



TRANSACTION ADVISORY SERVICES

KEVIN J. MCHUGH

Managing Director
Transaction Advisory Services
646.227.4701
kevin.mchugh@navigant.com

MICHAEL J. SKWERES, CPA, CFF, CGMA

Managing Director
Forensic Accounting & Claims Consulting
312.583.6835
mskweres@navigant.com

navigant.com

About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the Firm primarily serves clients in the healthcare, energy and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

INSURANCE VALUATIONS

PROTECTING YOUR COMPANY WITH CURRENT/SUPPORTABLE PROPERTY AND BUSINESS INTERRUPTION INSURANCE VALUATIONS

A primary focus of management is understanding the risks to its business and future viability. In addition to identifying emerging threats, management must monitor and consider the impact of a partial or total loss at one or more facilities. These potential losses are offset by having adequate insurance coverage for property and business interruption. The key to success is the accurate measurement and reporting of these potential losses so that management can safeguard its continued viability.

WHAT THIS MEANS TO YOU

To protect your organization from these potential threats, your organization should consider:

- Assessing your property risk and exposure
- Ensuring you have accurately valued your business interruption exposure
- Identifying areas for improvement in coverage and developing an action plan to ensure adequate protection
- Updating your insurance coverage in the event of outdated current coverage, variable changes in your business, or your exposure is not accurately valued

MANAGING PROPERTY RISK

Financial loss resulting from damage to real and personal property is a significant risk factor for most businesses and public sector entities. Companies that have not had a property insurance valuation in the last five years can be underinsured by as much as 50% according to industry research and Navigant experience. Property insurance provides necessary funds to replace damaged assets so the business or government entity can resume its normal operations.

It is imperative that companies understand their exposure to property loss and geographic risk concentrations. A thorough analysis and estimate of the current insurable replacement cost or actual cash value of the buildings and equipment is the foundation for achieving supportable values that reduce concern from insurance carriers and yields lower cost for the insurance coverage. An up-to-date schedule of values will set a firm basis to evaluate and customize the insurance coverage to meet business and exposure needs.

KEY CONSIDERATIONS FOR PROPERTY INSURANCE VALUATION

- Confirm that your assets are insured at the appropriate value: The most common coverages are Actual Cash Value, Replacement Cost, or Reproduction Cost in the event that any assets have “historic” or “monumental” significance.
- Confirm that your moveable equipment/personal property assets, as well as your placement coverage, are included in your insurance coverage.
- Update the property coverage if your company has expanded, acquired new businesses, downsized, or is leasing equipment that needs to be covered.
- Update your property insurance valuation if it has been five years or more since one occurred.
- Determine if your company:
 - Has considered a business interruption insurance coverage
 - Is undertaking an assessment of insurance risk
 - Has sustained a loss and found coverage insufficient to restore operations

ASK THE RIGHT QUESTIONS

The results of the following review effort will provide you with the necessary action plan and a level of comfort that your assets are adequately covered.

- How are the reported values arrived at when you review your current policy with your insurance broker/carrier, including the Statement of Values section (reliance on inflation factors or accounting records can result in significant under-reported values)?
- Does your policy include all of your locations?
- Are there locations that should be added or deleted from your policy?
- Does your policy only cover buildings, or also includes your personal property assets? Are your leased locations covered (leasehold improvements & personal property)?
- What is the premise of value for coverage in the event of a loss (Actual Cash Value, Replacement Cost or Reproduction Cost)?

MANAGING BUSINESS INTERRUPTION RISK

In addition to being at risk of losses related to the physical destruction of assets (building, equipment, inventory, etc.), most businesses have significant risks related to a business interruption loss stemming from a property loss. The loss of buildings, equipment and inventory typically impacts a business' ability to service its customers, which may cause the loss of sales. Ensuring that a company has accurately valued its business interruption exposure and placed the appropriate insurance coverage is the foundation to protecting a company from a time element loss.

Financial losses resulting from a business interruption is a significant risk for nearly every business. According to Allianz Risk Barometer 2016¹, Business Interruption (BI) ranks number one, for the fourth year in a row, as the top risk facing businesses worldwide. Business interruption insurance helps businesses retain their profitability (net profits and continuing expenses) after a loss.

The key is to quantify the exposure once a risk is identified. This is where the measurement of business interruption values comes into play. Benefits from doing a thorough review of your BI values and exposures include:

- Encourages the full understanding of your business exposures and insurance program
- Allows for the customization of your program to meet your company's exposures and needs
- Aligns your insurance spend with the true exposures of your business
- Provides for the consistent analysis and approach in addressing BI at each plant and/or location
- Eliminates uncertainty by having a transparent model that ties back to reported financial statements
- Builds credibility with underwriters by having a comprehensive and transparent model
- Helps facilitate the renewal process

It is also important to recognize that, while many insurance companies have their own business interruption worksheets, these are general worksheets that may not fit your business. In addition, the guidance could be limited, difficult to interpret and require judgement calls, which may or may not be appropriate. All of these uncertainties could lead to calculating inaccurate values, which could adversely impact your insurance program and coverage.

KEY CONSIDERATIONS FOR BUSINESS INTERRUPTION VALUES

- Utilizing standard financial statements to develop business interruption models by location
- Applying consistency to modeling the values for each location
- Evaluating if your company needs ordinary payroll coverage and, if so, for what cost
- Evaluating your company's true values at risk (beyond annual business interruption values by location including ordinary payroll):
 - Anticipated changes in your business (expansions, acquisitions, divestitures, etc.) and in market conditions
 - Additional exposure related to interdependencies within your company
 - Ability to mitigate a loss through on-hand inventory; use of alternate internal capabilities and capacity; and use of external resources
- Retaining an experienced forensic accountant for effective BI values analysis, including measuring your company's actual values at risk

1. Allianz Risk Barometer Top Business Risks 2016

HOW NAVIGANT CAN HELP

Valuation Services

Navigant's valuation team is an independent valuation advisor that is not owned by an insurance carrier. We have no vested interest in reporting high valuation results. Our goal is to provide accurate estimates of insurable replacement cost or actual cash value so that management understands the total risk exposure and can further evaluate if location proximity raises the risk of a regional event.

Our team includes business and enterprise, real property, and personal property professionals. We work closely with our insurance practice to help protect our clients from unforeseen loss, as well as to support clients in litigation or dispute resolution as it relates to a loss event. We assist clients between valuation studies with updates and also provide specific asset valuations, which may be required for relocating assets to foreign locations or for corporate acquisition coverage protection.

Forensic Accounting & Claims Consulting

Navigant's Forensic Accounting & Claims Consulting (FACC) team provides the guidance and expertise required to address the challenges of risk quantification for various purposes, including annual renewals, MPL's, PML's, new coverage placement, establishing limits, evaluating by-location exposures, and allocations and value-based deductibles and interdependencies. In addition to the challenges associated with the valuation of physical property, our professionals have extensive experience in identifying and quantifying exposures for time element losses, including business interruption, contingent coverages, interdependencies and ordinary payroll.

Navigant's FACC team has the expertise to address the challenges of accounting for all areas of loss: quantifying and documenting the claim, presenting the claim to underwriters, and ultimately managing the process to achieving an equitable claim settlement. Our team consists of CPAs and other experts in accounting and finance who have decades of experience with commercial insurance claims.

