

Guide to Navigating Commercial Property Claims



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Introduction

In the event of a catastrophic commercial property loss, the process of getting your business back up and running can be overwhelming. Although infrequent, these types of claims can severely impact operations, earnings, team members and the company's reputation. Responding to a loss can seem daunting in the moment, especially considering the first few hours following a loss are some of the most critical. For these reasons, it is important to have a plan in place prior to a loss occurring.

This guide is designed to help you navigate the commercial property claim process, including filing a claim and receiving payment, so that you can get back on your feet as quickly as possible. You will find an overview of the roles parties play amid a loss; recommendations on what actions to take before, during and after a loss; information on commercial property coverage; and examples of common pitfalls insureds frequently make that can cause claim delays.



The Roles During a Commercial Property Loss

Several different parties are involved in the property claim process, including the following:

Adjusters—

Adjusters are tasked with investigating a loss by inspecting the damage and quantifying the estimated value of the loss, evaluating coverage and, given there is coverage in place, settling the loss. After the adjuster has filed their report, insurance companies will make an offer to settle claims filed by their insureds.

Agents or brokers—

Following a commercial property loss, business owners will often turn to their insurance agent or broker for assistance, as they can guide the insured through the recovery process and in creating a thorough proof of loss. While most major national brokerage firms have experienced claims specialists on staff, many agencies aren't large enough to have one on hand. In that case, an agent or broker's role is typically to ensure a smooth settlement process occurs and to advocate on the insured's behalf if their claims appear to be unjustifiably denied.

Attorneys—

Insureds may hire attorneys if their claim is denied or the settlement offer is deemed unacceptable. In addition, they may get involved if there are injuries connected with the property damage or third-party property damage occurs. Pollutant release or other potential violations of regulatory rule or law may also constitute the use of an attorney.

Insurance claims accountants—

An insurance claim accountant can be a great resource for insureds when filing a claim for business interruption benefits. This specialist can collect and organize the necessary financial records needed to support the claim.



In addition to employing the above specialists, insureds should have an insurance claim coordinator or risk manager on staff responsible for the overall coordination of the insurance claim. This person should oversee internal preparations of the claim and be a liaison with the insurance company throughout the proceedings.

Before the Loss

The claims process can be time-consuming and burdensome, often leaving insureds unsure of where they stand with their claims. However, preparation can help minimize much of this frustration. In fact, many property claim issues can be avoided or mitigated by thoughtful planning before any loss takes place.

To better prepare your property and team for a loss, consider taking the following actions before any damage occurs:

- **Understand your coverage.** Read and review your policy carefully, particularly the insuring clauses and exclusions. This can help you understand your rights and obligations before damage occurs, as well as what types of damage are and are not covered under your policy. Any coverage issues discovered should be addressed before the loss.
- **Identify key points of internal and external contacts.** Prepare your team for a loss by identifying key individuals to act as points of contact. This may include players in sales, operations, accounting and finance, warehousing, management and risk management interacting efficiently and effectively with claims specialists regarding salvage, repairs and resuming operations.
- **Secure important documents.** Ensure financial records, inventory records, appraisals, building drawings and other important documents are properly secured in a fireproof or off-site location. Data should also be continuously backed up to a remote server or the cloud.
- **Create equipment inventory and take photographs.** Document equipment inventory and take photographs of the property to prove the extent of future potential damage. New photos of the property should be taken each year or after any alterations have been made.
- **Establish a disaster plan and anticipate your loss.** Create and communicate your disaster plan with employees to ensure everyone is prepared for disaster. By anticipating your loss, you may be able to mitigate some damage and alleviate concerns before damage occurs. Execution of the disaster plan may include cutting master keys to all areas of the property, moving furniture or potentially hazardous items inside, and having an up-to-date emergency contact list.

During the Loss

A commercial property loss can happen at any time for various reasons, including fire, water, wind or vandalism. Once you're made aware of a loss, it's important to take immediate action to mitigate the damage and prevent further damage from occurring.

The following are steps to take in the event of a loss:

- **File the claim.** File your insurance claim to your property insurer and notify your broker or agent as soon as possible. The carrier will then assign an adjuster to the claim. The adjuster will review the damage.
- **Prevent further damage.** Implement immediate emergency measures to help protect the property from more damage. Insurance policies require action to be taken to protect and preserve the property following a loss.
- **Document and photograph damage.** Make sure to take wide-angle and close-up shots of all damaged property, adding verbal or written notes when necessary. If security camera footage

exists, keep it in a safe spot and back it up, if possible. In addition, don't discard anything before the adjuster inspects all property and photographs it.

- **Restore fire protection.** Replace damaged sprinkler heads, arrange fire watches, and recharge extinguishers to get your fire protection system back in service immediately.
- **Begin salvage.** Inspect all potentially damaged property and separate it from undamaged property. Start developing a full inventory, describing each item and recording the manufacturer, the original purchase price, and estimated costs to replace, repair or clean.
- **Make temporary repairs.** Save, preserve and protect your property by making temporary repairs. When assessing if temporary repairs are necessary, use the "reasonable person" test—do what a reasonable person would do and be able to explain your rationale to the adjuster. Inform your adjuster of the temporary repairs as soon as possible; actions taken without prior authorization could potentially impact recovery for those expenses.
- **Make permanent repairs.** Begin making permanent repairs after consulting with your adjuster, who will likely engage with a construction consultant to help develop a scope of work and then invite two or three contractors to bid on the scope of work. After the itemized bids are presented, you, your adjuster and the construction contractor should all agree on a price for the reconstruction work.
- **Track claim costs.** Create a ledger to track all costs associated with the loss. You can use work orders, job accounts and other accounting procedures to track every cost. Categories within the ledger may include temporary repairs, building reconstruction and contents replacement costs.
- **Resume operations.** Take the necessary steps to resume normal operations as quickly as possible. This could include setting up a temporary location, working extra shifts to restore production or purchasing product from a competitor to continue supplying customers.



After the Loss

As your business begins to recover after a commercial property loss has occurred, it's important to continue following policies and procedures related to the claim. The following are steps to take after the loss:

- ✓ **Conduct inspections.**
Inspect the property as soon as possible after the loss and include anyone who will be involved in the loss negotiations. Make notes, gather general impressions, and take photographs and videos to assist in adjusting the loss.
- ✓ **Establish communications.**
Be sure to establish and execute a smooth flow of information from those overseeing the claims process to employees and other stakeholders.
- ✓ **Accumulate and account for claim expenses.**
Record all expenses associated with the loss, including cleanup, debris removal and excess operating costs. Use a separate fire account or work order code to record all costs associated with the loss.
- ✓ **Execute cross-department coordination.**
Coordinate the gathering and sharing of information across all departments to ensure an acceptable result for both the organization and the insurer.

Components of Commercial Property Coverage

One of the most essential steps to getting your business up and running following a commercial property loss is having the right coverage in the first place. The proper coverage can make all the difference between a minor disruption to operations and a severe financial loss.

A commercial property insurance policy is typically divided into several sections, and different types of records are required when documenting each element. Here are the basic components of commercial property policies:

- **Commercial building coverage**—Following a loss, property damage may be partial, or the building may be completely destroyed. In the event of a partial loss, the claim will mostly consist of repair costs, including labor and materials. If the building is destroyed, a formal appraisal can help determine the value for claim purposes.
- **Business personal property**—Business personal property coverage may include equipment, fixtures, materials or supplies. Equipment and fixtures in need of repair typically only require an invoice to present your claim. However, those in need of replacement may require estimated replacement costs from manufacturers or dealers if they are still relatively new pieces. The replacement of older equipment and fixtures may require your capital assets ledger, acquisition costs, appraisals and maintenance logs before actual cash value can be determined. Materials and supplies figures can be relatively simple to develop based on the last physical inventory plus purchases less sales. The valuation method of your damaged and undamaged property may

depend on your policy provisions, and there may be possible issues in treating freight, purchasing and selling expenses, bad debts, shrinkage, returns and allowance, commissions and discounts.

- **Business interruption**—Most business interruption policies only take effect when there is a definitive loss of sales due to stopped operations, physical loss or damage to covered property by a covered peril. If you can reduce business interruption by resuming complete or partial operations, utilizing or renting other facilities, or using raw stock, stock in process or finished stock, you may be entitled to recover the extra incurred expenses.
- **Extra expense**—Extra expense coverage and expense to reduce loss coverage are considered two separate categories. Expense to reduce loss typically falls under business interruption coverage and requires that every dollar spent reduces the business interruption claim by a dollar. Extra expense, however, must be purchased as a separate coverage under most policies and allows you to spend more than the dollar saved to continue normal business operations.

Common Pitfalls

While every claim is unique, there are common mistakes insureds make when dealing with a commercial property loss that may cause claim delays, such as:

- ✓ **Failing to protect your property—**
Temporary repairs must be made to prove you have tried to protect your property. If you fail to arrange these repairs, you risk having parts of your claim denied.
- ✓ **Failing to submit timely proof of loss—**
It is more important to submit timely proof of loss than perfect proof of loss. A form or single-typed page containing all the necessary information is often all that's needed to begin the claims process. Failure to do so can result in unnecessary payment delays.
- ✓ **Becoming worn down by the process—**
The claims process is often a complicated one. However, don't settle for a quick, cheap settlement because you're tired of the process. Delegating tasks, assigning roles and even postponing negotiations can help ensure you remain in the right frame of mind to fight for a fair settlement.
- ✓ **Accepting the claim denial—**
When coverage issues are a concern, ask for a detailed coverage opinion letter. Get a second opinion from a qualified insurance professional if your initial claim is denied.

It may seem overwhelming to deal with a commercial property loss, but fortunately, you don't have to do it alone. To learn more about commercial property coverage and specific policies available to you, it's important to work with a qualified insurance broker. Contact us today to learn more.

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Appendix



CHECKLIST

BEFORE, DURING AND AFTER A COMMERCIAL PROPERTY LOSS

Presented by Horst Insurance

While it's impossible to predict when a disaster may strike, some steps can be taken before, during and after a commercial property loss to potentially reduce damage. By planning and preparing policies and procedures, business and property owners can respond better when a loss occurs.

This checklist provides actions to complete before, during and after a commercial property loss:

Before the Loss	
Take photographs before any damage occurs.	<input type="checkbox"/>
Back up critical information and data.	<input type="checkbox"/>
Establish an emergency response team.	<input type="checkbox"/>
Establish contacts with reputable contractors.	<input type="checkbox"/>
Create a disaster response plan.	<input type="checkbox"/>

During the Loss	
Request a complete copy of the insurance policy.	<input type="checkbox"/>
Notify senior management, affected departments and the emergency team of the loss.	<input type="checkbox"/>
Notify the insurer as soon as possible, preferably in writing. Report the name and address, location, date and time of loss, type of loss, the property involved, the extent of damage and contact information.	<input type="checkbox"/>
Protect property from further damage by restoring fire protection, making temporary repairs, securing vital records, beginning cleanup and expediting long-term repairs.	<input type="checkbox"/>
Take photos and videos of the damage before beginning cleanup efforts.	<input type="checkbox"/>
Prepare a proof of loss, providing details of the destroyed or damaged property. Document the amount of loss incurred.	<input type="checkbox"/>
Submit proof of loss, photos and reports to the insurer.	<input type="checkbox"/>
Cooperate and assist the insurer in the investigation.	<input type="checkbox"/>
Hire claims experts.	<input type="checkbox"/>
Obtain repair estimates or appraisal documents from contractors.	<input type="checkbox"/>
Resume operations.	<input type="checkbox"/>

After the Loss	
Conduct inspections.	<input type="checkbox"/>
Document all activities and expenses.	<input type="checkbox"/>

For more risk management guidance, contact us today.

CHECKLIST | COMMON DUTIES IN A COMMERCIAL PROPERTY LOSS

Presented by Horst Insurance

Most people understand that insurance companies have a duty to reimburse insureds for commercial property damage not excluded by their policies. What's less known is that if a loss does occur, insureds also have obligations to their insurance company. Many commercial property insurance policies include language detailing steps that must be taken following a loss. Failure to fulfill these responsibilities can potentially lead to a claim being denied, a delay in claim payments, nonrenewal or even cancellation of the policy.

Use this checklist to ensure the completion of all required duties in the event of a commercial property loss:

Common Duties	
Notify the police if laws may have been broken. Report all theft losses and obtain a police report case number.	<input type="checkbox"/>
Notify the insurer as soon as possible, detailing how, when and where the loss or damage occurred. Include a description of the property involved.	<input type="checkbox"/>
Take all reasonable steps to protect the property from further damage. Keep a record of the expenses required to do this, including hours and wages.	<input type="checkbox"/>
Provide the insurer with an inventory of the damaged and undamaged property if requested, including quantities, costs, values and the amount of loss claimed.	<input type="checkbox"/>
Set aside the damaged property, keeping it in the best possible condition for examination.	<input type="checkbox"/>
Allow the insurer to inspect the property and any related records.	<input type="checkbox"/>
Allow the insurer to take samples of damaged or undamaged property for inspection, testing or analysis.	<input type="checkbox"/>
Cooperate fully with any claim investigations, which may include being questioned under oath.	<input type="checkbox"/>

For more risk management guidance, contact us today.