurance claims more challenging.

At the same time, assets have been increasing in size and value. We are seeing more complex supply chains and cutting-edge technology across all sectors and changes in manufacturing, communications, automotive and semiconductors are good examples. Insurers and brokers are more recently facing significant questions due to the consequences of Covid-19, with both seeing large reductions in their revenues.

This is likely to mean slower responses or servicing and perhaps an increasing willingness on the part of insurers to challenge claims as insurers seek to reduce their loss ratios.

In complex large claims, any uncertainty in the approval or any delay in claims settlement can impact a company's cash flow, potentially resulting in uncertainty on the viability of continuation of businesses. When a disagreement occurs, arbitration and litigation usually come into play, which often leads to lengthy and costly proceedings, something most business owners would wish to avoid.

## **How an Independent Valuation Report can Support Claims**

Policyholders may consider what mitigation measures to take to prevent this situation and, as part of their policy renewal process, get a valuation report.

This not only assists with reducing the risk of any application of "co-insurance" or "average" by the insurers, but a detailed valuation report carried out before a loss can also assist with understanding what assets were present prior to a claim, again reducing the potential for debate or dispute after a loss.

Accurate valuations often enable a simple and quick negotiation process with loss adjusters, leading to the benefits of speeding up the settlement of a claim.

Insurance brokers occasionally offer valuation services, at low or no cost to the Insured. While this would appear to be a no-lose situation for the Insured, in reality the insurers (and hence insured) are paying, usually from the 'engineering fee' set aside from the premiums.

Given that, it makes much more sense to ensure that any advice is being provided by a party who does not have a vested interest in the valuation outcomes and to use the services of an independent valuation firm. Insurers are often happier to pay for an arm's length assessment which benefits all parties.

## **But what about after a Loss?**

As mentioned, after a loss, a claim is investigated on behalf of the insurers by loss adjusters, who study the loss, damage reports and supporting claim papers submitted. These firms are usually professional, and highly experienced in ways to mitigate losses for both insured and insurers after an insured loss.

Loss adjusters often have staff able to go into minute detail on assets and their repair or replacement. But most loss adjusters would volunteer that they are not experts in assessing the cost of replacing a whole facility or determining the true sums at risk. Accordingly, they may not be in the best position after a loss to represent the owner's interests should there be a concern from insurers on replacement costs.

Also, while loss adjusters usually act with the interest of all parties in mind, it cannot be ignored that their fees on the current and future assignments come from insurers, so ultimately risk managers may need the comfort of independent objective advice. On occasions where owners face arbitration or a legal dispute following a claim, a specialist valuation firm may be instructed by insurers to provide further assistance to legal teams to pursue or defend a dispute case. Typically, this valuer would not only provide a valuation report, but also independent expert determinations and detailed discussion.

In practice this puts a considerable amount of risk on the owners that they could be disadvantaged in a legal dispute if any values or supporting documentation they have submitted are not accurate or not prepared in an impartial manner, for example if prepared by their broker.

As a result, we also see a growing trend in companies seeking the services of an independent valuation firm after a loss to assess the values at risk at the date of a loss to assist with the claim process.

## Conclusion

Independent valuers are regulated and objective so owners, insurers, brokers and arbitrators can be assured of an impartial reliable report that can provide the clarity of information and evidence to allow all parties to come to an agreement before a dispute arises.

In the current climate this seems more important than ever.

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