



HURRICANE PLANNING & INSURANCE PLANNING GO HAND IN HAND

A BETTER UNDERSTANDING OF INSURANCE CAN MAKE FOR A SUCCESSFUL RECOVERY & AVOID LOSSES

(The following is an article on Hurricane Preparedness from an insurance standpoint written by Stan Smith of Smith Orloff & Associates, International Insurance Loss Consultants and an Allied Member of the Caribbean Hotel & Tourism Association (CHTA) and the Bahamas Hotel & Tourism Association (BHTA). This information was initially shared with the BHTA and later modified for CHTA members. Mr. Smith is a recognized expert in insurance loss consulting and risk management and has been a speaker on the subject throughout the Caribbean as well as at annual Caribbean Hotel Industry Conferences.)

Introduction

The intense hurricane seasons we have experienced in the Caribbean reinforce the need to continually address the topic of hurricane preparedness. Dr. Gray a former Director of the National Hurricane Center has most accurately stated on numerous occasions "Preparation through education is less costly than learning through tragedy".

Preparedness Education & Knowledge

Preparedness means having a plan on what to do preceding, during and after a catastrophic event, such as a hurricane, flood or the like. Once the plan is developed it needs to be annually maintained and practiced, educating employees with the details. The plan should cover preparedness and damage control / communications, readiness during the passing of a hurricane, and post-disaster mitigation and recovery, including needless to say addressing guest and property safety and security, **and insurance coverage**. This planning can also assist in establishing the amount of business interruption / extra expense insurance that is needed, including addressing any impact from dependent properties, such as a supplier of a special nature that can impact the operations or even an airport that can be shut when your property is not damaged which damage is needed to trigger a business interruption loss.

NOAA has a web site that deals with Hurricane Awareness and Preparation that is a MUST READ. By knowing your vulnerability and what actions you should take, you can reduce the effects of a hurricane disaster. The goal of this Hurricane Awareness web site is to inform the reader of hurricane hazards and provide knowledge, which can be used to take action. Hurricane hazards come in many forms: storm surge, high winds, tornadoes, and flooding. This means it is important to have a plan that addresses all of these hazards.

Property Insurance Preparedness

From the standpoint of having the proper financial resources to recover after a catastrophic event, and not just a hurricane, it can be even a fire that destroys the property, it is imperative that each organization take the time to understand their "risks" and the terms and conditions of their property insurance policies as well as determining that their limits of insurance are adequate, especially if there is an averaging or coinsurance clause in their policy.

In understanding the more common conditions of a policy and their application to your property and business, you thus can make sure that your insurance coverage is appropriate for your property and avoid pitfalls before a loss occurs. Go over at least the following terms and conditions with your broker to see if they are in your policy:

- Replacement Cost ("RCV") vs. Actual Cash Value ("ACV")
 - Replacement cost coverage will provide the money to pay for like kind replacement of what is damaged, assuming it cannot be repaired. While ACV coverage will cost less in premium it provides for the deduction of "depreciation" from the RCV amount for items that need to be replaced, which results in inadequate funds to rebuild.
- Coinsurance / Averaging Clause
 - At the time of a loss if a "coinsurance" or "averaging" clause is in the policy it will provide for the insurance company adjuster to establish whether or not the property is underinsured and, if so, the agreed to claim amount will be reduced by a "penalty percentage" depending upon the extent to which the insured is underinsured.
 - If a property owner is accurately coinsuring at less than 100% of RCV, for the peril of earthquake coverage consider 100% of RCV.
 - Some averaging clause policies will state one is underinsured only if the sum insured is less than say 85% or 90% of the replacement value, while others would be silent as to a percentage, and the requirement for the sum insured would be 100%.
- Agreed value endorsement
 - This endorsement would set forth the fact that the insurer agrees with the values used to insure the property and if there is an averaging/coinsurance clause in the policy then that clause will in effect become null and void. To obtain this endorsement, the insured will typically need to provide the insurer with a Replacement Cost Appraisal of the property that was performed by a qualified professional including an architect or engineer. This additional cost can be most worthwhile.
- Ordinance / code upgrade
 - In the event that the insured building was constructed some years ago and is not up to the current building codes this coverage is important. This endorsement will provide the additional funds to rebuild in accordance with current code after an insured loss. This coverage can also pay for replacement of undamaged portions of a building that need to be replaced for code purposes if such replacement is dictated by the authorities.
- Loss of off-premises power & water
 - If after an insured peril, like a windstorm, and the insured property is not damaged, but the business cannot operate because of no electrical power or water, this coverage will provide the insurance to cover the business interruptions loss that is sustained. Often transmission and distribution lines are excluded and there is typically a time period deductible so read the policy language and do not be afraid to ask for changes.
 - Note – to have an insured business interruption loss, the insured must have damage to its building or contents unless special coverage exists like this one.

- Consequential business interruption coverages
 - Similar to Loss of Off-Premises Power and Water, there are other events of a consequential nature that each insured needs to identify that can be cause for a business interruption loss without the insured's property being damaged; such events can include civil authority, closing of an airport or a port, access/roadways to the insured premises, inability to get certain critical supplies from suppliers or a specific supplier, damages to an off-premises (remote) sales office, inoperable telephone or Internet services, and so on. One or more of the perils insured under the policy would typically have to cause the event.
- Costs of architects & engineers in reconstruction
 - Make sure these costs are covered. If not, ask and perhaps there will not be an increase in premium.
- Foundations, walkways, roads & landscaping
 - While coverage for landscaping might not be available or very expensive in connection with windstorm coverage, see what some sub-limit would cost.
 - Foundations and walkways are frequently excluded in the form of a policy but ask to see if they can be included (added back), which has been done at no additional cost. The inclusion of foundations is particularly important with earthquake coverage and use of cisterns.
- Deductibles for windstorm & earthquake
 - These deductibles are for the most part a percentage of the sum insured. If there are sub-limits for these perils see if the language for the application of the percentage relates to the sub-limits and not the total sum insured or total replacement values. Also, if there are multiple buildings at the same location address whether or not separate insured sums can be assigned to each and the percentage deductible taken on only the building(s) that suffer damages. Regarding the latter, concern must exist if an averaging/coinsurance clause exists.
- Appraisal clause – know that it exists
- Business interruption coverage
 - Request a copy of the form that is to make up this section of the policy, read it and make sure you ask questions about any thing that is not understood
 - Address the definition of the "restoration period"
 - Make sure there is at least some coverage for Extended Business Interruption losses – at least 30 or 60 days. This provides coverage for once the restoration period ends and normal operations have not been attained as yet. Some property owners have purchased extended coverage for up to one year.
 - If a coinsurance or averaging clause exists, attempt to have the anniversary date of the policy used as opposed to the period of the loss.
 - In establishing the amount of insurance address, the amount of Extra Expense that might be incurred to mitigate your business interruption loss and to enable the operations to continue on a partial or full basis.

Some of the basics of how to prepare for a hurricane loss claim include:

- Review & understand your insurance policy, especially any problem areas like coinsurance and exclusionary type language. Also insure you have a complete copy of the policy & keep it in a safe place.
- Pre-hurricane season preparation – plan for protection from the storm, particularly areas that are more vulnerable as a result of wind direction or wave action.
- Photographs of the property prior to hurricane season to show conditions; especially if the property had been damaged by a recent storm.
- Report loss to your agent on a timely basis – gets adjuster out early which accelerates the claim process and settlement.
- Photograph all damages after the storm.
- Protect damaged property to mitigate further damages – facilitates full recovery. Emergency post storm clean-up – tarps on roofs, water extraction – prioritize for your needs.
- Address “extra expense” to minimize any business interruption loss and mitigation efforts.
- Reservations – maintain records to assist in documenting lost revenues. Maintain historical financial records in a secure place.
- Insurance company reserves – prepare early estimated damage assessments to assist in setting the reserve on your loss -- as accurate as possible (very difficult, but extremely important) – helps avoid an up-hill battle later in the claim process.
- Claim preparation – must be proactive - prepare your own detailed loss assessment on an estimated basis – it is not necessary to wait for final actual costs.

Building Upgrades & Mitigation Efforts

Certain aspects of hurricane preparedness relating to building improvements and upgrades as well as mitigation efforts (storm shutters, etc.) are not only important in preventing destruction of the property, but also extremely important in obtaining property insurance at rates more favorable than otherwise. This aspect of preparedness should be reviewed on an annual basis and not overlooked. Initial focus should be on building areas that seem to always “get hit”.

The Recovery / Claim Process

In the event of a loss, the following should be noted to maximize a claim recovery:

- Must be proactive
- Understand policy terms and conditions & how they apply to the loss
- Use of experts
- Schedule meetings with company adjusters and address -
 - Scope of loss
 - Evaluate alternatives to reconstruction - seize the opportunity for enhancing capacity / efficiency
 - Participate in establishment of reserve for your loss
 - Request advances
- Document the Loss
 - Photographs
 - Keep accurate cost records
 - Preserve damaged articles for adjuster’s inspection
 - Prepare your own in-depth loss estimates
 - Losses can be settled on an estimated basis
- Responsibility to mitigate further damages

- Precision in uncovering critical detail
- Be aware of diminution of useful lives
- Mitigation of business interruption loss used as a leverage in settling property
 - Efficient handling of continuing expenses
- Use of extra expense coverage
- Negotiating skills / negotiating on an informed basis
- Business interruption loss & extra expense portion of claim -
 - Net income plus continuing expenses - project based upon trends
 - Ordinary payroll expense exclusion
 - Address costs to stay in business & mitigation; i.e., extra expense - have a plan
 - Restoration period and any extended period – think through to settle on an estimated basis

Questions / Assistance

In the event of any questions or need for assistance, please do not hesitate to contact the writer.

My best wishes to all for safe, continuous and successful operations.

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A note from the Caribbean Hotel & Tourism Association –

Insurance companies have professional adjusters protecting and representing their own interests. In the event of a hurricane loss, it's in the Member's best interest to also have a qualified and experienced expert (adjuster) protecting and representing their interests. Especially as the hurricane season approaches us, keep in mind the resource available to you through CHTA's relationship with Smith Orloff & Associates, insurance loss consultants to the Caribbean hospitality and tourism sector. The benefit of using Smith Orloff is that they can assist you in maximizing your recovery and insuring that you get the money you are entitled to as a result of a loss, whether the loss be from a hurricane, a fire or other insured loss. Smith Orloff has extensive experience in the Caribbean, representing hoteliers and others with their insurance company in catastrophic losses. Their staff would assemble the claim and negotiate a settlement with your approval, allowing you to concentrate on getting your operations back to normal. Their work includes the preparation of building, contents, extra expense, and business interruption claims. Smith Orloff can be contacted at 800.811.4008, 340-690-4880, or via e-mail at smith@smithorloff.com, ~ and be sure you identify yourself as a CHTA member. Remember, membership in CHTA is as beneficial as you make it by tapping its resources to your advantage.