

*Quick Tips on What Every Claims Handler Should Know*  
by  
**Cremers, Holtzbauer & Nearmyer, P.C.**

## **Course Agenda**

### **Tips on gathering information**

- Historical information needed & how to analyze
- Determining reliability of information
- Recording & understanding narrative information
- Identifying possible “red flags”
- Reconstructing inventory value at date of loss
- Experts who can help

### **Overview of specific claims types**

- Business Income claims
- Employee theft/dishonesty claims
- Disability claims

### **Using the “three O’s” to analyze information**

- Organizational documentation
- Observational information
- Outside experience

### **Actual case histories**

- Example 1 of business interruption loss
- Example 2 of business interruption loss

### **Let’s compute the loss**

- Review the facts of a claim
- Apply what we’ve learned
- Claim outcome/roundtable discussion

### **Conclusion/questions & answers**

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## **Course Outline**

- I. Information Gathering - Key is to obtain as much as you can as quickly as you can
  - a. What you want to obtain
    - 1. Information gathering worksheets (hand outs)
    - 2. Business Income claims
    - 3. Employee Theft/Dishonesty claims
    - 4. Disability claims
  - b. Reliable Information
    - 1. Internally/externally prepared financial information
      - a. Do they generate financial statements
      - b. Are the financial statements prepared monthly, quarterly, or annually
      - c. What is the accounting knowledge of the insured
      - d. Do the income tax returns agree to financial statements
      - e. Are the tax returns prepared by the insured or are they prepared by an independent person or CPA
      - f. Are they prepared by a bookkeeping firm or CPA firm
      - g. If by a CPA, what level of service is provided: Compilation, Review, or Audit
      - h. Is the external provider independent or unrelated to the insured
      - i. Are tax returns prepared by same external person
      - j. Are the financial statements accrual (GAAP), cash basis, or other method
  - c. Narrative Information
    - 1. Attempt to obtain or document the insured's statement as soon as possible after loss
    - 2. Obtain a written statement from insured
    - 3. If oral statement, take notes or record conversation
    - 4. What you want to obtain
      - a. Specifics of items or amounts lost
      - b. Details of property items lost to compare against later claimed items
      - c. If inventory is lost, obtain understanding of values and method of accounting
      - d. If inventory is damaged but not destroyed, is it countable
      - e. Sales volumes, gross profits, and significant expenses to compare to claimed amounts
      - f. Compensation methods and number of employees including payroll expense estimates per pay period
      - g. Trends of business activities before loss and expectations during suspension period

## II. Detecting Red Flags

- a. Not an exact science
  1. Smell test – does it just not feel right
  2. Reasonableness of claim
  3. Financial records not provided
  4. Financial records don't agree with tax returns
  5. Financial records don't agree with narrative information provided
  6. Financial motive considerations
    - a. Credit rating
    - b. Cash flows
    - c. Heavy debt load
    - d. Personal situations such as divorce, law suits, job losses, investment losses & gambling
  7. Insured with too extensive knowledge of the claim process
  8. Use of public adjuster or legal representation

## III. Reconstructing Inventory

- a. Is the inventory damaged or completely destroyed
- b. Can an actual physical count of inventory be performed
- c. Detailed inventory records of last physical count if available
- d. Detail of purchases and sales since last physical inventory
- e. Obsolete inventory within physical counts and values
- f. Manufacturers are more complex and require review of material and labor allocations to work in process and finished goods

## IV. Experts Who Can Help

- a. Engineers for reconstruction costs and time
- b. Inventory counting services for large inventory losses
- c. Equipment appraisers for one-of-a-kind or self constructed machines
- d. Attorneys for litigation and subrogation issues
- e. Forensic Accountants to assist in complex and large dollar claims

## V. Business Income Claims

- a. Continuance and discontinuance of normal operating expenses
  1. Review operating expenses before loss
  2. Inquiry of insured of anticipated discontinuance of certain expenses
  3. Obtain financial statements for suspension period
- b. Extra expenses & saved expenses & the trade-off between the two
  1. Inquiry of insured to anticipated and incurred extra expenses
  2. Determine purpose of claimed expense
    - a. Did it reduce loss
    - b. Is expense actually property coverage item (policy limits)
  3. Inquiry of insured to anticipated "saved expense". What cost or expenses will cease
    - a. Manufacture vs. out sourcing
    - b. Occupancy cost – old vs. new location
    - c. Cost of capital – inventory carrying cost vs. out sourced purchases

- c. Common mistakes, errors, or circumstances that can effect the business income claim
  - 1. Reliance on incorrect financial data
  - 2. Completeness of information
  - 3. Timing of reporting income & expenses
  - 4. Current business trend of business or individual
  - 5. Loss of material contracts or customers before loss
  - 6. Property coverage items included in expenses
  - 7. Misunderstanding of policy coverages relating to net income, gross profit, and valuation of inventory.
  - 8. Financial motive and condition of insured
  - 9. Multiple related companies and/or locations
  - 10. Use of public adjuster or legal council by the insured

#### VI. Employee Theft/Dishonesty

- a. Accounting procedures and policies used by the insured
  - 1. Size of business
  - 2. Internal controls
    - a. Segregation of duties
    - b. Safeguarding of assets
  - 3. Position of suspected employee
  - 4. Duties of suspected employee
  - 5. Access to records by suspected employee
- b. How dishonest employees are able to bury information to go undetected
  - 1. Payments to fictitious vendors or employees
  - 2. Payments to personal expense vendors
  - 3. Skimming of cash deposits of daily sales  
(Restaurants, Bars, Retail)
  - 4. Altering of computer records of payee names of disbursements
  - 5. Theft of inventory or items and access to inventory control records
  - 6. Lack of supervision and concern by management or owners

#### VII. Disability Claims

- a. Self-employed individuals & owners of closely-held businesses
  - 1. How is income earned and reported
  - 2. What level of financial information exists
  - 3. Can the individual earn any income during disability
  - 4. Length of disability
  - 5. Seasonality of earnings
- b. Business Owners
  - 1. How are they compensated
  - 2. Are bonuses related to tax considerations
  - 3. Policy coverages of bonuses
  - 4. Related companies and compensation
  - 5. Trends of business entity
  - 6. Seasonality of earnings
  - 7. Financial condition of business and owner

VIII. Using the “three O’s” to analyze information

- a. Organizational documentation
- b. Observational information
- c. Outside experience

IX. Case histories

- a. Case of the postponed profit
- b. Case of the disappearing income

X. Let’s compute the loss (Workshop)

- a. Review the facts of a claim
- b. Apply what we’ve learned
- c. Discuss claim outcome in roundtable discussion

XI. Course conclusion/question & answer session