Jansen International, LLC

Jansen International, LLC
922 W. Greens Road
Houston, Texas 77067

(281) 873-8700
1 (800) JANSEN-1

www.jansenco.com

JANSEN Report

Jansen International, LLC

www.jansenco.com

Houston
(281) 873-8700

Dallas
(214) 634-8700

San Antonio / Austin
(210) 646-0122

National
1 (800) JANSEN-1
And
1 (800) 779-8714

Message From The CEO

We will all remember the massive damage created by hurricanes in 2008. Hurricane Ike, one of the most destructive hurricanes in history, caused substantial damage from Texas to Ohio. The uninsured residential, commercial and public property losses have created a major financial burden for FEMA and the Texas Windstorm Pool (TWIA). Many uninsured losses have caused individuals to lose their homes and commercial bankruptcies. The continued appearance of a recession and unemployment has only added to the problem. This is all the bad news.

The good news is that we are hoping and expecting change. Our new administration has made a lot of promises and it is hopeful that they can deliver. Let's all have an optimistic attitude and give the new administration a chance to prove themselves worthy of our support. There are many projections indicating that our economy will start to recover in the latter part of 2009.

Jansen International will continue our efforts to settle our many major commercial claims and restore normality to our client's business and profits.

Have a great 2009.

Sincerely,

Arthur Jansen, Sr. SPPA CPPA
Chief Executive Officer, Jansen International, LLC

A tri-yearly publication of Jansen International, LLC - Professional Loss Consultants

JANSEN Report

Vol. 4 No. 4 International Claims Adjusters Spring 2009

Total Cost of Risk (TCOR) and the Element of Claims Management for the Small Business Owner

By Charles Dale, SPPA, Vice President of Operations

It was a quiet Tuesday morning as Bob drove into work, anticipating a busy day and a great closing of a significant contract with a new customer. As he rounded the bend on the freeway, he noticed the traffic was heavier than usual and there was an ominous billowing cloud of black smoke on the horizon. "Hmmm….that looks like over by my plant," Bob thought as he slowly progressed through the thick traffic. As Bob got closer to the column of smoke, his concerns were transferred to sheer shock as he saw the flames and smoke over his factory, fully engulfing his plant and office complex. "Oh no…….not now, my business was just taking off, what now?"

While the above scenario may seem far away from a usual day at your business, you may be surprised how often it happens. It may not be a huge fire that affects your operation; however, it could be a hurricane, flood, tornado or some other minor event like a pipe break or power surge that takes its toll on your business. The hours and days following a significant event like described above are typically filled with chaos. Locating employees, dealing with fire officials, investigators, emergency contractors, insurance representatives and trying to figure out where to go next will engulf your time and focus. But who is running your business? What costs are associated with this recovery effort? Were you properly insured? Will you relocate or rebuild?

A new concept of risk management has emerged over the last few years and has been coined the name, "Total Cost of Risk" (TCOR) by mega-brokers and as stated in a recent article, "Moving Away From Price-Based Selling" by Rob Ekern, President of C.R. Ekern and Co. in Phoenix Arizona. Rob breaks down TCOR into 4 quadrants: risk financing costs, loss costs, administrative expenses and taxes and fees.

Simply stated, TCOR is the bottom line cost of a company's risk management program. In years past, brokers focused on the cost of premiums based on properly valuing assets and liability exposures. As Mega brokers consolidated, they expanded on their services to offer risk management services like, risk avoidance, safety programs and post loss recovery services.

The purpose of this article is to expand on the TCOR concept and present an analysis of the option of outsourcing your property claim to an independent loss consulting firm. Also known as (and licensed under) the term "Public Adjuster" , these firms are specifically designed to represent insured clients with the measurement, documentation, presentation and final negotiation of first party property claims filed with insurance companies. Public adjusters do not work for insurance companies; they only represent the policy holder in their activities.

While on the surface, having representation in a complicated and involved claim negotiation may make sense. But, when faced with the chaos following a loss, why would a business person consider an "additional" fee when faced with all of the other costs associated with his property

Inside This Issue

Total Cost of Risk (TCOR) and the Element of Claims Management for the Small Business Owner - *Pages 1-3*

Message From The CFO - *Page 4*

Total Cost of Risk (TCOR) and the Element of Claims Management for the Small Business Owner (continued)

loss? Besides, your Insurance Broker has shown up at your loss site and said that the insurance company supplies all of the adjustment services, and if you hire a public adjuster, it will be an *additional* cost, not covered by the insurance policy.

This is where the TCOR concept comes into play. And specifically, the only quadrant associated with a claim event for the most part, is the "cost of loss". Cost of loss can be broken down into *direct* costs and *indirect* costs. A few examples of these costs are shown in the highlighted boxes below:

COSTS OF LOSS

Direct Costs

Premium Expense
Deductible(s)
Loss and Damage Not Covered By a Policy of Insurance

Indirect Costs

Management Time and Effort Handling Claim Matters
Lost Productivity
Business Opportunities
Uncertainty of Claim Outcome
Growth of Competition During (*extended*) Period of Recovery
Decreased Output
Additional Expenses
Potential Legal Expense Managing Dispute With Carrier
Re-Training of Lost Employees.

The costs of loss affect your business on its bottom line. Many business people rely on their insurance company to handle their recovery effort only to discover that many of the costs associated with their loss are limited, not covered or the responsibilities lie with the insured to perform. For instance, most insurance companies do not perform inventory of affected business personal property. Most insurance companies will outsource the accounting of a business interruption claim using the P&L's, books and projections of future earnings supplied by the *insured*. So, your TCOR risk financing costs (direct costs like premiums) are typically only 20% of your TCOR, the remaining costs are your costs of loss, taxes and fees. These are costs that the insured claimant controls.

It is quite simple to quantify your direct costs of loss; however, how can one quantify the *indirect* costs of loss? For instance, consider Bob, totally engrossed in negotiating a property claim in un-chartered waters, focusing his attention on getting what he is due from the insurance company when his potential clients shift their business to a competitor. Not only does his time affect the bottom line, his efforts are focused on matters with which he is unfamiliar. He should be focusing his time on matters that he can effectively control, like growing the business and retaining his client base. These costs are more difficult to quantify.

Another example may be the cost of the *uncertainty* a business owner may have if he or she questions the amount of their recovery in a property insurance claim. Was the offer fair? To what do I compare the monetary offer extended by the insurance company representatives? They seem fair, but they are working for the bottom line of the insurance company, not my business. When considering outsourcing a claim to a public adjusting firm, your first inclination may be the fee they charge. Is this a direct cost or an indirect cost? A simple analysis and a check of the firm's references should reflect that hiring a firm will reduce your indirect costs of loss, *without* adding to your direct costs of loss. How so? It seems too good to be true.

First, a professional firm will physically perform an analysis of structural damages to your facility and package a scope of loss as it applies to the insurance policy in place. This offsets a direct cost of loss to have this service performed by an engineering firm that is not as savvy to insurance language and conditions. Similar services for inventory and replacement cost pricing of business personal property can offset the expense of a salvage firm or the efforts of your in-house personnel to perform this function. Accounting services to analyze and negotiate your business interruption claim are also included. Not only are the man-hours included in the firm's fee, the specialized experience on how to perform the necessary functions should yield a higher recovery because the scope and inventory are performed with insurance industry knowledge of pricing and the extensions of coverage a typical policy provides. Public adjusting firms are paid on a percentage of the claim recovery amount, typically capped at 10% of the claim. As such, the experienced public adjusting firm will package a maximized claim recovery that takes advantage of policy conditions that most insureds are not familiar with, and that many insurance companies will not disclose. Furthermore, public adjusters are not paid until after the claim settles; therefore, the firm will seek to avoid disputes with the insurance company which will expedite the claim process and hasten the recovery. This offsets the indirect costs of delays and additional expenses.

Finally, while the services of a public adjuster may make sense on the surface, how does one quantify the cost? Is their fee a direct cost, or a cost analyzed within the TCOR concept? A simple quantification of the cost of outsourcing can be quite simple. In any negotiation of a property claim, there is typically a demand for payment and a negotiation that follows. A professional public adjusting firm can typically show that their fee was *absorbed* in the increased settlement amount finalized in negotiation. Not only can this absorbed fee be quantified, it can be shown within the negotiation process.

Furthermore, because company management time was not used for claim matters, management focused on their business and the claim settlement time was expedited; numerous other indirect costs were minimized. Business opportunities were capitalized, uncertainties were reduced and an effective recovery was achieved while actually reducing the business TCOR.

No one hopes to have a day like Bob experienced; however, in the unlikely event of a loss, take the time to analyze your operation's Total Cost of Risk and consider out-sourcing certain functions that can help minimize a disaster's impact on your bottom line.