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SECURE A CLAIM PREPARATION COST EXTENSION BEFORE YOU REGRET IT

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Lerato, a contractor, won a big tender to install transformers in the rural areas of the Mountain Kingdom. Her insurance broker proposed and placed a Contractor's All Risk policy for the works. Unfortunately, as fate would have it, during the rainy season, lightning damaged some of the transformers, days before the handover to the Principal. As a standard procedure for the submission of claims of this nature, a technical report is required, and an expert is expected to detail the cause as well as the extent of damage.

Lerato's broker requested the necessary claims documents, the technical report, and quotations to repair the damage. At the same time, Lerato contacted her suppliers and electrical engineers to come to the Mountain Kingdom in order to test and quote for the damaged transformers. The suppliers who are based in South Africa demanded an advance payment for transportation, testing and accommodation for them to provide the services requested by Lerato. Due to their rare skills, which are not available in the Mountain Kingdom, Lerato had no alternative but to consent and engage the experts based in South Africa.

Lerato then contacted her broker and asked if the insurers could make an advance payment to cover testing costs. Upon checking the policy provisions, Lerato's broker realized that he did not have claim preparation costs as an extension under the policy, whereas the insurers already advised that testing costs do not form part of the claim, and he should have negotiated a claim preparation cost extension on behalf of his client.

The purpose of a claim preparation clause is to indemnify a policy holder in relation to reasonable costs incurred in preparing and presenting a claim. The clause effectively provides funds to enable a policy holder to engage an expert in the field of specialty. Usually, a claim preparation clause is found as an extension to property damage and business interruption wordings and is applicable to all policies.

Claim preparation clauses cover the cost of preparing a claim, which is usually an obligation



under the insurance contract as it is a policy condition for a policy holder to cost and formulate his or her claim.

Insurer's wordings differ, but in general a claim preparation clause reads as follows:

"The Insurer shall indemnify the insured in respect of reasonable and supportable costs (including utilization by the insured of external consultants, for the preparation, presentation, substantiation, certification and/or verification of any claim resulting from loss insured under this policy".

A prudent broker needs to negotiate this extension in the policy in order to enable a policy holder to enjoy full coverage. One of the roles of an insurance broker is to advocate and negotiate on behalf of the insured during the claim process. However, in a complex claim, the broker may not always be best placed to ensure that full entitlements of a policy are reached, and this is where experts become relevant. Experts have the skills to assist the insured in the formulation of their claim. Associated costs can include, amongst others, lab testing and multiple follow-ups on reports, forensic auditors, architects, and builder's reports, dealing with lawyers, dealing with loss adjusters, and establishing scope of works with engineers.

In the current case of Lerato, her broker should have added a claim preparation clause so that the services of an Electrical Engineer for purposes of testing, producing a report, and quoting for the damaged transformers could have been claimed under the same clause.

As a broker, it is advisable to make sure that the limit of indemnity under this clause is sufficient and a claims preparation expert is built into the insurance policy. The claims preparation costs clause is often overlooked as part of a property insurance policy, as it is not necessarily one of the main sections of cover and yet it could be an absolute lifesaver in the event of a major and complex claim.

In the case of Lerato, she needs funds for purposes of formulating her claim and her broker failed to advise her to include a claims preparation clause in her policy. Who is going to pay for these pertinent costs?

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