

Claims Services
and Loss
Management

Contents



Page 3
Services You Can Depend On

Page 4
The Team Includes You

Page 6
What to Do Before a Loss

Page 8
What to Do During a Loss

Page 9
Business Interruption Losses

Page 11
What to Do After a Loss

Page 13
Saving Through Subrogation

Your Partner in Loss Management

As a client, you have access to all the property loss prevention and risk management services Affiliated FM has to offer. With extensive property risk management experience, we can help you prepare a plan to handle losses that may occur. Our claims services experts can help you prepare for the unexpected and react quickly in the event of loss. When faced with a loss, your objectives are the same as ours:

- Assess damage as promptly as possible
- Prevent additional physical damage
- Minimize associated financial impact
- Restore your business to operation as quickly as possible
- Resolve your claim fairly and promptly

Affiliated FM is your partner in loss management. We work with you to develop a comprehensive plan that provides your organization with a clear road map for managing losses and restoring your business to full operation. Should your organization ever suffer a loss, a team of Affiliated FM loss adjustment experts works alongside you to minimize additional damage, reduce financial impact and settle your claim promptly and fairly. Whenever possible, we work to minimize your losses and recoup expenses through subrogation.

This guide includes valuable loss management information and a summary of Affiliated FM claims services. We urge you to save this guide.

Services You Can Depend On

The Affiliated FM claims department provides a range of services adapted to the individual needs of our clients. These include:

Loss Adjustment Services

Affiliated FM provides prompt, high-quality loss adjustment service around-the-clock and throughout the world. The Affiliated FM claims team works with you to resolve your claim as quickly and fairly as possible.

Our claims specialists work with you through the entire claim process, including documentation required, coverage details, expediting and salvage actions, subrogation and on-the-spot authority to settle claims.



Catastrophe Management

Handling natural and manmade disasters on a local or regional scale requires a special level of expertise and effort. For major catastrophes, Affiliated FM maintains an around-the-clock, rapid-response command center staffed by seasoned veterans with excellent track records in handling major losses. These catastrophe specialists know how to get the job done right. While you may not be able to predict the impact of any single disaster, you can expect prompt, expert service from your Affiliated FM catastrophe team.

Third-Party Subrogation

Whenever possible, we investigate the potential involvement of third parties in a loss and initiate recovery action when appropriate. In many cases, subrogation efforts can help you recoup excess or uninsured costs incurred while restoring operations.

The Team Includes You

Affiliated FM uses a team approach to help you protect your business from losses and recover as quickly as possible should a loss occur. Affiliated FM loss adjustment experts work alongside you to minimize additional damage, reduce financial impact and settle your claim promptly and fairly. Your team includes adjusters and claims professionals with the expertise or specialization required to provide you with the best service. And, of course, the most important member of the team is you. Knowledge of your unique business and operations is critical to the rapid resolution of the claim and recovery process.

Loss Investigators/ Loss Prevention Consultants

This is often the first representative of the Affiliated FM team you see after a loss occurs. These investigators/consultants assist you in evaluating and restoring fire and other protection systems; providing guidance in emergency protection measures and loss mitigation; and investigating the cause of loss, providing recommendations to prevent reoccurrences.

Adjuster

This is the individual who works directly with you to determine the amount of loss recoverable under the policy. Depending upon the complexity and/or size of the loss, the adjuster may be assisted by a supervisor. The adjuster's primary responsibilities are to:

- provide advice and assistance when needed to help you mitigate physical damage and minimize the associated financial impact
- provide prompt policy application response
- make timely agreements on the separation of damaged/undamaged property, scope of damages and repair procedures, discussions with civil authorities, selection of contractors, and coordination of any expert consultants that may be required
- make joint inventories, as appropriate
- obtain expert salvage assistance, if needed
- review your records and accounts
- suggest any additional record-keeping or accounting procedures that may be required to properly document the loss



- perform periodic reviews and make timely agreements as the work progresses
- provide periodic advance or partial payments
- evaluate subrogation potential

Once the claim is received:

- advise you promptly of any claim items that might need further documentation or are questionable from a policy application or measurement standpoint
- notify you if anything appears to be missing from the claim
- reach a mutually acceptable settlement agreement under the terms and conditions of your policy
- arrange for prompt payment

Claims Manager

The claims manager is dedicated to ensuring a prompt, fair and equitable recovery of your loss under the policy coverage. It is the claims manager's responsibility to understand your specific needs. The claims manager:

- monitors and assists in all phases of the loss investigation and adjustment
- assures smooth and timely adjustment of the claim, including advance payments where appropriate
- assures loss-handling consistency



Affiliated FM is dedicated to ensuring a prompt, fair and equitable recovery of your loss under the policy coverage.

Outside Experts

Outside consultants with special expertise are sometimes needed to assist the adjuster, depending upon the size and complexity of a loss. These experts are assigned by the adjuster to meet a variety of specialized needs.

Examples of outside experts that are sometimes called upon include:

- accountants
- machinery and equipment experts
- building/construction consultants
- process experts
- salvage consultants
- cause and origin experts

What to Do Before a Loss



You're Part of the Team!

It is vital that you or a designated member of your staff be the liaison to Affiliated FM should your organization or business experience a loss. A knowledgeable representative from your company can significantly streamline the claim-filing process and subsequent settlement. In the event of a loss, your company representative or emergency-response team should:

- notify an Affiliated FM office immediately
- minimize the impact of the loss, when possible
- protect the property from further damage
- restore fire protection
- provide closures against the elements
- segregate damaged and undamaged property
- commence salvage
- prepare and submit a claim

To reduce business interruption losses:

- make temporary repairs
- expedite permanent repairs and restoration of normal operations
- use alternate facilities or inventory and/or work additional shifts, etc.

Benefits of Preloss Planning

Before a loss occurs, a well-prepared organization will develop a loss contingency plan for loss management. Each loss management plan should be carefully tailored to meet the unique needs of your business. Just as no two businesses are exactly alike, the same is true for the challenges you face when a loss occurs. The following are just some of the benefits you can expect from this process. You can:

- eliminate or reduce potential delays in claim filing and processing following a catastrophe
- identify insurance coverage gaps and other areas of vulnerability
- develop clear guidelines for notification, documentation and salvage efforts
- identify your specific needs
- provide clear instructions for your emergency response team to use during a disaster
- avoid delays due to inadequate record-keeping procedures so that vital records and important documentation are not lost
- prevent additional physical damage
- minimize financial impact on your business and operations

Loss Experience

Loss can take many forms. The chart below shows an analysis of exposure losses to clients during a recent 10-year period. Nearly 40 percent of losses were the result of fires.

Another 25 percent of losses were driven by natural catastrophes, while mechanical and electrical breakdown accounted for 14 percent. Being prepared can help you prevent interruptions to your organization.

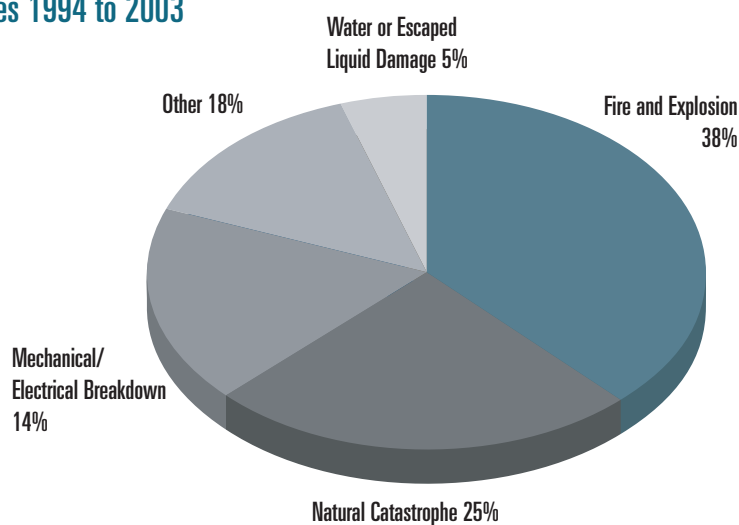
Your Loss Management Plan

What should your loss management plan cover? Loss management planning is a vital subset of your business continuity plan. Insurance coverage should never be considered a substitute for in-depth business continuity planning. While insurance is vital to reduce the financial risk of property loss and business interruption, only a tested business continuity plan can give your company a fighting chance

to recover following a major catastrophe. The following is a list of the key information your loss management plan should cover:

- procedures and guidelines for handling losses, including a clear delineation of who will report the loss to Affiliated FM
- a detailed list of names, home addresses, phone numbers, pager numbers and other information on members of your emergency response team
- key contacts at your subsidiaries and remote offices
- contingency arrangements with emergency services and critical suppliers
- assignment of emergency duties for local plant personnel, your insurance department, your broker and others
- a designated liaison to work with the adjuster to resolve coverage issues, as well as negotiate and settle the loss

Losses 1994 to 2003



Loss Preparedness Checklist

Test your loss preparedness with the checklist below:

- Have I analyzed my loss potential, identifying critical equipment, facilities and processes?
- Do I know my company's loss history and how to use such knowledge to assist in preparing for potential future losses?
- Do I have a list of individuals inside the company to call in case of a loss?
- Do I know who to call to report a loss?
- Do I know the procedures for loss-handling and claim submission?
- Are our emergency response procedures up-to-date and available to those with a need to know?
- Do I have a procedure in place to collect appropriate records and duplicates of vital information necessary to support a potential claim?
- Have I reviewed my policy coverage with Affiliated FM claims professionals and fully understand how it will apply in case of loss?
- Do I know the procedures for obtaining advance and partial loss payments?

What to Do During a Loss

Unpredictability is the essence of a disaster. In most cases, you'll receive no warning before a calamity strikes. That's why preloss planning is so important. When the time comes, you'll be prepared to handle a loss. This can mean the difference between business survival and failure. When a disaster does strike, you'll need to quickly assess the situation and refer to your business continuity plan to determine the correct course of action. When it comes to insurance loss management, it's recommended you follow these four main guidelines:

1. Notify Affiliated FM

Damage can increase with each minute during a disaster. It's vital that you notify your Affiliated FM claims representative immediately. Your adjuster will want to get to your property as quickly as possible so on-the-spot claim decisions can be made. Typically, the date, time, cause, location of a loss, brief description of damage and impact on production is enough for us to work with initially. Be sure to provide us with the name and telephone number of the key insurance contact within your organization.



Loss Control Checklist

- Notify your Affiliated FM claims representative, giving the date, time, cause and location of the loss.
- Mobilize your emergency response team.
- Protect your property from further damage.
- Fix leaking pipes.
- Restore fire protection.
- Temporarily support collapsed or impaired structures.
- Board up the premises and correct unsafe conditions, if applicable.
- Isolate the damaged area wherever possible.
- Separate damaged from undamaged property.
- Restore power to critical areas.
- Establish a loss control account in the company's books and records or general ledger. All expenses incurred as a result of the loss should be charged to this account.
- Retain all invoices, time sheets, etc., to ensure that all costs are captured and attributable to the loss, and to prevent an overlapping of normal costs with these expenditures.
- Obtain identification of all civil authorities involved, such as fire, police, health department, building inspector, statutory and regulatory.
- Retain any piece of equipment or other property that may be the cause of the loss. This should be tagged and identified as to its function and the time and date of the incident in order to establish a chain of custody.
- Take photographs, if possible, prior to the removal of any debris.

Business Interruption Losses

2. Protect Your Property

Even in the midst of a crisis, there are actions that can be taken to limit the extent of damage and reduce the impact on your operations. Refer to the loss control checklist on page 8 that may be useful during an emergency. This checklist also is one of the documents your Affiliated FM representative reviews with you during a contingency planning visit.

3. Mitigate Financial Impact

There may be options available to mitigate the financial impact of a loss. Your Affiliated FM claims representative reviews potential areas, such as alternate facilities, both internal and external; mix and capacity of existing inventory; outside purchase of goods and services; temporary repairs; and expedition of repairs. Getting you back in business as quickly as possible is our common goal.

4. Document Losses

To avoid delays in claim processing and settlement, it's vitally important to keep accurate records before, during and after a loss. Your Affiliated FM claims representative reviews the documentation requirements for various types of coverage during your preloss planning visit.

In North America, business interruption coverage typically provides for gross earnings the insured would have achieved had the loss not occurred. Coverage is based on the length of time necessary to repair or replace the damaged or destroyed property with the exercise of due diligence and dispatch.

Outside North America, business interruption coverage typically provides for the gross profit the insured would have earned had the loss not occurred. The period of indemnity continues until the results of the business are no longer affected by the loss, subject to a specific time limit.

When computing a business interruption claim, it is important to consider as many factors as possible and to reduce grey areas. This helps to ensure any differences are minimized during settlement discussions.

Consistent with market practice, Affiliated FM's business interruption coverage operates on the principle of actual loss sustained. In order to determine the actual loss sustained, you must give consideration to the following:

- reconstruction schedule
- production and sales forecasts for the indemnity period
- actual experience and trends of the business before, during and after the indemnity period
- net sales value of products and services involved
- maintenance work done in conjunction with reconstruction
- production or sales "makeup"
- use of alternative facilities or inventory to reduce the loss
- additional expenses incurred to reduce indemnity period, "makeup," or lost production or sales
- potential overlap with the physical damage claim
- discontinuing fixed charges





The area that often creates a challenge in a business interruption calculation is the projection of the probable experience of the business during the indemnity period. This projection should take into consideration all factors that may have affected the insured's business had no loss occurred.

Caution should be used when booking anticipated business interruption recoveries because accurate loss estimates often take time to develop. The adjuster works with you to clarify any questions or issues you might have in connection with these or any other time-element coverage or extensions contained in your policy.

Business Interruption Checklist

- Estimate the period of interruption to operations due to the property damage event.
- Determine the direct effect to operations or production, including any contingent effects of the shutdown.
- Determine if your company can use other facilities to offset the loss.
- Can your company regain production through overtime or weekend work?
- Can finished goods inventory be utilized to offset a loss of sales?
- Does your company have any extraordinary sales commitments?
- Does your company have any sales contracts that can be delayed?
- Can machinery repairs or replacement be expedited by a supplier working overtime?
- Are there any other measures that can be taken to mitigate the loss?

What to Do After a Loss

The steps taken immediately after a loss affect your ability to return to normal operations as quickly as possible. Prompt action is critical to prevent damaged property from causing more damage. We work with you to ensure steps taken are given the proper attention. We also are committed to providing an equitable settlement under the terms and conditions of the policy, and getting you back in business with the fewest problems possible.

Your Affiliated FM claims team works alongside you to assess and document your losses. We help you secure your property against further damage, help recover your operations, and assist you in documenting your claim, claim filing, investigation and subrogation, when appropriate. Let's take a closer look at three critical loss management steps: documenting a claim, presenting a claim and subrogation.

Documenting a Claim

Timely and proper assessment of any claim depends on the availability of complete documentation. Below is a partial list of some of the documents commonly used by adjusters:

Property Damage Documentation

- invoices
- purchase orders
- repair quotations
- time and material contracts with expenditures
- labor time sheets with corresponding payroll journals



- supply vouchers or requisitions
- inventory quantities with pricing
- contracts for property of others—confirming insurable interest

Business Interruption Documentation For Mercantile and Service Businesses:

- reconstruction schedule
- past experience of business
- actual experience during the period of indemnity
- sales journals and forecasts during the period of indemnity
- market trends
- additional expenses incurred to reduce the period of reconstruction
- purchase journals
- payroll journals
- general ledger
- profit and loss statements
- inventory records, quantities and values

For Manufacturing Businesses: (in addition to those listed for mercantile and service businesses)

- production records and forecasts during the period of indemnity
- maintenance work during the period of indemnity
- production or sales “makeup” by working extra shifts or overtime
- use of inventory or alternate facilities to reduce loss
- additional expenses incurred to reduce the indemnity period, or to make up or reduce the loss of production/sales
- manufacturing costs statements

Loss Payable Provisions

- written identification and confirmation of the names of additional insureds, mortgagees and loss payees
- use of hold harmless agreements in special cases



Presenting a Claim

After gathering the documentation to show the extent of your loss, you need to file a claim package with Affiliated FM. Your claim is a formal statement submitted to your adjuster or other authorized Affiliated FM representative. The claim package should be signed by you or another authorized member of management.

Your claim package should include a letter on your corporate letterhead requesting an advance, partial or final payment. The letter should be signed by an authorized representative and include the date and location of loss,

the total amount of claim for property damage and business interruption, written confirmation of payables and a statement of whether or not other insurance applies. When the adjustment of the loss is complete, your adjuster will provide a sworn statement in-proof of loss to be executed by an authorized person. A sworn statement in a proof of loss also is an acceptable alternative to a formal letter.

Your claim should include a summary of the types of damage you experienced, i.e., property damage and business interruption.

Property Damage

- building
- machinery and equipment
- stock and supplies—quantity/valuation
- cleanup labor/debris removal
- in-house labor total, including unit costs and reasons for incurring

Business Interruption

- indemnity period
- impact to operations resulting in loss of sales
- unit business interruption value and business interruption value of claim with calculations for any of the applicable time-element coverage contained in your policy, including loss of net profits and fixed charges, loss of gross earnings, ordinary payroll, loss of gross profits, expenses to mitigate a business interruption loss, extra expense, contingent time element, service interruption and loss of rental income

Saving Through Subrogation

When Subrogation May Be Involved

When your loss is caused by a third party, for example, an outside contractor, you and Affiliated FM may examine the third-party responsibility and pursue recovery—through legal action if necessary. This is called subrogation. Successful subrogation allows the responsible third party to bear the financial impact and provides the potential to recover insured and uninsured damages.

In a subrogation situation, Affiliated FM:

- solicits your participation in any action against the responsible third party
- attempts to recover damages
- includes in the action uninsured interests, such as your deductible, with your consent

Before any action commences, we review and agree with you on how expenses and legal fees will be handled. We also explain the recovery provisions of the policy. For some locations, however, current law may affect recovery distribution as well as the distribution of expenses and legal fees.



How to Prepare for Possible Subrogation

- Discuss the facts with your Affiliated FM team.
- Put the facts of the incident in writing as soon after the loss as possible. Record dates, times, places and persons involved.
- Describe what happened.
- Retain any piece of equipment or other property that might have caused the loss.
- Unless local jurisdiction dictates otherwise, tag it to identify its function, time and date of incident, and establish a chain of custody. Your Affiliated FM adjuster can provide guidance on how to proceed to conserve evidence.
- Take photographs, if possible, before removing any debris.
- Retain records of any transactions that occurred between you and the responsible third parties, such as contracts, purchase orders or agreements signed and dated; invoices or billing for the job that resulted in the loss; and invoices, billing or work orders for past jobs, if any.
- Place the outside party on timely written notice of the loss and the party's potential responsibility for it.



Subrogation Rights: What You Don't Know Can Cost You

The temptation to favor short-term savings and risk long-term losses can be great. Some of the most common situations in which companies deliberately or inadvertently waive their rights to loss recoveries in exchange for lower prices on contracts include construction, maintenance, leases and equipment purchases. For managers who do not want to gamble with their corporate risk profile, some of the ways to protect your subrogation rights include:

- checking references when selecting contractors and contact licensing agencies for complaints
- educating purchasing managers to consider a more expensive contract preferable to assuming more risk
- studying purchase orders, leases, work orders and contracts carefully for provisions involving “insurance,” “hold harmless,” “indemnity” and “waiver”
- reporting losses to insurance carriers as quickly and as thoroughly as possible, and enabling insurers to investigate the evidence before it is moved or destroyed



1301 Atwood Avenue

P.O. Box 7500

Johnston, RI 02919 USA

- Tel.: +1 (1)401 275 3000
- Fax: +1 (1)401 944 9477
- www.affiliatedfm.com

In the United Kingdom:

FM Insurance Company Limited, 1 Windsor Dials,
Windsor, Berkshire, SL4 1RS

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