It is my pleasure to introduce the latest publication of FAS Focus, which coincides with our launch of our new brand, FAS Global and the launch of our FAS Global internet site in the coming weeks.

We are proud of the success we have achieved under ownership of Cunningham Lindsey in the last 4 years or so, so you will notice that our branding for FAS Global has a similar look and feel (and colour) to that of Cunningham Lindsey’s. We have demonstrated to clients that working closely with loss adjusters delivers better results for clients in terms of customer experience and claim settlement times. We have invested in the best accounting talent and, if we continue with our relentless pursuit of superior service and quality work we are confident that we will enjoy the ongoing support of our insurer and lawyer clients.

The article I have written for this publication is about independence. There has been much debate about the benefits or otherwise of a forensic accounting firm’s alignment with a loss adjusting company. I feel strongly that it is timely and appropriate to get the ‘elephant in the room’ into the open and open up the debate on important topic with the true facts in hand.

Thank you all for your ongoing support, we look forward to working more closely with you as we enter into the next phase of our development under a new brand and proudly associated with Cunningham Lindsey.

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Debunking the Independence myth

Forensic Accountants are used extensively by insurance companies and their advisors in respect of claims under insurance policies. Forensic accountants are utilised to scrutinise the financial basis of the claim and provide an opinion on the quantum claimed. They assist the loss adjuster and Insurer by ensuring the claim is settled for the appropriate figure.

Four years ago, Cunningham Lindsey, a global loss adjusting firm, established its own specialist forensic accounting division under a separate brand – Forensic Advisory Services (now called FAS Global). As a result, our Insurer clients have the option of utilising what I term a “combined model” in the claim adjustment process: appointing both a loss adjuster and specialist forensic accountant from within the same company.

However, to my surprise, there has been debate from some quarters about using the services of a loss adjuster together with a forensic accountant from the same firm (the “combined model”). Unfortunately, it seems that much of the debate is fuelled by senior partners of competing forensic accounting firms. They claim that forensic accountants who are part of a loss adjusting company lack independence and have achieved an unfair competitive advantage.

It is therefore timely, I believe, to bring the debate out into the open and present all the facts and arguments to enable Insurers to have a more informed and balanced view as to which model best suits their needs.

The use of forensic accountants on insurance claims

The history of the use of forensic accountants within the insurance claim adjustment process is relevant to this discussion.

“Independent means they have the expertise to properly analyse a complex claim and present the adjustment in a convincing manner”

and my personal favourite;

“Independent of what, the Insured, the Insurer or the Adjuster?”

So, what does all this mean as regards the suitability or otherwise of engaging a particular forensic accountant?

It is quite simple really. In order to assess the impact of this so called ‘independence’ concern, of a forensic accountant, an Insurer should be asking one simple question:

Does the relationship the forensic accountant has with the loss adjuster in any way prevent the accountant from exercising objective and impartial judgment on all issues encompassed within the claim adjusting process?
Forensic accounting has been around in various guises since the 1930’s. Traditionally, insurance claims that had a large or complex quantum component (such as business interruption) were handled by a loss adjuster who specialised in business interruption and had financial or accounting qualifications.

In the late eighties and nineties, as the quantum and complexity of business interruption claims increased, Insurers began appointing accountants from separate accounting firms to assist the loss adjuster. In my opinion, this was necessary for a number of reasons. First, the loss adjuster did not have sufficient time or expertise to undertake a detailed analysis of the business interruption; and second, the loss adjusting firm did not have sufficient internal forensic accounting expertise.

In other words, as a result of the adjusting companies failing to predict this trend and invest in internal accounting capability, they encouraged the growth of firms which specialised in providing forensic accounting for insurance claims.

What we are currently witnessing though is a reversal of this trend. Loss adjusting companies, such as Cunningham Lindsey, are investing in their own internal forensic accounting capability and competing with challenging the business model of third party forensic accounting firms. The response from these firms has been to “muddy the waters” by raising the “independence” issue with clients and questioning the ability and professionalism of the accountants working under the umbrella of a loss adjusting company.

The independence of accountants

Much has been written and debated on the topic of independence since the bankruptcy of Enron, the collapse of Arthur Anderson and the subsequent introduction in the US of the Sarbanes Oxley Act of 2002.

When the term independence is used as pertaining to auditors and accountants in public practice, it refers to the independence of the external auditor from the client and from parties that may have a financial interest in the business being audited. Independence is simply about objectivity, scepticism and integrity. In simple terms, an auditor’s independence is impaired if the auditor is not, or a reasonable investor with knowledge of all the facts and circumstances would conclude that the auditor is not, capable of exercising objective and impartial judgment on all issues encompassed within the audit engagement.

So what has all of this got to do with the assessment of the independence of an insurance forensic accountant?

I have asked a number of Insurers, brokers and risk managers what independent forensic accountant means to them and, predictably, I received a wide variety of answers, some of which are listed below;

“independent means they are focussed on the assessment of claims only – they don’t do audit or tax consulting – they are able to focus on claims”

“some loss adjusters are too close to the brokers, we need someone independent of the loss adjuster to keep them honest and prevent them from being influenced by the broker – a second pair of eyes”

“If the matter is litigated, we need an independent accountant to be able to act as an expert witness in court. If he/she is part of a loss adjusting company his independence is impaired”

“independent means they are independent of the loss adjuster. This means the accountant cannot be influenced by the loss adjuster to come up with an adjustment which is favourable to the Insured”

To my mind, this question could be asked of any forensic accountant, whether they work in a combined model with the loss adjuster or as part of a separate firm. It would be naive to think that an accountant working in a separate forensic firm could not be influenced by a loss adjuster.

For this reason, I believe the answer to the above question lies in the selection of the right individuals for the claim (both loss adjuster and forensic accountant). This is not pre-determined by the model under which they operate, but rather are they a function of whether the person is professional and if they have the necessary experience and expertise to resist any pressures that may come from an adjuster (or a broker or an insured for that matter).

The benefits of the “combined model”

I believe that as clients work with us more regularly and become aware of the benefits of FAS Global’s robust forensic accounting capability and geographic spread of expertise, the “independence” issue is being used by some forensic accountants to improperly influence Insurers by “muddying the waters” and distracting them from the benefits that a combined model delivers to both our clients and the Insured in the claim adjustment process.

Having worked as a forensic accountant in a “Big 4” accounting firm, in a separate forensic accounting firm and as part of a loss adjusting company, I believe I am well qualified to recognise the benefits to insurers, brokers and risk managers alike of the combined model.

In my view, the combined model delivers the following benefits: it is more cost-effective, it reduces claim life and improves the customer experience, all whilst delivering the right claim outcome.

A more cost-effective and seamless claims process

● Being from the same firm, the adjuster and forensic accountant work closely as a team. This allows them to fully vet ideas and raise conflicting views openly with one another, thereby avoiding differences on treatment of complex technical issues as matters progress toward settlement.

● Frictional costs are avoided through close proximity and clear communication between the adjuster and forensic accountant.

Reduced claim settlement times

● Delays are avoided as the adjuster retains control of the key claim assessment activities which results in much fewer “hand offs”.

A significantly improved customer experience

● All parties to the claim adjusting process are on the same page working as a team. This ensures the policy holder and stakeholders only need one point of contact and receive one consistent viewpoint from the loss adjusting team on quantum and liability issues.

The future

Due to the support of our clients, FAS Global have been able to grow very quickly and establish a presence in all the key territories. The success and growth of FAS Global to date is evidence that the “combined model” has a legitimate place in the adjustment of insurance claims.

I believe our profession has an obligation to insurers, brokers and policy holders to present the facts of the independence debate in a manner which enables more informed decisions around the issue of independence. My hope is that in the future, the debate will be motivated by the desire to achieve the best outcome for all parties to a claim rather than a desire to stifle competition.