UNEP e-Learning Course on

Risk Management Instruments for Renewable Energy Projects

-– Module 4 –

Claims Management, Reserving, and Payment

Overview

The training is organized in 6 modules and fits into a 2 day training schedule:

Module	Main Content	Length of Module
1 – Climate Change	Briefing, policy frameworks and business impact	2 hours
2– Renewable Energy Technologies and Risks	Renewable Energy technologies policy, investment trends and risks	3 hours
3 – Underwriting Guidelines and Policy	Underwriting information, guidelines, risk evaluation, coverage evaluation	5 hours
4 – Claims Handling and Policy	**Claims management, reserving, and payment**	**2 hours**
5 – Intermediaries and Networks	Project development, information and consultation	1 hour
6 – Case study	Renewable Energy case study, risk assessment, impact and suitability of instruments	3 hours
Total		16 hours

Contents

Lesson Objectives	
Claims Management	▪ **How to manage the claim process for renewable energy projects in an efficient and timely manner.** ▪ **Better understand the meaning and impact of a good communication plan to avoid dealing with problematic claims.** ▪ **To know how to process claims payments to the policyholder of renewable energy assets.**
Risk Management	**To understand the financial impact on the insured as well as on the insurance company's balance sheet if insurance claims are not well assessed and processed.**

Introduction

By selling an insurance cover, the insurer provides the promise to pay a claim if a loss occurs. To provide coverage for risk of direct loss, and to process claims, the insurance industry assesses its exposure risks by using data banks which provide information such as the measured probability distributions and correlations between random events. With this information, an insurer can properly price its product based on the likelihood of occurrence of a claim payment.

The loss incurred by the insured often occurs in an unplanned, sudden and accidental way. In the case of RET projects, the occurrence of a damage/event often interrupts the process of generating energy, such as electricity, which is critical to the project's operations and to generating the insured's revenue. This financial loss to the insured can be further aggravated by a delay in the expected issuance of emissions reduction certificates generated from the project which cannot be timely issued due to the interruption of the project activities. To return the RET project to operation, the insured depends on the insurer to cover the loss as quickly and as fairly as possible.

If "a priori indemnifiable", the claims adjustment must be executed in a professional, fair and timely manner to reduce the business interruption time for the insured.

When answering a request for insurance policy, the insurer needs to pay particular attention to:

- loss reserving;
- project governance;
- internal company risk management procedures;
- absence of underwriting catastrophic peril accumulation control;
- individual claim evaluation and handling (including claim declination);
- use of counseling services by the project developer during the development of the project.

Shortcomings in the above project management fields could lead to excessive exposure of an insurance company when providing insurance policy either from a financial balance sheet aspect or from a commercial aspect. In extreme cases, the possibility of a "Bad Faith" legal action threatens.

At the same time a loss event would impose a considerable constraint on the insured's business and resources. The insured would have to interrupt the construction of the site or of the project operations, and become unable to honour business obligations while coping with cash flow shortages and also probably with the loss of the customer base. The insured is left frustrated and unsure as to how and in what time frame the insurance company will honour the claim.

The claims management process for each class of insurance has its own particular characteristics which are subject to the domestic legislative framework. The way an insurer manages, adjusts and executes its claims, would influence its reputation, business operations (an excessive exposure could lead to bankruptcy), and ensure customer satisfaction and sustainability over time.

1 Claim occurrence: a business challenge

Upon occurrence, a claim event almost always creates an immediate emergency situation. In many cases, this situation forces the insured to temporarily divert valuable resources allocated to operations or construction to restore damaged property, thus jeopardizing the existence of the RE project.

If the RET project is in the construction stage, a loss event will cause the interruption of the construction. Depending on the extent of the damage and the expected monetary value of the claim, there may be penalties, important delays in reconstruction, or rescheduling of loan arrangements. This is normally to the disadvantage of the policy holder (project owners).

Furthermore, the claim occurrence might lead to a delay in the delivery of Certified Emission Reduction (CER) credits and an ultimate reduction of investment yield for the investor. This situation could also present itself to an industrial compliance buyer who has purchased CERs from a project owner and who has an annual obligation to render CERs to the authorities under the European Trading Scheme rules before the financial year end.

2 Claim communication channels and professionals

The communication process must start immediately after the loss event. Due to the many parties involved, clear and correct communication is essential. Actors are the insured (in many cases also the project owner), the insurer(s), the financing banks, and all of the other parties needed to undertake a complicated multitask repair process. The goal is to assure the insured that the claims are being processed correctly. It is the sustainability of the insured's business which is at stake.

For these reasons, it is of great importance to guide and accompany the insured through the stages of the loss event reconstruction process. Loss adjusters are commonly appointed to fulfill this role. They are professionals in the claim processing business, delivering a great deal of tact and diplomacy with excellent communication skills. The insurance broker and the insurance company claims and underwriting personnel also play important roles. All of these agents must be able to communicate with each other. Strained and suspicious communication must be avoided at all costs; it obstructs the whole process and even worse, creates a reputational risk.

Loss Adjuster

The loss adjuster is the main coordinator of the claims handling process. It is prudent practice to appoint an independent professional loss adjuster just after the loss occurrence has happened, and for the loss adjustor to have experience in the appropriate type of loss. Professional experience takes long years to form, and an experienced professional loss adjuster, knowledgeable and familiar with the industry, will guide a complicated multitask process in an organized, well-communicated and structured manner. The loss adjuster must interface immediately with the insured's senior management and instill confidence in them that the issues arising from the loss are understood. From there, the skilled and experienced lost adjustor will execute the dynamic process to a satisfactorily claims resolution.

Loss adjuster services	The specialist services of a loss adjuster are needed to guide the claims process through the areas such as origin and causation investigation, demolishing works, site clean-up, and site preparation for repair and reinstatement. The loss adjuster needs excellent communication skills and, tact, and must be well organized in order to control, direct and coordinate efforts. The structured guidance of a loan adjuster aligns the priorities of all partners to facilitate reinstatement of the assets in the shortest possible time frame and in the interest of all parties involved.

The work of the loss adjuster is guided by following objectives:

Objectives of the loss adjuster	The Loss Adjuster's approach is based on four objectives: ▪ Building trust with the insured. ▪ Confirmation of policy engagement. ▪ Determination of the extent of policy coverage. ▪ Identification of recovery potential.

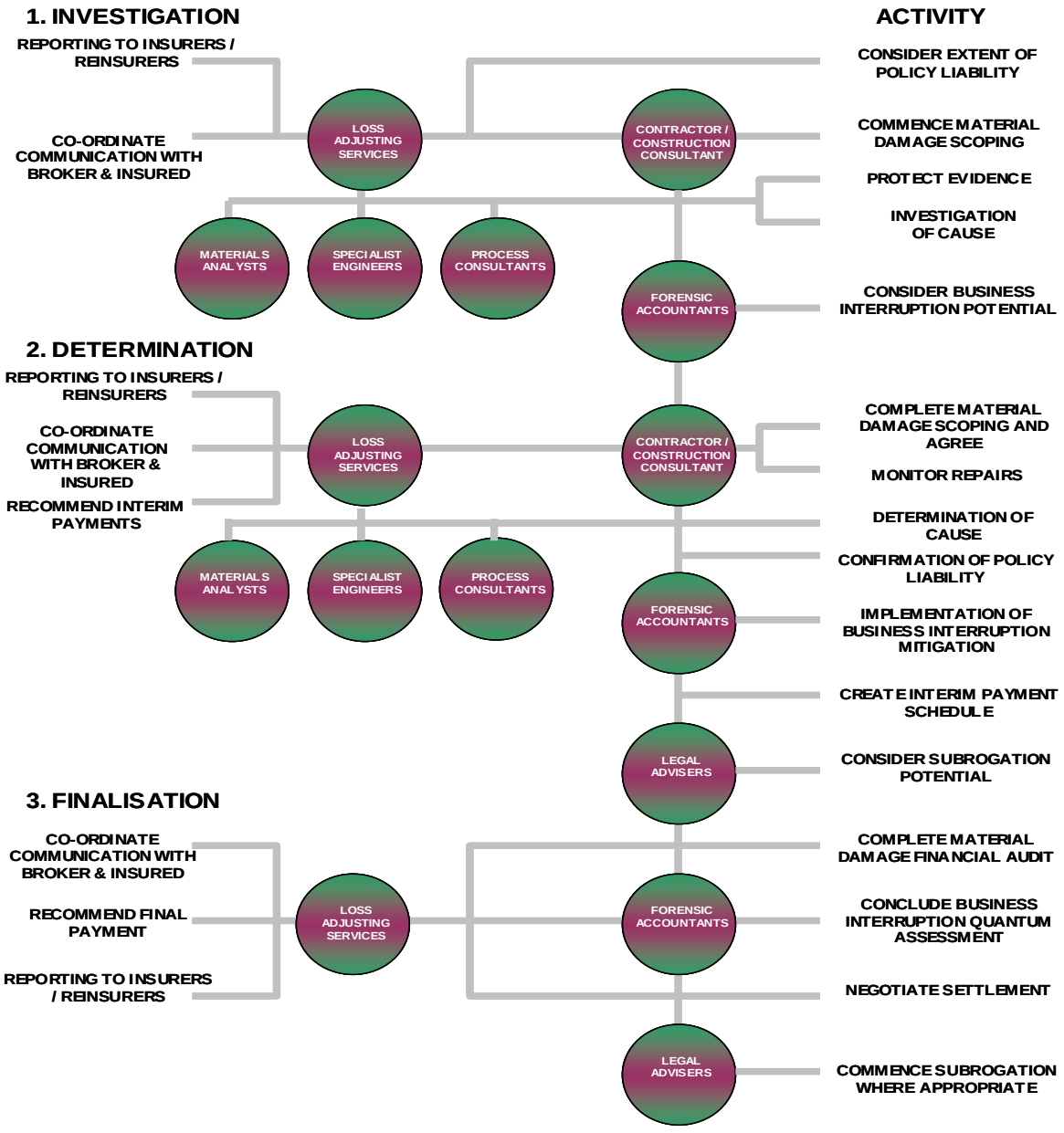
More generically, the loss adjustment process can be subdivided in three distinctive phases:

- Investigation

- Determination
- Finalization

Below is a flow chart of an activity flow sheet highlighting the different necessary steps. If the loss is non-complex, certain steps are not necessary and can be ignored.

Figure 1- Exemplary Loss Adjustment Flow



There are six critical factors in the loss adjustment process that must be considered diligently by the loss adjuster.

Critical factors in loss adjustment	Description
Monetary loss amount	The larger is the expected monetary loss, the easier it is to reach a state of miscommunication which could raise suspicion levels to a point where parties are no longer communicating and properly cooperating. This is undesired and counterproductive.
Complexity of claim	In cases of complex claims, the principles of independence and impartiality gain importance. Loss adjusters are independent, specialized, and able to solve complex technical issues effectively and efficiently. For smaller claims of well-known and proven types of insurance covers, there are other approaches, such as using a claims handler employed by the insurance company. This is a more personalized approach, which is more appropriate for small and less-complex claims and which will benefit customer satisfaction.
Legal jurisdiction	In certain legal jurisdictions, the content of a claim file, including any written documentation, is available for scrutiny. Verbal comments are recordable and could therefore be examined in cases of legal action.
Coverage and liability determination	Coverage and liability determination is an important aspect of the process. Utmost care should be taken to provide correct and timely communication at each stage of the loss adjustment process.
Dealing with verbal opinions	Misplaced or incorrect verbal communication between parties, for example giving an inadvertent verbal opinion about policy coverage, could put certain parties on the defensive and obstruct a transparent communication flow. This could slow, or in the worse case, stop, the whole claim process.
Experience in RET-related losses	Communication issues and other difficulties can easily arise with loss adjusters having limited experience in RET-related losses. This could be due to lack of thoroughness, of experience with the industry and/or a reluctance to question the insured's actions and decisions.

Insured

The insured who suffered the loss must be put in a trustful and cooperative situation. This is in the best interest of the insured. The insured is also in the best position to know how the affected business is organized and how to run the required assets efficiently.

Insured	In essence, the insured is seeking the answers to two questions: 1) whether the claim will be considered to be a valid claim under the policy and will be indemnified; and 2) when will business operations be up and running again and assets returned to the same physical state as they were just before the moment the loss event occurred.

Besides the concern that the property damaged must be reinstated as quickly as possible, the insured may want to adapt process design or equipment in an amended form to enhance efficiency. However this is of a lesser importance with RET projects under construction.

The Insurer

The insurer indemnifies the insured against the negative effects of the loss. Depending on the way the policy is structured and how many other parties are involved, the insurer takes either a leading or a following position in the claims process.

Lead insurer	The lead insurer has a prominent position throughout the claims process. The lead insurer is responsible for establishing good contact with other company market members, such as the co-insurers or reinsurers, as well as with all other actors involved, such as the loss adjuster, accountants and claim investigators. The lead insurer facilitates the communication of the various insurance and reinsurance institutions involved. This can happen through a single communication channel such as the loss adjuster and/or another designated company spokesman.

3 Claim management plan

Once a claim has occurred and has been reported to the insurer and all the involved parties, the following activities must be conducted:

- Investigations into the cause of the loss event by authorities or appointed forensic specialists in order to prepared the insurance claim's Cause and Origin report.
- Policy coverage analysis.
- Legal policy aspects of the claim occurrence.
- Estimations of the financial damage.
- Salvage options.
- Alternative solutions to avoid long new equipment lead times for restoration.
- Preparation of a progress report to the insured and lead insurer.

The flow of a claim management plan ensures a structured approach for claims processing. It helps solve and reinstate a complicated insurance loss in order to meet the pre-set time frame. The expected monetary value of a claim does not need to be large for a claim to be complicated.

The claim (or loss) management plan has a predetermined content and a timely focus on the extent of property damage. It includes following the elements:

Elements of claim management plan	Description
Selection of Contractors	The selection and appointment of contractors, if any other parties have to be used.
Agreed scope of damage	The establishment of zones of damage, with major and minor repair zones identified. The establishment of categories of damage, such as process equipment, civil works, security, utilities, inventory and dams. These constitute the agreed scope of damage by the engineering discipline, using definitions, cost templates and onsite inspection by joint team of engineers with relevant expertise (such as demolition, repair, installation, and maintenance).
Priced scope of damage	The estimation of the cost of the damage which is conducted based on the reimbursable and/or lump-sum agreement contained in the insurance policy. At issue are control of public authorities' requirements, preferred design, averted costs and costs control, and identification using bar charts for routine and/or accelerated reinstatement.
ALOP or BI determination	Advanced Loss of Profits (ALOP) or Business Interruption (BI) Loss of Profits are insurance covers that require the determination of the actual design profile or the original design profile. These profiles dictate the methodology of repair and replacement as well as the extent of the loss-mitigation measures. The insured needs to be back in business as quickly as possible. Especially, extra expenses need to be tracked and a tight cost control put in place.
Common cause	This report comprises the input of the loss adjuster, investigation experts and the

report	insured. Experts are to be leaders in their field of engineering. They provide undisputed findings with respect of a recovery action and clarity on uninsured aspects of the claim. Experts also focus on issues of physical evidence, witness statements, instrumentation, metallurgy, sequence of events, explosion dynamics, maintenance history, operating circumstances, design and installation.
Claim coverage analysis	Claim coverage analysis is done by the insurer and based on the findings of the Cause and Origin report. It covers the causation aspects, the determination of the seriousness of the damage and the indemnification basis. Further details in Section 4 below.
Further economic considerations	Further elements critical for the insured are contractual issues, market demand, market share, market position, penalties, and seasonal capacity production needs. For RET installations, a claim might also lead to ramifications in the sales proceeds of CERs, besides the negative production and sales impact on the primary output (electricity, energy, hot water, etc).

All these elements result in an information and knowledge base which tends to direct the proof of loss.

Proof of Loss	The onus of the proof of loss is on the insured, who needs to show that: 1) a loss was incurred due to an event against which the RET project is covered, and 2) the value of the loss.

The benefits of a claims management plan reside in a timely, structured, and predetermined methodology which is less prone to discords and disputes and has clear projections for the insured and the insurers. It is imperative to maintain regular communication with all of the parties to keep them updated throughout the claim estimation and payment process.

4 Claim coverage analysis

When a claim occurs it is very important that both the main parties, the insured and the insurer, fully cooperate and correctly manage the new situation on the damaged property site. A claim coverage analysis is needed to determine whether a valid claim is being presented by the insured. The insurer determines the coverage and to what extent the coverage can be accepted per policy conditions. The following steps are followed in the claim analysis:

Step	Description
Investigation by public authorities	Depending on the extent of the property damage, as well as whether there are any fatalities to deplore, the public authorities will usually sequester the damage site for an initial undetermined period.
Insured's duty compliance	The law requires that the insured should act as though uninsured and take all reasonable steps to minimize loss. This is an implied duty. Secondly there is an expressed duty, as per policy, to immediately notify the insurer of the occurrence of the loss. The insured must cooperate and provide such information and particulars as may be requested in the process of the claim resolution.
Appointment of loss adjuster or claim professional	The affected site may have to be secured against further damage. Simultaneously, upon instruction from the insurer, a loss adjuster is appointed. Alternatively, depending on initial reporting evidence, an insurance company claim professional may be dispatched to the site.
Loss adjuster investigation	The loss adjuster or insurance company's claim professional will then gather the initial damaged site impression and collect from the project owner or contractor the necessary information about the project, values, equipment and other relevant information. It must be clearly determined what part and to what extent the property has been damaged. A superficial evaluation, if at all possible, is then made to determine what can be repaired, what needs to be investigated, whether repair or replacement applies, and what might be the replacement time of major damaged machinery or of obtaining alternative equipment.
Cause and Origin report	Depending on the extent of the loss, after securitization of the damaged physical installations, and also whether fatalities are involved, the authorities will free the damaged site. At this point the loss adjuster, the insurance company claims handler and appointed forensic scientists will take over and investigate the cause and origin of the event.

All of these actions are to be carefully executed in close cooperation with the insured, the project engineers and the contractors. The claim coverage analysis is then performed by the insurer and based on the findings of the Cause and Origin report. The following issues must be tackled in this analysis:

Claim Coverage Issues	Description
Seriousness of damage	What can be determined at an early phase in the process is the seriousness and probable extent of the physical damage of the installations and whether, depending upon the complexity, specialist consultants need to be appointed by the loss adjuster to support the work of claim cause and origin assessment.

	Is the plant site seriously damaged to the extent that it will be difficult to estimate properly and possibly require ALOP/BI? If so, the whole process will take some time before anything can be determined by the loss adjuster. This is material information for the insurer in the evaluation of the claim coverage analysis.
Causation of claim	A loss event is usually generated by a sequence of events which lead ultimately to the dominant cause which triggers the start of a loss-causing process. An example of this is an explosion of flammable gas: the gas which caused the explosion, had been escaping for some time before it finally hits an ignition source and explodes. Often some resistance will be encountered from the insured due to certain causation aspects where the insured may subconsciously feel some self-responsibility for the loss. This is one of the reasons an experienced loss adjuster requires a very special skill set and needs to exercise an independent investigation.
Indemnification basis	The policy does state on what basis the claim will be indemnified. For example, it can be indemnified on an on agreed-values basis, a replacement basis and/or on a repair-value basis.
Proximate Cause	Proximate cause means the active, efficient cause that sets in motion a train of events which leads to the occurrence of an event, without the intervention of any force started and worked actively from a new and independent source (the dominos effect). The proximate cause is not the first cause, nor the last cause; it is the dominant cause or the efficient or operative cause. For example, the lightening system installed on a wind turbine blade may lead to the failure of the turbine through a succession of events: The combination of lightning's high temperatures (50,000 F) and residual internal moisture can lead to energetic events where accumulated moisture suddenly is phased into steam pressure expansion. Consequential damage can be some or all of: de-lamination; burst bonding; residue compromise; trailing edge cracking; detached blade pieces; de-bonding; longitudinal cracks; spar separation; fires due to presence of hydraulic fluids/lubricants; or partial or complete blade destruction. [*Case Study of Lightning Damage to Wind Turbine Blade in South Texas, by Richard Kithil, Founder & CEO, National Lightning Safety Institute (NLSI) www.lightningsafety.com, June 2008*] In some cases these findings may tend to indicate that the proximate cause of the claim may be unclear and in conjunction with the policy interpretation may give rise to a need of legal counsel support for interpretation.

5 Loss reporting, loss reserving and claims payment

A loss must be reported and reserved before the claim can be paid.

Loss Reporting

The types of losses encountered and reported in the RET field are mostly of the “short tail” type, as opposed to “long tail” type of losses. Long tail claims are usually handled by the insurer and usually involve more legal aspects than short tail type of claims.

Type of loss tail	Description	Consequence for Loss Reporting
Short Tail	Short tail types of insurance are lines such as property and transport insurance covers. Generally, all insurance covers that have a predetermined and limited policy insurance period are short tail.	A claim has to occur within the policy insurance period starting with the inception at a specified hour. An example is after inception at 00:01 AM and before expiration at 24:00 PM.
Long Tail	Long tail types of insurance are lines such as casualty insurance or public liabilities coverages. These are generally insurance coverages where losses could develop over a long period.	A claim could present itself years after the corresponding coverage period has elapsed. Decennial liability on buildings is an example of a long tail type of policy coverage.

Short tail types of claims, in particular the consequential business interruption (BI) or advance loss of profits (ALOP) claims, constitute a difficult area for a loss adjuster with regards to adequate loss reporting.

Loss reporting recommendations for BI / ALOP	
Mitigate timing conflict	ALOP and BI claims are often difficult to report due to the fact that policy liability is rarely confirmed at an early stage. The Cause and Origin study usually takes time to conclude. Once the report ready, the policy coverage validity and extent can be verified. Therefore, conversations with the insured are inevitably on a "without prejudice" basis. This is usually a frustrating experience for the insured who is requested to commit to a recommended course of action but without a guarantee that indemnity will follow.
Coordinate reporting with insured	An experienced loss adjuster would avoid a situation where the insured submits the BI or ALOP claim in isolation and later submits the damages claim upon completion of repairs, or at intervals during the interruption period, for review.
Create BI / ALOP interdependency model	Depending on the complexity of the claim, a BI / ALOP model will be created describing the loss interdependency aspects. This will instill trust and confidence between the loss adjuster and the insured's senior management. The insured will be actively involved as part of the evaluation process, especially since data from the insured records will be used for the model.

By successfully mitigating these challenges, an adequate loss reporting process will create additional benefits with regards to the early announcement of cash flow requirements for partial payment application by the insurer.

Loss reserving

The process of setting the *first loss value* in short tail property losses is a “preliminary” obligation. An experienced loss adjuster will determine the estimated amount in close cooperation with the insured as well as with contracting engineering sources.

This estimate indicates a first approximation of the final monetary amount. If the estimate is too high or too low, false expectations will be created. Especially in case of underestimates, insufficient reserve positions might be created in the insurance company’s financial reserve ledger. If allowed to continue, this could cause reputational risk and a negative impact on the company’s share and financial rating. If the uncertainty is too high after the first site visit by the loss adjuster it would be more prudent to postpone setting the reserve to a later date when more certainty exists with respect to a realistic number. Usually the BI and ALOP loss coverages need some time to be determined by forensic accountants. Determination is based on the company’s accounting books or projected amounts (if the loss concerns a construction site).

In cases of long tail liability insurance claims, loss reserving is different since the claims amount payable is not a matter for discussion or negotiation between the insurer and the insured but between the insurer and a third party. The insurer takes over all negotiations, possibly with counsel support, and there is no loss adjuster to function as an appointed intermediary.

Claims payment

The claims process is a dynamic process. During the development of the claim adjustment process, the overall combined material damage and BI amounts are determined at the level where the monetary exposure can be justified. Also during the claim adjustment process, strong evidence that the claim is a valid claim under the insurance policy is established. Once these conditions are fulfilled, partial payment on the account can be accepted and executed by the insurer so that the insured will not face cash flow restraints or lack of cash flow.

Under certain law and jurisdictional systems, non payment of partial claims could constitute a breach to policy conditions and could lead to legal suits against the insurer; unless a legal justification within a certain time frame stipulated by the policy is provided.

6 Claims handling for RET

In the field of RET, claims tend to be more of a complex technical nature involving new unproven technologies and materials. Wind, hydro, solar and biomass/biogas installations are not yet as common-place as other energy-generating facilities, and their risks are not as well known. For example, the technology issues from a loss occurrence in a combined cycle gas-fired power plant are not just the same as those of a landfill gas flaring installation. To adjust a claim for RET requires the early appointment of forensic specialists and scientists as part of the Cause and Origin report. Complex claims are more prone to questioning by stakeholders and investors and there is a higher likelihood that the claim process takes more time to resolve.

Some issues in RET losses can be quite challenging to handle, such as:

RET Claim Issues	Description
Expertise	The subject matter of insurance is often complex with respect to process engineering, renewable energy technologies and licenses.
Causation	Causation studies can take a considerable period of time to reach completion and agreement, resulting in delays before policy attachment can be fully considered and the extent of liability can be determined.
BI mitigation	Business Interruption mitigation measures need to be considered and identified early on in the process, often before policy liability is determined.
Role of loss adjuster	The need for the adjusting process to be supported by third party consultants is crucial, and the manner and the method with which this is handled by the loss adjuster is critical.
Multiple lead insurers	Insurance markets on the larger projects could be disparate with multiple self proclaimed leaders, which leads to increased communication challenges.
High profile insureds	The insured could be high profile corporations and major government entities, possibly resulting in a degree of arrogance and inflexibility among parties.
Broker partisanship	Brokers could become partisan in the process, due to the fee levels earned and the challenge of retaining the account after the claim process.
Time pressure	The time imperative usually prevents extensive competitive tender processes. Therefore cost capture and control measures are critical.
Nature of loss	No loss is similar in nature and not each loss is complicated. At the start of a loss adjusting process, it is difficult to foresee what will be the nature of the loss.

These challenging issues indicate that it is much more efficient to maintain professional independence and avoid alignment of interest, whether perceived or real.

Additionally, for RET, new legal frameworks regarding the treatment of CERs and subsequent processes have been established. The United Nations Framework Convention on Climate Change (UNFCCC), Kyoto Protocol and subsidiary agreements like the Marrakech Accords and Bali Roadmap have created a new legal framework of rules governing the global reduction of greenhouse gases (GHG) and the trading of legal rights from the reduction, abatement or sequestration of GHG emissions. RET systems are actively promoted via flexible exchange mechanisms such as Clean Development Mechanisms (CDM) and Joint Implementation (JI). Therefore many RET projects are constructed and installed in developing countries. The legal systems of both the investor and of the country hosting the project need to be taken into account. The associated risks with regards to potential claims involved in executing a RET project in a developing country and selling CERs in the host country must still be considered in this new and ever changing legal and political landscape.

Key Terms

Term	Definition
Cause and Origin report	Depending on the extent of the loss, after securitization of the damaged physical installations, and also whether fatalities are involved, the authorities will free the damaged site. At this point the loss adjuster, the insurance company claims handler and appointed forensic scientists will take over and investigate the cause and origin of the event occurrence. This investigation phase is critical to safeguard damaged equipment which is determined to be at the cause and origin of the loss occurrence as evidence of loss.
Claim management plan	Once a claim has occurred and has been reported to the insurer and all the involved parties, claim management related activities must be coordinated with the help of a plan: ▪ Investigations into the cause of the loss event cause by authorities or appointed forensic specialists for the insurance claim's Cause and Origin report. ▪ Policy coverage analysis. ▪ Legal policy aspects of the claim occurrence. ▪ Financial damage potential estimations. ▪ Salvage. ▪ Efficient alternative methods and equipment for avoiding unnecessarily long new equipment lead times for reinstatement. ▪ Progress report to the insured and lead insurer.
Indemnification	Indemnification is the provision of compensation (indemnity). This should place the insured in the same financial position after a loss as immediately before the loss.
Insured	The insured is the policy holder. The policy holder seeks indemnification to cover his loss. His main interests are: 1) whether the claim will be considered to be a valid claim under the policy and will be indemnified and 2) when will business operations be up and running again or at least returned to same physical state as they were just before the moment the loss event occurred.
Lead insurer	The lead insurer has a prominent position throughout the claims process. The lead insurer is responsible for establishing good contact with other company market members, such as the co-insurers or reinsurers, as well as with all other actors involved, such as the loss adjuster, accountants and claim investigators. The lead insurer facilitates the communication of the various insurance and reinsurance institutions involved. This can happen through a single communication channel such as the loss adjuster and/or another designated company spokesman.
Long Tail	Long tail types of insurance are lines such as casualty insurance or public liabilities covers. These are generally insurance covers where losses could develop over a long period.
Loss adjuster / loss	Specialist services of a loss adjuster are needed to guide the claims process through the

adjuster services	areas such as origin and causation investigation, demolishing works, site clean-up, and site preparation for repair and reinstatement. The loss adjuster needs excellent communication skills and, tact, and must be well organized in order to control, direct and coordinate efforts. The structured guidance of a loan adjuster aligns the priorities of all partners to facilitate reinstatement of the assets in the shortest possible time frame and in the interest of all parties involved.
Proof of Loss	The onus of the proof of loss is on the insured to prove that: 1) the insured suffered a loss due to an event against which the insured is covered, and 2) there is a value or amount of the loss.
Proximate Cause	Proximate cause means the active, efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and worked actively from a new and independent source. The proximate cause is not the first cause, nor the last cause; it is the dominant cause or the efficient or operative cause.
Short Tail	Short tail types of insurance are lines such as property and transport insurance covers. Generally, all insurance covers that have a predetermined and limited policy insurance period are short tail.

Lesson Review

Section 1 – Claim occurrence as business and legal challenge

Companies suffer from the occurrence of a claim event. A successful claim resolution process can be measured by the ability to repair and restore the assets to the pre-loss state in a timely manner. Construction projects are even more concerned with delays, reconstruction efforts and negative monetary effects. In the case of many RET installations, subsequent CER sales might be interrupted, leading to further financial strain.

A detailed legal analysis is not covered in this module. There are some general legal considerations which apply in most legal jurisdictions. However depending on the jurisdiction affected, specific laws will guide the claim process.

Section 2 – Claim communication channels and professionals

Adequate communication and appropriate involvement of claim professionals need to be considered from the early stage when a loss event occurs. The role of the loss adjuster is key. The loss adjuster must interface immediately with the insured's senior management and instill confidence in them that the issues arising from the loss are understood. The claims adjustment process has three main steps – investigation, determination and finalization – and many critical aspects such as monetary estimation, legal jurisdiction consideration, coverage and liability assessment, verbal communication and RET- specific challenges. Additional parties involved are the insured who is interested in a quick resolution of the claim, and the insurer who indemnifies the claim. For less-complex claims, the insurer often uses its own claims staff for loss adjustment.

Section 3 – Claim management plan

Once a claim has occurred and has been reported to the insurer and to all the involved parties, many activities must be coordinated. This is supported by a claim management plan. The plan includes the following elements: agreed and priced scope of damage, appointment of contractors and third parties, determination of BI or ALOP, common cause report, claim coverage analysis and further economic considerations. The claim management plan must help ensure that the proof of loss can be established and that the insured suffered a loss due to an event covered by the insurance policy and estimate the value of the loss.

A claim management plan facilitates a smoother process of claim adjusting, and avoids some of the adjustment and communication pitfalls between the parties involved throughout the claim process.

Section 4 – Claim coverage analysis

A claim coverage analysis requires three prerequisites. First, the investigation by the public authorities has to be concluded. Secondly, the insured must comply with the insured's duties to minimize loss and to inform the insurer. Lastly, the insurer together with the loss adjuster and forensic experts has to investigate the cause and origin of the claim. The coverage analysis tackles three key issues: the seriousness of the damage, the causation of the claim, and the indemnification basis. Causation of claim might focus on the proximate cause as a validity check in determining whether the claim is a valid claim under the policy.

Section 5 – Loss reporting, reserve setting, claim payment

Losses must be reported in order to correctly reserve the loss and initiate the payment. Depending on the type of business, short tail or long tail loss reporting applies. For most RET insurance coverage, short tail loss reporting applies. Most critical cases are BI and ALOP types of coverage. The loss adjuster must balance the needs of quickly arranging a loss report with the diligent requirements of a thorough Cause and Origin study. The adjuster must also make sure that the activities are closely coordinated with the insured in order to fully analyze all of the information required to understand the BI / ALOP interdependencies.

Loss estimation must be done properly in order to correctly reserve a loss. If the estimate is too high or too low, false expectations will be created. Especially in the case of underestimates, insufficient reserve positions of the insurance company, if allowed to continue, could increase the reputational risk, have a negative impact on the insurance company's value and financial rating, and expose the company to a bankruptcy risk.

Section 6 – Claims handling for RET

For RET, claims handling in most cases follows the industry practice of traditional short tail insurance. However, claims tend to be more of a complex, technical nature, involving new unproven technologies and materials. This requires expertise and a focus on a reliable Cause and Origin study. Main issues in the context of a RET claim are reliable expertise especially in the area of new RET technologies, mitigation of claims cause and BI, early appointment of a loss adjuster if required, efficient cooperation between insured and brokers, time pressure and the difficult nature of losses. Also there are associated risks with regards to potential claims involved in executing a RET project in a developing country and selling CERs in the host country. These must be considered in the context of the CER-related legal frameworks such as the Kyoto Protocol and the subsequent legal agreements.

Further Readings and Related Links

UN Publications	
UNEP DTIE	http://www.unep.fr
UNEP FI	http://www.unepfi.org

Further Publications	Link
Schadenspiegel, Special Feature Issue, Risk factor of Earth, 2007., Risk factor of Fire, 2006., Risk factor of Water, 2005.	http://www.munichre.com
Annual review of catastrophe losses, yearly report.	http://www.munichre.com

Test

Question 1

What are the four key objectives of loss adjustment services?

Answers:

Building trust with insured, identify early loss indicators, determination of policy coverage extent, and identification of recovery potential.	☐ Check if Correct
Building trust with insurer, confirmation of policy engagement, determination of policy coverage extent, identification of recovery potential.	☐ Check if Correct
Building trust with insured, confirmation of policy engagement, determination of policy coverage extent, commence subrogation where appropriate.	☐ Check if Correct
Building trust with insured, confirmation of policy engagement, determination of policy coverage extent, identification of recovery potential.	☑ Check if Correct

Question 2

Which of the following statements is correct?

Answers:

The smaller is the expected monetary loss, the easier it is to reach a state of miscommunication which could raise suspicion levels to a point where parties are no longer communicating and properly cooperating.	☐ Check if Correct
Misplaced or incorrect verbal communication between parties, for example giving an inadvertent verbal opinion about policy coverage, could put certain parties on the defensive and obstruct a transparent communication flow.	☑ Check if Correct
In certain legal jurisdictions, the content of a claim file, including any written documentation, is available for scrutiny. Verbal comments are recordable, however are never allowed to be examined in cases of legal action.	☐ Check if Correct
For smaller claims of well-known and proven types of insurance coverages (motor, life), there are other approaches, such as using a claims handler employed by the insured.	☐ Check if Correct

Question 3

What is a common cause report?

Answers:

A common cause report outlines the experts opinions and provides undisputed findings with respect of a recovery action and clarity on uninsured aspects of the claim. The report focuses on issues of physical evidence, witness statements, instrumentation, metallurgy, sequence of events, explosion dynamics, maintenance history, operating circumstances, design and installation.	☑ Check if Correct
This report establishes the categories of damage, such as process equipment,	☐ Check if Correct

civil works, security, utilities, inventory and dams. These constitute the agreed scope of damage by the engineering discipline, using definitions, cost templates and onsite inspection by joint team of engineers with relevant expertise.	
This report is gathered by the insured in order to prove that 1) the insured suffered a loss due to an event against which the insured is covered, 2) there is a value or amount of the loss.	☐ Check if Correct
None of the above.	☐ Check if Correct

Question 4

What are the key recommendations for BI and ALOP type claims?

Answers:

Mitigation of timing conflict: ALOP and BI claims are often difficult to report due to the fact that policy liability is rarely confirmed at an early stage.	☐ Check if Correct
Coordinate reporting with insured in order to avoid isolated activity triggered by the insured which could significantly delay the process.	☐ Check if Correct
Create a BI / ALOP interdependency model describing the loss interdependency aspects.	☐ Check if Correct
All of the above.	☑ Check if Correct

Question 5

What are the typical issues for RET claims?

Answers:

Causation studies take long time, high time pressure, and complicated nature of loss.	☑ Check if Correct
No lead insurers are involved, difficult BI mitigation, high profile and inflexible insureds.	☐ Check if Correct
High profile and inflexible insureds, multiple lead insurers, independent brokers.	☐ Check if Correct
All of the above.	☐ Check if Correct