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Now is the time to review your insurance coverage in the context of a catastrophic event - by Spencer Macalaster

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2017 was the year of the catastrophic weather and fire event, with three major hurricanes hitting Texas, Florida and the Caribbean, two major fires in California, and an earthquake in Mexico; worldwide catastrophes reached epic proportions. Major events that we would never envision happening are indeed occurring. Although several lines of insurance coverage are relevant in these events, the potential for financial loss due to Property Loss, Business Interruption (BI) or Contingent Business Interruption (CBI) are often overlooked by businesses and their brokers when structuring insurance coverage. Too often, we are all focused on saving premium and miss meaningful provisions and sub-limits that are vital in the event of a major loss. Hence, the following lessons from these events:

- **Flood coverage.** Most commercial and personal policies exclude flood, particularly if the property is in or near a flood zone. Loss of income coverage, BI and CBI, generally only kick in if preceded by a covered peril. If flood is excluded on a policy, it becomes a challenge to trigger other coverage. If a client is anywhere near a flood zone, include flood coverage and/or increase the nominal sub-limits offered on most package policies. And, remember the National Flood Insurance Plan (NFIP) is a low cost option for clients located in flood zones. Also, review the definition of flood in the policy as it varies from carrier to carrier.
- **Wind coverage.** Wind is covered on most policies but with potentially higher deductibles, particularly for named storms. Pay close attention to the policy language as it relates to storm surge and wind-driven rain. Correlating coverage between flood and wind is essential before the claim happens.
- **Business Income/Extra Expense.** Generally, there must be some level of physical damage that results in a loss of business income. This physical damage must be caused by a covered peril, e.g. fire, flood, wind, etc. Ensure limits are adequate and check sub-limits on package policies. Pay close attention to the number of days provided in the policy for Extended Business Income, coverage for the period of time to restore the business to its pre loss activity levels.

- **Contingent Business Interruption.** Loss of business income due to suspension of operations caused by a direct physical loss at the premises of a “dependent property” – customer, key supplier, etc. Many of our clients are suffering financial losses from Sandy even though they had no direct damage themselves. Talk to your clients about this exposure and ensure sub-limits are adequate.
- **Business Income – Civil Authority.** Order of Civil Authority prohibits access to insured premises due to direct physical damage to property other than the insured’s caused by a covered loss. This often overlooked coverage could be quite relevant during post- cleanup. Several of our clients have experienced business income losses due to lack of access to their locations. Check the number of days of coverage and the waiting period deductible on your clients’ policies.
- **Ingress/Egress.** Business interruption loss due to lack of ingress/egress to your insured’s premises caused by a covered peril. Considerations similar to Civil Authority coverage above.
- **Claims Data Expense.** Reasonable expenses incurred in preparing claim data required by a carrier. Includes forensic accounting, claim documentation and other expenses relevant to preparing a claim. Most policies contain some provision for this. Many of our clients are taking advantage of this coverage to offset the costs of preparing a claim. Make sure the sub-limits are adequate, minimum of \$25,000.
- **Utility Services – Time Element.** Loss of income due to service interruption. Ensure that the service interruption definition includes, power, utilities, communications, etc. Check sub-limits and waiting period. Pay special attention to how coverage applies especially as it relates to transmission and distribution lines. A prolonged power outage can cause real financial loss because of no service. Risk Strategies’s NYC office was closed for over a week after Sandy, due to lack of access, no power, no heat....
- **Debris Removal.** Debris removal coverage is usually included on property and package policies but the sub-limits are often low. The costs to clean up are generally more than anticipated after a major storm event.

Unfortunately, it takes a major event to bring illumination to basic coverage issues. Now is an opportune time to review your insurance coverage in the context of a catastrophic event. Taking a fresh look your insurance coverage as it relates to your risk profile is advisable.

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