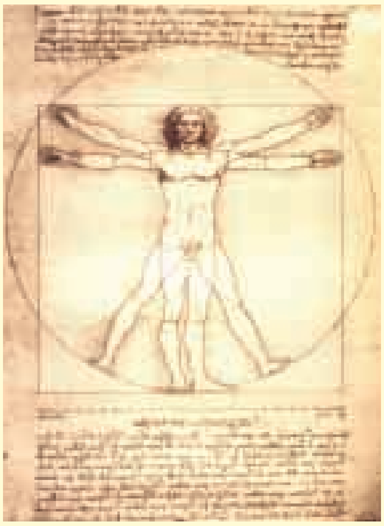
ClaimsFocus

THE CHARTERED INSTITUTE OF LOSS ADJUSTERS – *'THE CLAIMS INSTITUTE'* WINTER 2007

LOSS ADJUSTERS WIN EU FUNDING



Following its application in March of this year the CILA has recently learned of its success in being awarded funding of approximately E400,000 (gross), E300,000 (net), under the EU's Life Long Learning Programme (LLP). The LLP is a European funding programme which supports education and training throughout the European Community. Within this there are three specific programmes – Leonardo da Vinci, Grundtvig and Transversal. The gross figure is the amount of the grant, the difference between that and the net figure is the sum of contributions 'in kind' provided by the CILA and its European Partners. This is a two year funding programme which became operational on 1st November, 2007.

The funding granted to the CILA under Leonardo is to develop, in general terms, an education and training programme for those aspiring loss adjusters within the European Community who wish to join the profession. Also for adjusters who wish to enhance their existing knowledge. The proposal is based on the creation of five or six electronic training modules covering various aspects of a loss adjuster's work. These modules will be developed by the CILA in conjunction with its six European Partners who are members of FUEDI, the European Federation of Loss Adjusting Experts.

The lead partner, the CILA, has been joined by Denmark, the Netherlands, Germany, Austria, Portugal and Poland. Each partner has agreed to make an 'in kind' contribution to the funding. A considerable amount of work is anticipated over the two year period with regular meetings between the parties to keep the project on track. We have taken a considerable amount of advice from AIRMIC who were successful in their application for funding just over two years ago. The first meeting of the Partners to appraise them of their responsibilities was held in Brussels during the FUEDI meetings in November.

We have been joined by the Institute of Financial Services (IFS) which has agreed to be our Academic partner. The role of the IFS will be to assist in the evaluation of the programmes, an area in which they are particularly skilled. The management of the funding will be carried out by the CILA supported by Tony Clack leading the module development group and Graham Cave the testing, evaluation and commercial development group. Richard Taylor, the consultant who led us through the complex application process will continue with us until the completion of the project.

There is little doubt that this initiative will encourage the development of new loss adjusting associations, particularly in Eastern Europe, and bring new blood in to the profession.

Notices

NEW ADDRESS
The CILA Secretariat has recently moved to Warwick House
65-66 Queen Street
London EC4R 1EB
Telephone and fax numbers remain the same
Tel: 020 7337 9960
Fax: 020 7929 3082

CILA WEBSITE FORUMS
Why don't you register now! Then you'll be ready to use this members' only section of the website

MEMBERS' BENEFIT
Damien Glynn's Business Interruption book has been given to the CILA to be downloaded electronically free of charge from the CILA website. It is currently being produced and should be online early in the New Year

JOIN THE SIGs
Many members have not yet registered to join one of our Specialist Interest Groups.
If you wish to do so, please email info@cila.co.uk

The President, Council and the Secretariat would like to wish you all a very Merry Christmas and a Happy New Year.
The office will be closed from 24th December until 2nd January 2008

CILA

GLOBAL WARMING

Back in 1973 Munich Re warned us in their Flood/Inundation publication about the changes that we were likely to see

A study of thermodynamic processes such as the rising temperature of the earth's atmosphere (resulting in glaciers and the polar caps receding, surfaces of lakes reducing and ocean temperatures rising), were reported. The effect of large scale increases in areas irrigated and cultivated would give rise to higher humidity as well as pollution of the atmosphere from the CO2 content of the air which would cause a change in the absorption of solar energy.

With the rise in global mean temperature more flooding and hurricanes would happen. In 2005 India had their highest level of rain within 24 hours and the Alps in Switzerland suffered their most expensive natural catastrophe ever.
Along with hurricane Katrina in August, 2005 was a record hurricane year. Never before since the beginning of records in 1850 had so many named tropical storms occurred in the North Atlantic basin in one season; out of a total of 28, 15 were of hurricane strength.
In July of 2006 The Netherlands heat wave was the warmest recorded since records began and causing 1,000 more fatalities than usual.

GLOBAL WARMING EFFECTS
Warmer and fewer cold days and nights over most land areas
Warmer and more frequent hot days and nights over most land areas
Warm spells/heat waves. Frequency increases over most land areas
Heavy precipitation events. Frequency increases over most areas
Area affected by droughts increases
Intense tropical cyclone activity increases
Increased incidence of extreme high sea level

Of all the factors, only the steady increase in sea surface temperatures over the last 35 years can account for the rising strength of storms in six ocean basins around the world. Insured losses from winter storms will more than double in some European countries (i.e. Denmark and Germany) until 2085 due to global warming.
For details of all great disasters since 1950 the NatCatService database can be referred to. It contains more than 23,000 events commencing from 79 AD with the eruption of Mount Vesuvio.

Reasons for globally increasing losses due to natural disasters

The concentration of people and values in large conurbations, settlement in extremely exposed regions and changes in environmental conditions would cause more problems for the insurance industry and economy. Less problematic for the industry is a better standard of living and a rise in population resulting in increasing insurance density

Climate Change affecting the Insurance Industry

- Increase in weather variability
- New levels of weather extremes
- New kinds of weather risks
- Increased capacity demand due to larger accumulation risks
- Prospective premium calculation becomes necessary
- Due to increased coverage of climate change by the media and own perception of changes in weather patterns higher demand for natural catastrophe covers
- New insurance products can be developed.

The Role of the Insurance Industry in Respect of Global Warming

The insurance industry quantifies risk by risk adequate premium and by this makes risks transparent – gives incentives for reasonable behaviour and prevention and decreases the losses for society.

Conclusion

Natural catastrophes, especially weather related events, are increasing dramatically in number and magnitude. Loss potentials have reached new dimensions.
Climate change is real and cannot be stopped anymore.
There is more and more scientific evidence of casual links between global warming and the increasing frequencies and intensities of natural catastrophes.
The insurance industry plays an important role in the management of global warming and has to adapt to the changing risks in respect of the regionally specific patterns.

The warmest years since 1956

Global Mean Temperature at Ground Level (2m)
All of the 10 warmest years within the last 12 years

1.	1998
2.	2005
3.	2003
4.	2002
5.	2004
6.	2006
7.	2001
8.	1997
9.	1999
10.	1995

Quelle: Climate Research Unit, UK (2007)

UK Met Office and NASA forecast 2007 to become the warmest year

FullyFurnished
JUST ADD PEOPLE

capability

emergency furnishing solutions with a little extra ...

Disaster can strike anytime, anywhere.

When it does lives and homes can be shattered in an instant, often forcing urgent relocation to alternative accommodation. At Fully Furnished our Emergency Furnishing division's aim is a simple one, to make this move as painless and hassle free as possible.

We offer:

- A cost effective service
- Fast response - 48 hours anywhere in mainland UK
- Guaranteed delivery date and time
- All furnishings Fire regulation compliant and all electricals PAT tested
- Distribution Hubs in Staines and Birmingham
- Sympathetic and courteous personnel
- Security cleared and trained staff
- Satellite navigation equipped liveried vehicle fleet

For further information contact

01784 44 99 88 or Email: sales@fully-furnished.com
Fully Furnished Group Unit 4 100 Church St Staines
Middlesex TW18 4YA

www.fully-furnished.com

Furniture Rental • Furniture Sales • Showhomes • Private Clients • Emergency Furnishing

Customers and Suppliers – Friend or Foe?

Are they on your side when you have a Business Interruption Loss? Possibly Not!

An organisation that has suffered a business interruption event is exposed to the risk that its suppliers and customers will take advantage of its predicament.

Paul May reviews some sources of this exposure and suggests that pre-loss contractual certainty may be an under utilised safeguard.

An organisation should not only try to protect itself against its competitors but also consider carefully the risks posed at the time of loss by its own suppliers and customers. The reactions, and actions, of this group, so important to the organisation prior to the loss event, are often not adequately or explicitly identified at the pre-loss stage.

There are a number of causes of this risk exposure including:

1. survival
2. shareholder value maximisation
3. competitive advantage
4. opportunism
5. business continuity management
6. contracts

Each of these causes has the effect of producing behaviours in customers and suppliers which may well result in:

- an increased business interruption (BI) loss (insured and uninsured)
- failure to recover pre-loss market position
- reputational impairment
- loss of subrogation opportunities

The underlying support for the selection of the 6 "friend or foe" issues is provided below.

1. Survival

When asked for an explanation of what business is all about, many managers and advisers (especially liquidators) will say that the main objective of a business is survival. Grant R M (1995)contemporary strategy analysis, Blackwell, Oxford for example considers at p34 that:

"The underlying common interest of all stakeholders is in the firm's survival. Survival requires that, over the long term, the firm earns a rate of profit that covers its cost of capital."

At the time of a serious loss to organisation X, the main concern of its customers and especially its main suppliers will be to establish if the consequences of that loss will threaten their own ongoing existence. Searching for a new customer or supplier to replace organisation X will become a top priority in order to maintain sales and solvency. Realistically therefore any loyalty to organisation X will be severely tested by the pull of the actions necessary for the customer and supplier organisations to survive.

2. Shareholder value maximisation

Although there is increasing debate about the responsibilities of an organisation to its wider stakeholder community, the priority is generally given to the maximisation of shareholder value. This is not only a fundamental tenet of capitalist theory, but also a legal responsibility:

"*. . . the corporate entity is a vehicle for benefiting the interests of a specified group or groups. These interests the law has traditionally defined as the interests of the shareholders. The duty of management can accordingly be stated as a duty to promote the success of the business venture, in order to benefit the members.*"

Parkinson J E (1993) p77 in Corporate Power and Responsibility – Issues in the Theory of Company Law, Clarendon Press, Oxford

Therefore it can be seen that management are obliged to consider any opportunity to benefit the shareholders. When organisation X is weakened or disabled as a result of a loss event, the management of its suppliers or customers have an opportunity to maximise value by, for example: re-negotiating prices; delivery times; and/or longer term contracts. It is questionable, but legitimate to ask in fact whether the management of all suppliers and customers to organisation X are obliged to consider how their companies can "promote the success of their business venture" as a result of organisation X's loss event. Failure to do so might expose the management to criticism or claim from their shareholders.

3. Competitive advantage

Many of the customers and suppliers to organisation X are likely to be trying hard to grow their business. Whether their targets are measured by sales, profit, geographical presence, or market share, seeking to gain a competitive advantage is a natural and normal strategic approach in any well managed business. When organisation X suffers a loss, that event will interrupt an established value chain and present a window of opportunity. As Michael Porter an early strategy guru put it:

"Competitive advantage is at the heart of a firm's performance in competitive markets. It may take the form of prices lower than competitors' for equivalent benefits or the provision of unique benefits that more than offset a premium price."

Porter M E (1985) Competitive Advantage, The Free Press, New York, at xv and xvi

It is possible to envisage a situation where a supplier may decide to move along the vertical value chain and commence supplying organisation X's customers. Also a supplier, having to find alternative customers to replace lost orders from organisation X may supply and support, albeit out of necessity, a competitor of organisation X.

In discussing "offensive strategy" Porter (1985) at p515 proposes that a challenger should seek an opportunity when the leader is "*disinclined or constrained from protracted retaliation against the challenger . . . because of the leader's own circumstances.*"

So for example a supplier or customer can become an unwitting accomplice to a market assault from a competitor making the most of organisation X's circumstances of incapacity. The result is likely to delay recovery of organisation X's turnover levels, possibly beyond the indemnity period. The costs of regaining market share by dislodging the competitor will be expensive, and potentially not recoverable under the BI policy. It could also be hampered if the previous suppliers or customers of organisation X have been drawn into long term supply contracts with the competitor.

4. Opportunism

Here the customer or supplier will be going beyond the legitimate issues summarised above and will be displaying "self-interest with guile" as defined by the transaction cost theorist Williamson OE (1987) in The Economic Institutions of Capitalism, The Free Press, New York, at p 47:

"Opportunism more often involves subtle forms of deceit. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating."

Organisation X may find itself hampered, handicapped and possibly held to ransom by a self seeking customer or supplier, especially if records have been destroyed.

5. Business continuity management

The business continuity process is principally concerned with how an organisation will itself react to a disruption not how it will react to a disruption at another organisation. As defined by the Business Continuity Institute Good Practice guidelines (2007) it is an holistic management process that:

". . . provides a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value creating activities."

Customers and suppliers are mentioned almost in passing, although they do feature in the BS25999 diagram which hints at the possibility of a value chain business continuity plan.

It could be argued that in a competitive world it is difficult to reconcile the needs and priorities of one organisation with another.

There is a potential for a well organised supplier or customer organisation with a robust business continuity plan and clear strategic objectives to survive the effect of organisation X's loss event in a fitter and stronger form.

6. Contracts

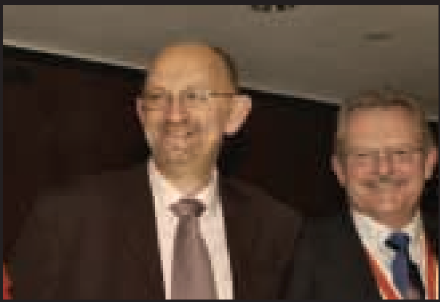
It is often the contractual rather than the physical issues which present the greatest hindrance to post loss recovery and subrogation possibilities.

The risk surveyor from the insurer or the broker often seems to overly focus on the physical processes and supply chain issues. However sale, supply or purchase contract terms, limits of liability, retention of title clauses, dispute resolution procedures, and non-competition clauses are all of relevance. Terms relating to the expected arrangements in the event of a loss with customers and suppliers are not usually contained in the supply and purchase agreements.

This often means that only at the time of loss are the contracts looked at closely. It is at that stage that the way in which a customer or supplier has negotiated or

continued on page 8

ANNUAL LUNCH – INTERCONTIN

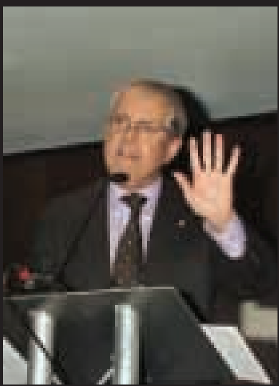


Colin Campbell, AIRMIC & Angus Tucker, Deputy President, CILA

Malcolm Edwards, President, proposing the toast to "Our Guests"

Top table and some of the invited guests

Anthony Gould Post Magazine with Phil Else, Rainbow International



Giles Brandreth – our guest speaker

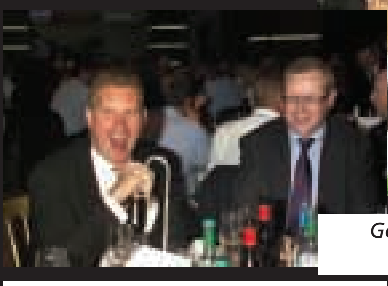
Reidy Flynn, Financial Ombudsman Service

Nelson Oduor from Nairobi receiving his ACILA certificate from the President

Bernard Sullivan – our toastmater of many years with Graham Cave

Gerry Loughney, (RHS), Cunningham Lindsey, with guests

Malcolm Edwards, CILA President with Giles Brandreth



Kieran Rigby, (RHS), GAB Robins with guest

David Worsfold, Incisive Media

NENTAL HOTEL – OCTOBER 2007

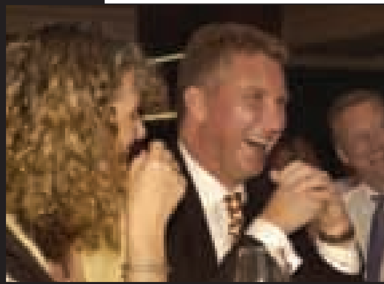

Checking the scores


Enjoying our guest speaker


Some of our 700 guests


Cheers


Look!


That was funny


Something down under


The Three Edwards


We're not sure

"served" its contract wording becomes critical. There seems to be little ongoing requirement, from either a business continuity or policy wording perspective for an organisation to be vigilant and careful regarding the terms of contracts. This is despite the fact that limitations and exclusions may greatly reduce any possible subrogation potential (for both insured and uninsured loss items).

Contingent arrangements for temporary premises, equipment and services are not often recorded as clear signed contracts in advance of a loss, even though that is a better time for less one-sided negotiation, on price as well as performance guarantees.

Competitors may sometimes assist a loss affected organisation but it is not often the case that competitors agree to express contingent pre-loss co-operation arrangements in the form of contracts.

Currently the contract issue is to a large extent under the radar of the risk and insurance procedures. It receives far less attention than the physical risk issues and results in a variable protection for the organisation that suffers the loss event, and its insurers.

The risk of *contract uncertainty* could perhaps be more clearly treated as an independent factor as it represents both a shield for the organisation that has suffered a loss and a sword for its suppliers and customers.

This short discussion paper has sought to demonstrate that there are a number of strategic, financial, risk and contract issues which influence, drive and protect the actions of customers and supplier organisations. Taken together they support the proposition that customers and suppliers are not automatically on the side of an organisation that has a BI loss event. A pre-loss friend may be obliged to become a post-loss foe.

There are steps that could be taken, particularly in the pre-loss contract negotiation and monitoring area. Perhaps IRM might wish to encourage its members to more openly air these issues and to stimulate debate as to potential improvements that will help to minimize the extent of insured and uninsured loss after a BI event.

Paul May, LLB, MBA, FCII, FCILA, MIRM, MCIArb, MAE is Chairman of Concordia Consultancy and is actively involved with international business interruption risk consultancy and loss adjustment assignments. He runs the Claims Management elective of the Cass Business School/CII MSc in Risk and Insurance at City University, London. Paul is a Research Associate at Henley Management College and a Research Fellow at the Centre for Risk and Insurance at Peking University, Beijing, China.

FUEDI Plenary Meeting – November 2007

FUEDI members were delighted that John Lugt, President of the IFAA, had flown in from South Africa to attend the Plenary meeting in Brussels, FUEDI being an IFAA member. John gave a presentation to the delegates highlighting the IFAA's progress in recent years as well as encouraging FUEDI member associations to promote the benefits of the IFAA Accredition to individual members of their associations. His presentation was well received.

Rui de Almeida, President CNPR and John Lugt, President IFAA

The International Association of Fraud Agencies, Inc. (IAIFA) held their Annual Meeting on the 10th - 11th September in Lisbon, Portugal.
The IAIFA has been formed to establish and maintain an international organisation that will address insurance fraud and insurance related financial crime on a global basis with objectives to co-ordinate the efforts, training and education of law enforcement agencies, government bodies and the insurance industry to more effectively prevent and combat insurance fraud and financial crime,
Sponsors of the conference were Acoreana Seguros, Allianz, Associacao Portuguesa de Seguradores, Fidelidade Mundial, Instituto de Seguros de Portugal, Insurance Australia Group, Lloyd's, Lusitania Seguros and Victoria.

NEWS FROM MALTA – A FUEDI OBSERVER
THE INSTITUTE OF LOSS AND RISK MANAGEMENT – 1st ANNUAL GENERAL MEETING

The Institute of Loss and Risk Management (MILRM) held its first annual general meeting on the 31st October 2007.
Opening this meeting was the President of the MILRM Council, Mr. Hamish Robbie, in which he explained the objectives of the Institute in bringing together students, practitioners and professionals from the Loss and Risk management environments, with a long term view of training, networking and participating in experiences and resources among the respective members.
The date 1st May 2004 was a momentous one, in the colourful history of Malta, when it joined the European Union, commented Mr. Robbie. The effect was such that the work force had the opportunity to travel and work in any of the 25 countries, which formed the then enlarged union. It also meant that qualified professionals found their hard earned qualifications were portable to their country of choice, and be immediately recognized, this being one of the main tenets and objectives of MILRM.
The Secretary, Mr. Andre Farrugia, highlighted the activities carried out during the maiden year of 2007 and Council Member, Mr. Bernard Farrugia, explained the intended programme for 2008. The AGM was followed by a presentation on Salvage and Recovery by Mr. Victor Seguna.

NEWS FROM . . .

AICLA President visits the CILA

Stephen Thorpe, President AICLA visited London on business recently and took the opportunity of meeting with his CILA counterpart, Malcolm Edwards and Executive Director, Graham Cave.
In common with adjusters in Australasia he was aware that the UK adjusting market was dealing with a massive influx of claims following the flooding events in both May and July of this year. He was advised of external resources from Europe and the US being involved to assist in the sheer volume of claims. Unlike Australasia, flood in the UK is generally a covered event, so the issues of hydrology and the possible operation of the flood exclusion are generally not encountered.
The meeting covered the respective education and CPD programmes of both Institutes and Stephen was keen to explore ways in which we could collaborate for the mutual benefit of members. Following appropriate consultation we hope to expand on some plans for enhanced collaboration between our two Institutes.

Focus On

Special Data Technology helped a Business to stay afloat during the UK floods

Thousands of people had their lives turned upside down when freak weather conditions caused havoc across South and East Yorkshire this past summer. In late June of 2007 strong winds and torrential rain caused flooding to levels rarely seen in the UK. The newspapers were dominated by headlines of homes destroyed but less attention was given to the potentially devastating impact that the flooding had on businesses across the region.

From the wreckage

One such company was Mexborough based Morphy Richards where the ferociousness of the weather in Yorkshire saw their 21 acre site flooded by six foot of water within two hours. In total about 138 of their PCs were destroyed. Fortunately the majority of their business critical data was backed up and safe. But there were some computers that were storing files that hadn't yet been backed up that day.

Wanting to act fast to retrieve as much of the lost information as possible, Morphy Richards contacted their local re-seller which had previously worked with the company providing network and IT support whom, having had many years experience of developing, implementing and supporting innovative applications allowed it to provide the most accurate problem solving solution to its clients. They were quick to put the company in touch with its partner Seagate Recovery Services, knowing that an operation of this scale would need the expertise of data recovery specialists.

As soon as it was possible to re-access the flooded site, the team gathered the hard drives and Seagate got to work immediately.

Their first job was to get the hard drives sent by secure transport to their facility in Amsterdam. From the minute the drives are taken from a company, their security must be guaranteed.

Once at the lab in Amsterdam, Seagate's data recovery experts were tasked with making an assessment of the damage within 24 hours. The biggest issue was to clean the hard drives. Given the time spent submerged in water, each machine required cleaning with an ultrasonic solution, taking each piece out one by one. This was a mission critical task and all the lab's resources were put towards getting it done as quickly as possible. Six technicians worked 24 hours a day for the first three days to complete the initial part of the process.

Next on the agenda was to evaluate each drive one by one. From header problems to surface damage, corrosion on the platters, as well as system area damage.

Having ordered all the parts, the lab team were divided into three groups with one preparing the hard drives and two others recovering the information. Everything was then stored on an external hard-drive, which could connect to any other machine.

Working to save the information they had ensured that all but one of the hard-drives had had its data restored.

Crossing the Atlantic

With just one drive left that was not recoverable by traditional techniques, Morphy Richards agreed to try a new technology called Signal Trace, which had been developed by Seagate. This method of reading data without a drive involved taking the platters out and reconstructing the data using proprietary algorithms. The drive was sent to their specialist recovery services lab in Toronto, where the data was able to be recovered within a month. No other data recovery facility has the level of technology required to do this.

When the worst happens, you expect to experience a fairly significant level of disruption to your business and of course it takes a while to get systems back to normal. Morphy Richards had the systems in place to back-up and restore mission critical data but due to Seagate they were able to retrieve those important bits and pieces stored locally that scheduled back-ups had not yet reached.