



The Role of a Forensic Accountant in Property and Liability Losses

by Chris Hamilton, CPA, CFE, CVA, DABFA

Asset and liability claims rise out of an unusual event or series of events where damage has occurred as defined by an insurance coverage contract. There are two elements to consideration of any claim:

- Damage – verifying that the damage event occurred and placing fault on one party or the other
- Loss – quantifying the loss to the damaged party

Early Involvement of Forensic Accountant

Both elements are defined by any contract in place between the parties and their insurance companies. It is common, unfortunately, for many businesses to suffer a loss and then realize that they had no insurance in place to cover that loss. The determination of coverage and the early estimation of loss are both elements of the process that urge the early involvement of a forensic accountant. An experienced forensic accountant is accustomed to reading insurance contracts and can assist in defining the loss under the relevant contracts and provide early guidance on the quantification of loss.

Filing a claim and expediting the process of compensation on that claim are also elements of the process that can be facilitated by an experienced forensic accountant. Insurance companies exist to mitigate the impact of damage events and, at least theoretically, are working for the insured. This is an image promoted by the industry in the process of selling policies. However, this is not the case once a claim is filed. The insurance company is in the business of earning a profit for their shareholders and this becomes very evident in the claims process. While they are not “the enemy” they are certainly across the table rather than on the same side in negotiating through the compensation process. It is an arms-length negotiation where the parties have very different motivations and objectives.

How the Actual Loss is Determined

Quantification of a loss is usually based on two elements:

- Historical data to provide a baseline of economic activity before the loss event
- Projected economic data (usually based on the historical data) to provide a “what-if” analysis as if the loss event had not taken place

The insurance company will need a reasonable and rational basis supporting any claim. It is imperative for the insured to realize this fact. Many claims processes are needlessly delayed, for example, due to an inability or unwillingness of the insured to provide complete and adequate historical financial data. An experienced forensic accountant can gather relevant historical data and present it in a format that is familiar and useful to the insurance company adjuster. The historical data can then be presented in coordination with the loss calculation.

The loss calculation must be presented in accordance with the contract (insurance policy). The retention of an accountant experienced in reading and understanding insurance policies can be invaluable in setting proper expectations and achieving a fair result. There are any number of damage theories and methods of calculating losses. For the most part that type of knowledge is useless in an insurance claim. Theoretically, both parties negotiated coverage in exchange for a premium. Therefore, once the loss occurs, the policy rules. Many claims processes are needlessly complicated and lengthened because the insured is claiming losses either not covered by the policy or quantified in a way that conflict with the contract.

Scope of Forensic Accountant’s Assistance

An experienced forensic expert is helpful in a loss situation since they can assist in the initial assessment of the loss and the potential recovery calculations. They can also assist in gathering and presenting



relevant historical information and loss calculations in support of the claim. Finally, they can be invaluable in presenting, defending, and advocating the claim in discussions with the insurance company.

Many companies that file a claim with an insurance company, encounter problems, and reach immediately for an attorney to represent them. It is worthwhile to consider whether getting an experienced financial expert involved might be better – even as a complement to hiring a lawyer. Often, the loss party simply needs someone who understands the process and language of insurance claims representing their interests. Hiring a lawyer in that environment puts all parties on edge and puts a cloud of “pending litigation” over the process. This is an important threat but may be most helpful after all other options have been exhausted – including bringing in an accountant.

About the author:

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