

## CONSULTING SERVICES

ETHICS – EXCELLENCE – VALUE – TEAMWORK



## Case Study

### Store Flooding

#### CLOSING THE FLOODGATES.

Disaster strikes—and the worry and stress to hasten the restoration process can lead to quick decision-making. This was evident when a large Canadian retail chain's store was damaged after a major flood. Business interruption meant additional losses, making the store's complete restoration a top priority. So, when the contractor told the insured an authorized contract was required before work could begin, there was pressure to sign on the dotted line.

The speed with which everything happened, from the actual flood to the work commencing, left the client with unanswered questions. Most were related to the costs put forth by the contractor and the lack of communication regarding the procedures that they were using to remediate the building. More than ever, time was of the essence—not just for a rapid return to business, but for bringing both the process and the indemnity spend under control.

The client engaged SPECS for their reputation and experience in successfully managing a multitude of flood claims through to settlement. This case, however, was different in one key respect: the team was stepping into a situation where the contract was a *fait accompli*, and the work was already underway. In other similar files, SPECS was always involved early in the claim cycle, allowing for the bid tenders and contract negotiations that serve to decrease the exposure of the insured.

Within the first 10 minutes of the initial site meeting with

all stakeholders, including the contractor, SPECS noted and identified many concerns. They demonstrated their level of experience when they asked and received answers to the very same questions that had been on the insured's minds since the work began. Given the signed contract, this was a delicate conversation. As a non-vested company, SPECS was able to navigate the situation objectively, analytically, and diplomatically. By the end of the meeting, the client witnessed firsthand the personal care and consideration shown for all parties, while still addressing pressing business matters and contractual issues. Expectations had been set, transparency in the process was established, and everyone was on board with the project's direction. Not only did this level of understanding give immediate reassurance to the insured, but it also set the tone for how the claim settlement would unfold.

SPECS took action directly following the meeting, starting with looking at the contractor's remediation efforts. The building only had one to two inches of water on the floor, yet it covered a large area. When the SPECS building consultant arrived on site, the contractor had two exterior trailer desiccant units running, with disposable hoses hanging 20 feet above from open webbed steel joists to transfer air to the building. With these units costing the client several thousands of dollars per day, the first question the appraiser posed was regarding moisture readings and the effectiveness of the drying procedure. He suggested that the contractor have it removed immediately if this course of action was not mitigating the loss. Within

minutes, the contractor began tearing down the system, which reduced costs.

After the water cleanup had been completed, managing the removal of drywall was the next order of business. Seeing as the building was insured by one insurer, but the stock was owned and insured by the tenant, the job involved some strategizing. All work and scheduling was coordinated with the contractor and both insured parties, so there were no surprises or delays as the job progressed. As the store was open to the public, one of the main concerns was to minimize any disruption for customers. To that end, repairs were performed after store hours and a cycle approach was implemented, where only the section being worked on was made inaccessible to the public. This process involved transferring stock from the cordoned off area to another part of the store, therefore it was suggested that the tenant utilize their own staff to move the merchandise. Not only were they familiar with the goods and the space, it also minimized both the contractor rates and the travel expenses of bringing in out of town labour to perform the same task. Once the stock had been shifted to a temporary location, shelving and the lower one-inch of drywall could be removed. This was followed by cleaning metal framing, drying, and, finally, repairs.

Due to the eagerness to return to normal, and the fact that a new tenant would be leasing the space in only a couple months, some supplementary measures were taken to expedite the remediation. Certain damaged areas of wall were visible to store customers and needed to be primed and painted after the repair. However, for other impacted wall spaces that were hidden by shelving and a backer board, the building owner and the tenant agreed to a speedier workaround that did not require the same degree of finishing. Process changes such as this allowed for the project to be finished in a shorter time.

A number of additional issues were identified when the SPECS appraiser thoroughly analyzed the billings. First and foremost, the appraiser noted that items typically included as part of the contractor's overhead and profit (O&P) were added to the invoice—in addition to a higher than normal O&P percentage. Also, the time and materials outlined really benefited the contractor, with itemized charges invoiced for every possible detail that could apply. Moreover, the rates provided for trades, such as carpentry, significantly higher than industry norms—especially when

it was uncovered that some workers were hired from a temporary services company at a fraction of the cost charged. Adding insult to injury, the skillsets of those retained were not necessarily specific to the trade billing. Simply put, the client was paying time and materials at a premium rate...for tradesmen whose lack of related experience was resulting in longer than expected timelines.

After the detailed review of billings, SPECS presented itemized errors to the contractor and the insurer—and then negotiated changes in hourly rates and timelines. Prior to the initial site meeting, the reserves discussed by the contractor and insured were expected to be in the \$800,000 range. The final costs to settle the claim came in at less than half that amount. Furthermore, a quality job was conducted in a respectable timeframe of approximately five weeks.

The client was very satisfied with the outcome, including the work completed by the contractor, and thanked SPECS for looking out for their best interests during such a difficult time. While everyone agreed that it would have added further value to the file if involvement had begun before signing a contract, it was noted that SPECS would be their first call if the business was ever subjected to a similar loss.

Once a contract is signed, closing the floodgates to stem the outflow of time and money is not an easy task. The transparent negotiation process and objective methodology were huge factors in achieving these savings. Equally important in any claim is keeping relationships intact. Despite the process and billing issues identified, SPECS' establishment of open communication helped facilitate good relations between all parties through to successful settlement.