



values

Values is an informational newsletter for attorneys who assist clients in answering valuation questions and claims adjusters who work to pay the proper amount of a claim.

Playing the Odds

Just like a professional poker player, forensic accountants face the challenge of figuring out the probability of each possible outcome based on limited information. However, while the poker player can only use the cues they gather from watching how their competitors play, an experienced forensic accountant can often uncover other information to help determine what most likely would have happened if a loss-causing event never occurred.

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Annie Duke grew up in a highly competitive family, where family games around the dinner table were the glue that kept the family together. Being the youngest (her younger sister was too young to play) Annie spent a lot of time losing to her competitive parents and older brother. The experience frustrated the young girl who would often leave the table in a frustrated tantrum. But her experience would pay off.

Duke eventually attended Columbia University and majored in English and Psychology. After college, she decided not to follow in her parents' footsteps as teachers, and instead went on to the University of Pennsylvania where she worked on a doctorate in Cognitive Psychology. She eventually proposed marriage to her long time boyfriend and found herself playing poker to earn enough money to pay for their mortgage.

Duke had an uncanny ability to both read the players she was playing against, and weigh that against the possible outcomes of the cards sitting in front of her. She used that experience and talent to join the World Series of Poker as one of the first female professional poker players, eventually beating some of

the biggest poker legends in the world on her way to earning millions.

For many, poker is a game of luck, but Duke believes that her winnings at the poker table are a direct reflection of her experience and her ability to determine the most likely outcome based on what she sees.

While you'll never see a group of forensic accountants crowded around a table on ESPN, our work can draw a couple similarities to Duke and her poker-playing competitors when a case involves determining an insured's actual economic loss in a claim.

SURVEYING THE TABLE

Every insurance claim involves calculating the actual economic loss to the insured. In some cases, this is as simple as determining what it will cost to repair an asset. In a lot of cases however, it's just not that simple. When we're called in to help determine actual loss, we're usually there to answer the question "what would have happened if what happened didn't". Where do we start? Well, in poker terms, we start with a process that could be described as "surveying the table."

We start by taking a quick look at the broad landscape. What kind of business is the insured involved in? What's the industry like? What's the

Calling the Bluff

If you've ever watched a professional poker player, you'll notice that they often wear dark glasses and hats to prevent experienced competitors from gaining an advantage by reading their face. As forensic accountants, we too are trained to "read" people and look for clues that can often help determine if what someone is telling us is truthful.

environment? Who are the managers and decision makers? What's the economy like? Inventory? Damage?

Next, we take a "business snapshot" of the insured as close to the loss-causing event as possible (whether that is a fire, storm, accident, or other loss-causing event resulting in a business income claim). Significant information can be gathered from this snapshot – and this information is extremely important in helping to determine actual economic loss.

For example, a company's inventory level just before the loss-causing event can provide hints about their current business status and plans for the future. A business with a higher than normal inventory level could mean slower than expected sales – or a ramp-up in preparation for higher expected sales in the near future. The insured's higher than normal cash position could indicate that they are preparing for an expansion – or could show that they are positioning themselves for a business slow-down. In both cases, gathering an early snapshot of the insured can be helpful when analyzed along with additional information later.

Finally, we gather additional information as needed to help support our calculations. This process can include everything from interviewing employees, vendors and customers of the insured to looking at current financial documents to digging through detailed contracts and historical documents.

THE IMPORTANCE OF EXPERIENCE

Gathering information is only half the battle. Making sense of the information is where the experience and expertise of a good forensic accountant really pays off. By combining all of the information, we are able start putting together some of the most likely scenarios of what a company would have looked like if the loss event had never occurred.

Experience plays a huge role here because a lot of what we're really asked to do in cases of economic loss is to predict the future based on the past. What would sales have looked like if there wasn't a fire? What would the inventory have sold for if it could have been sold? What were the real intentions of management leading up to the loss occurrence? Is the loss recovery timetable reasonable? Was the business growing or slumping? Are there ways that the company could reduce the amount of the loss?

Like a battle-hardened poker player, an experienced forensic accountant can apply things we've seen in past cases that less experienced people might miss. Even things that may seem insignificant at the time – like accounting practices that the company may use for inventory or sales recording – can often have a significant impact in determining the actual economic loss.

And, when it comes to calculating the proper payout on a claim, is it really worth taking a big gamble?

Can We Help You?

Dale Cremers, Bob Holtzbauer and Roger Nearmyer have experience to help you address questions about forensic accounting. Please call for more information at 515-274-4804 or e-mail us at info@chncpa.com.

