Resilient: Confronting the COVID-19 crisis
Actionable insights to help businesses respond and recover

Episode 11: Recovering losses: A business perspective on expediting financial recovery

Host:
Mike Kearney, partner and chief marketing officer, Deloitte Risk & Financial Advisory LLP

Guests:
Katie Pavlovsky, principal, Deloitte Risk & Financial Advisory
Vincent E. Morgan, partner, Pillsbury Winthrop Shaw Pittman LLP

Mike Kearney: Welcome to Resilient. My name is Mike Kearney, the Risk & Financial Advisory CMO. Unprecedented times . . . that's why we're sticking with a focus on the impact of COVID-19. Over the last month, we have covered a number of important topics—everything from transitioning to a virtual workforce, closing the books virtually, the future of supply chain, scenario planning, the CARES Act, and more. Today I'm talking with Katie Pavlovsky, a principal in a Risk & Financial Advisory business, who brings a unique perspective on how companies can recover losses sustained from the COVID-19 crisis. Joining Katie is Vince Morgan, the former managing partner of Pillsbury's Houston office. He has advised clients and has helped them obtain insurance and other recoveries associated with several well-known crises. Today, we're going to cover a number of topics, including what can leaders do to better understand loss exposure and recovery coverage, what data should organizations be tagging, coordination with other funding sources such as CARES and FEMA, and future consideration for insurance coverage.

Just like other conversations in this series, we're going to be doing this virtually. I'm sitting in my office. And even though we're not all in the same room, the audio has been quite good today. So let's get to it: a conversation with Katie and Vince.

I'm sitting here in California, in my office, and I think it's week six of the stay-at-home order. And one of the questions that I've loved to start off these conversations with, because I'm thinking about it every day, is, what do you do to take care of yourself and your well-being during these challenging times? So let me start with our first guest. Katie, what are you doing?

Katie Pavlovsky: It's interesting, Mike, because I assumed that in the busy travel world of consultants that I was getting little to no exercise. And what I realized after the stay-at-home and sitting through 12 or 14 hours of calls at a time, that I actually was
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Mike Kearney: And Vince, how about you? What are you doing to take care of yourself?

Vince Morgan: Yeah, same report. I actually got up this morning, it was nice, cool weather in Houston today, and I got up and I headed outside, and I’m trying to eat better. I wouldn’t say it’s a success yet, but making small progress on that front too.

Mike Kearney: I think the exercise I’ve got down. It’s the fact that my wife is now baking all the time that’s killing me. Maybe they balance out.

Let’s get down to business. How are leaders wrapping their arms around the magnitude of losses from the pandemic—and obviously it’s significant—what are you seeing leaders do to size it up? Katie, what are you seeing?

Vince Morgan: That’s a great question, and it’s the right thing to be looking at. I’d say two things. Number one is, you need to set up, as early as you can—and everybody’s, you know, sort of doing the best they can these days in the midst of all this—but you want to set up, as early as you can, a systematic method to track these losses across your organization. But the second thing is, you have to figure out what you’re tracking for, because that helps drive what you track and how you do it. And that goes back to the first question about, you know, where are you on the insurance front, right? To get to the answer of that, I mean, a lot of people who’ve been relying on industry sources and things like that, to rely on assumptions about what their policies do or do not cover. And we don’t think that’s the right approach. We think the only way to properly do that is to go through the hard work of looking at each and every policy that the company has that might provide coverage and figuring out what that is, and then that will drive your tracking situation. And then the second thing is, again, these other funding sources we’ve talked about, they cover some things, they don’t cover other things. They have coordination of benefits between sources, and they’re trying to avoid, in other words, overlapping or duplicative recovery, no double dipping, that sort of thing. And again, that’s the kind of thing that drives what you track and how you track it. And you really can’t do that unless you’ve first gotten your arms around, “What might be covered here, and how do I approach this?” So you’ve got to do both, and you’ve got to do them at the same time.

Mike Kearney: Hey, Vince, for somebody that doesn’t spend a lot of time looking at these types of insurance policies, can you just talk about the magnitude of effort and if there’s any best practices at looking at a sheer volume of insurance policies? Is it a pretty straightforward effort, or is it fairly extensive, or maybe somewhere in between?

Vince Morgan: The answer is, the cost isn’t really that high on the front end on this triage process. So just going through your policies and . . . you know, as its own benefit here. And so I would encourage companies to do that work without anxiety about, you know, it being a longer process than it needs to be.
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Vince Morgan: That's certainly one of the things you need to be thinking about now. And the interesting thing on that is, the time horizon is, in some cases, much longer than you might expect. So for example, FEMA, right now, is still looking at things from Superstorm Sandy, which was in 2012, and we're now in 2020. And so you have to kind of go at it with that mind-set. And that goes back to the point Katie was making earlier about preserving data and making sure that you can document this and, in
some cases, maybe years from now, which is not a normal thing that most companies are typically expecting to be able to do. But from a compliance standpoint, for example, if an organization is eligible for FEMA aid, then one of the things that FEMA looks at is, are there insurance recoveries that are available to offset some of the losses? So in other words, FEMA says, “Here’s some money to get back on your feet and to maybe mitigate against future storms,” but with that comes a string of . . . you’ve got to go . . . if there’s available insurance proceeds, you’ve got to go collect those, and then FEMA will go through a back-end reconciliation process with you. One of the other things to think about is procurement guidelines in terms of opening it to bidding and things of that nature, as opposed to just deciding, “I’m going to give the contract to this other company that I have been working with,” that may well be a great company for you to place a contract, but there may also be bidding and procurement guidelines that you’ve got to keep in mind. This is kind of the same thing of terms of tracking losses. This is maybe thinking of it as tracking obligations and what you have to do to be able to demonstrate, yes, we looked at our insurance recovery, we looked at our insurance policies and our program, and came to the conclusion that we had this coverage, or we didn’t have coverage. Whatever the answer is, you’ve got to be able to demonstrate that: how you work through the process. So those are the kinds of things that the companies need to be prepared for. Some of these funding sources are wonderful—really, it can make the difference in countless ways—but some of these things do come with strings attached, and you need to be prepared to comply with those.

Mike Kearney: You know, what I’m beginning to take away from both of your comments is that you really need to be thoughtful at the outset, when you kind of want to run and just start getting these funding sources. But I hear that there’s some guidance on being very strategic, very thoughtful. You know, going back to making sure that you understand your insurance coverage, but just also understanding the full scope of the rules. Do you guys have guidance on that? Meaning it’s like “go slow to go fast,” but that’s definitely a theme that’s beginning to emerge. Any thoughts, or am I on the right track?

Katie Pavlovsky: You are, and, look, this is an important time to not do it alone. And having external data points and benefiting from understanding how organizations within your sector or across industries are approaching this, whether it’s how you value the losses or think about the loss scenarios, or whether it’s how these various relief mechanisms are applied, are helpful data points that outside providers can bring. I think, internally, it’s very important that you’ve got a robust team, and it represents the various parts of your business as you’re working through some of these strategic decisions.

While it might seem costly to bring finance, accounting, legal, compliance, supply chain, and the operations online together, in a working situation where you are communicating daily or weekly as it relates to the extent of the losses or the magnitude of the losses, I think the concerted effort in terms of truly understanding your organizational exposure and how you can mitigate it will generate more significant returns in the long run.

Mike Kearney: Katie, you’re almost saying you need to do a completeness test. How do I, if I’m a leader, get my arms around all of these things that potentially could be “scoped” in?

Katie Pavlovsky: That comes back to leveraging the team that you’ve pulled together across the business to explore your exposures. And if you’ve got a team, and if the information is channeling up from the various geographies to support the global reach, if you will, of those exposures, then that’s a good starting point. It also comes back to the tools that you’re using to have the data that is helping you to identify your losses in the ultimate exposures. And the importance of having something that’s centralized, whether it’s the team that’s identifying and undertaking the analysis or how you’re storing it, and, then I think, from a leadership standpoint, even considering the strategy and where you’re trying to take your business, is going to be very critical, because as you’re going through and valuing the laws, it will be important to have not only the baseline of where had you been prior to the coronavirus and COVID, and then also, where were you going, and how has this impacted you strategically. Those are going to be very important considerations as you look at what your ultimate exposure has been.

Vince Morgan: I would just sort of bookend that with a couple of thoughts. I think most companies are pretty good at planning, and they go through, and they spend a lot of time trying to see where things are headed, both in their industry and their own business and otherwise. There’s no reason you shouldn’t use that same skill set that most companies already have pretty well developed. They use that same approach here.

And that gets back to the other point that Katie was talking about. This is not the time to do it alone. I would say two points on that. One is, some companies have these resources internally, and that’s wonderful, but they may be completely overwhelmed with other tasks right now and just not have the bandwidth that they normally do, given the response efforts that are across the spectrum here. The second thing is, some of these things require very specialized expertise that may not be available in-house, whether busy or not. Whether that sounds like coverage counsel, that represents policyholders. Some companies have that expertise. Not all of them do. And so you’ve really got to figure out, you know, what are the people that I need to have help me work through these problems and get them on board? And again, if you do it in a systematic way, the investment normally more than pays for itself with the return that you get down the road.

Mike Kearney: Katie, I want to go back to you and really talk about the importance of documentation and the accounting elements. And there’s this concept of setting up a loss accounting system. What is that, specifically, and what are some of the benefits that you see?

Katie Pavlovsky: It’s a stand-up of the ability to separate your losses and the
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impacts associated with COVID-19 from your business as usual. And so it's setting up GL accounts that help you track the expenses, help you understand the revenue and the income impacts, that help you understand the claims, the liabilities, and the outstanding obligations. And the opportunity is to set those up specifically so that you can start tracking and coding the various loss attributes against them. It provides the benefit of not only supporting your insurance claim or pursuit of government relief funds, but also helps with financial reporting and disclosures and other aspects that require a real-time view of the losses and the impacts on the business.

Mike Kearney: Final question to the both of you. I'm going to start with Katie. Obviously, there's going to be a lot of time to look back. Clients right now, organizations, are knee-deep in their insurance policies. And my guess is, there's probably going to be some of the lessons learned. What would you recommend to organizations in the future as it relates to their insurance policies, and what do you think that they can learn from the current crisis? Katie, let me start with you.

Katie Pavlovsky: This is the ultimate loss scenario valuation that can occur. What most organizations do is they go through and they think about where their exposures are and what they think their maximum or ultimate losses could be coming out of an exposure. Through this exercise, it's very important that organizations and companies do not lose sight of what they've learned, so that as they're considering their risk management forward, whether it's through an insurance policy or self-insurance or even managing risk through other mechanisms, that they have a view of the losses that they experienced here and as digital and analytics and the technologies continue to mature. I think the opportunity is to not only use this as your baseline for thinking about exposures forward, but also how you can set up continuous monitoring procedures, leveraging the technologies so that you continue to enhance your real-time view and your predictive capabilities around those loss exposures and how successful you are at not only managing them, but preventing them, because that's where this will go.

Mike Kearney: Vince, I'll let you close it. What are your thoughts?

Vince Morgan: You know, having everybody have a better level of contract certainty is a great thing. I think we will get there, either through the legislative efforts or through just the industry itself, or the insurance industry responding to this. But we'll have a clearer picture going forward that companies can use as they try and think through the next one. And they'll have more certainty on this front, at least.

Mike Kearney: Fantastic. Katie and Vince, thank you very much. I'm going to say it a bit facetiously, but you've made insurance fun and interesting today. I know that for my clients, I'll tell you there are a lot of questions that I was asking, and I was thinking specifically of a client. Very, very valuable advice and guidance, and I thank you for that.

This is a stressful and unpredictable time for all organizations. The situation is fluid, and no one has all the answers, but as we dig deeper into the crisis, we will continue to bring real insights from leaders on the front line. We have got a backlog of incredible guests that we're continuing to work through. There's so much to consider, and we encourage you to stay tuned as we bring more insights from leaders across disciplines and go deeper into each of these and other defining issues facing businesses during the crisis.

For more insights across all aspects of this topic, go to deloitte.com and our COVID page. You can also find us on Apple Podcasts, SoundCloud, Stitcher, Google Play, and even Spotify. If you have any stories you want to hear more about, suggest them at deloitte.com on our Resilient page. And until next time, stay safe and remain resilient.

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