

Navigating Insurance Risk and Recovery to Turn Risk into Opportunity



Tailored Risk Management Approach

When companies encounter issues with their insurance program, BDO's Insurance Risk & Recovery team will work closely with internal teams to help solve their problems and establish a risk management program tailored to their business needs. Over the years, the team has supported companies with a variety of insurance and risk management issues, from designing a more cost-effective insurance framework to enhancing recovery after business interruptions. For full details on how BDO helped our clients, please read on.



Assessment and Outsourced Risk Function

HOW A LARGE COMPANY REVITALIZED RISK MANAGEMENT AFTER A BUSINESS INTERRUPTION

A large chemical plant was forced to shut down operations for over a month following a catastrophic event. When it came time to file a business interruption insurance claim, the client encountered a previously unknown deductible that required it to wait 60 days for a response from the insurance company. As a result, the client suffered a financial loss of \$80 million — plus a loss of confidence in its broader risk management program.

The company engaged BDO to reassess its insurance framework. We reviewed the company's books and recalculated its exposure to business interruptions across the supply chain. Over the course of eight weeks, our team conducted a current-state assessment to determine the efficiency of the insurance risk program's structure and costs.

Strategy

- ▶ Our eight-week long diagnostic assessment found that the company's original insurance program did not account for current business realities and lacked several key calculations, including potential losses in the event of an interruption or shutdown.
- ▶ In addition to business interruption, we identified 10 other critical risks that had not been accounted for. One such item was counterparty risk, including risks related to on-site contractors and third-party vendors.
- ▶ Following our diagnostic, we created and implemented a gap-closure plan that took place over the next six months, which included restructuring the company's entire contracting process for third-party vendors.

Impact

- ▶ We restructured the client's insurance program and conducted a brokerage competition to achieve a \$2.5 million (25%) reduction in premium and brokerage cost for the client.
- ▶ Additionally, our team set up a long-term, outsourced risk staffing model to manage the insurance risk function for the client.
- ▶ We continued to provide services to this client over the next several years following their initial engagement.

Conclusion

Our experienced forensic accounting team conducted a thorough audit of the client's financials to calculate the actual cost of business interruption. Our team's work enabled the client to achieve a significant cost savings in its insurance premium and brokerage costs, as well as identify and treat critical risks that were not addressed in the company's current policy. Restructuring the insurance program also enhanced the client's coverage, which was previously inefficient and siloed. Our team educated the client on counterparty risks and created a framework to structure third-party contracts and validate insurance.

Business Interruption

HOW A DESTINATION RESORT RECOVERED FROM A DEVASTATING FLOOD

A major hotel, casino and golf resort experienced a 500-year flood event, causing significant property damage and a business interruption that cost the resort \$50 million in sales.

The resort owner initially hired a public adjusting firm to guide the business through the claims process. However, the firm did not understand that the resort was an historic property and contained many items and finishings that could not easily be replaced. As a result, the resort submitted a claim that was \$60 million higher than the insurance company's valuation. The claim was heading towards litigation, which would have taken years and cost the resort millions of dollars.

Eventually, the resort terminated its relationship with the public adjusting firm and hired BDO. Our team overhauled the firm's entire property damage analysis. We found numerous gaps in their valuation, including the business interruption calculation. The line items often did not tie back to source documents or historical business events.

Strategy

- ▶ Working with the resort's insurance provider, our team assessed and developed valuations for property damage, extra expense and business interruption claims.
- ▶ We also reevaluated the previous firm's business interruption measurement and arrived at a valuation that could withstand scrutiny from the insurance company's forensic accountants.
- ▶ Our team created a detailed and fully supported financial model of the client's claim to present to the insurer.

Impact

- ▶ After presenting our valuation and financial model of the claim, the insurance company increased its settlement offer by nearly \$40 million, which enabled the client to begin making necessary repairs.
- ▶ We settled the matter on behalf of the client without proceeding to litigation.
- ▶ Avoiding litigation ultimately saved the client anticipated court costs and time settling the dispute, which likely would've taken several years.

Conclusion

Ultimately, our team was able to help avoid litigation over the amount of the claim. . Because of our knowledge, experience and good working relationship with the resort's insurance provider, our team was able to act as a mediator between the client and insurer, facilitating a resolution based on sound analysis. The client has since hired BDO on other matters as their preferred firm for its forensic accounting needs.

Product Recall

GUIDING A NATIONAL FOOD SUPPLIER THROUGH A MAJOR RECALL EVENT

A food supplier introduced an ingredient contaminated with listeria into the U.S. food supply. Numerous food manufacturers distributed various products containing the contaminated ingredient, which made their way onto retailers' shelves.

Ultimately, more than 90 downstream distributors and manufacturers used and sold the contaminated products, with the resulting product recall spanning all 50 states. In addition to a costly recall process, the client was also potentially liable for damages incurred by retailers, distributors and manufacturers all across the country.

The food supplier hired BDO to determine the logistics of the recall process, the cost of disposing of the contaminated products and the overall cost of materials. Because the network of impacted retailers was so diffuse, many did not present damages for several months following the recall. This initially made the total liability from the event difficult to determine.

Strategy

- ▶ Our team leveraged BDO's valuation practice to use Monte Carlo simulations to estimate the potential financial impact on the food supplier. Using these multiple probability simulations, we analyzed existing customer profiles and claims to determine the potential scope of yet unknown damages.
- ▶ We led the claims recovery process, evaluating customer claims for damages and liaising between the insurance companies' accountants for the settlement of claims.
- ▶ Our team prepared the insured's first-party property damage, extra expense and business interruption claims.

Impact

- ▶ We guided the food supplier on a path to financial recovery and resolution during what felt to the client like an unmanageable "black swan" event.
- ▶ The company presented our loss exposure analysis to its board of directors and used it to allay investors' fears that the recall could jeopardize the future of the company.
- ▶ Our team acted as a liaison between numerous stakeholders involved in the recall, including a range of affected retailers, multiple insurance companies and legal teams representing claimants across the country. We also provided expert witness testimony for claims that went into litigation.

Conclusion

Our team's ability to leverage the experience of our other practice areas led to a unique application of a simulation to assist the client. This was the first time Monte Carlo simulations — typically used for valuations — were deployed for a product recall. We also served as a guiding advisor throughout the multi-year recovery process. Our analyses and clear communication enhanced insurance recovery for the client and mitigated financial damages from unsupported third-party claims.

THE BDO TEAM IS HERE FOR YOU

At BDO, we know that there is no one-size fits all solution. No matter what your company is facing, the BDO team will collaborate with your internal team to identify your needs and tailor an action plan that addresses them.

Is it time to revisit your insurance risk?

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