

BLOGS

Business Interruption; Natural Disasters

Back to Insurance Basics – Preparing Now Can Dampen the Burn of Future Wildfires

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Now more than ever, top companies identify wildfire risk as a natural disaster concern, which is not surprising when wildfire seasons start earlier and last longer, and lead to other looming threats, such as mudslides.

While natural wildfires and other catastrophes may be inevitable, that does not mean that businesses have no control over their own risk of loss. Rather, following these tried-and-true insurance basics will help make sure your company is well positioned to submit a successful insurance claim when the next natural disaster hits.

- Before placing or renewing your insurance coverage, speak to those responsible for day-to-day operations and ask which type of losses or disruptions would be most costly not only to the immediate bottom line, but also in terms of intermediate or long-term displacement of the company's competitive advantage or even its reputation. Think outside of the box and do not constrain your assessment to the types of loss that most easily come to mind. It is the loss that we did not see coming, or the severity of which we underestimated, that we are least prepared for.
- While in the process of placing coverage, be sure to review your policies with your risk manager, broker or other professional to make sure that you have the right type of insurance, and the appropriate amount, to protect against the risks that you have identified as the ones that are most important for your company to avoid. Carefully read your company's property insurance policies and identify the perils insured. Some policies will be "all risk" with specific exclusions, while others will name only certain perils as being covered, and it will be important to identify which perils are not covered.
- Insurance policies are often presented as standard form contracts, but when needed, terms may be negotiable to fit the needs of your business. Do not hesitate to explore options to modify coverage terms to fit the needs of your business and to get the most out of your insurance premiums.

Related People

Ronald A. Valenzuela

Partner

Los Angeles

310.789.4660

ronald.valenzuela@lathropgpm.com

Robyn L. Anderson

Counsel

Kansas City

816.460.5522

robyn.anderson@lathropgpm.com

- When unsure about your coverage, do not rely on an interpretation by your insurance broker, as that interpretation will not be binding on the insurance carrier. Remember that insurance policies are contracts, subject to court interpretation.
- And, when it comes to policy interpretation, know that policies are usually judged based on what appears in the contract itself, and nothing more. But, when policy language is unclear, a court may resort to other evidence. For this reason, always document the discussions you have with your insurer about your policy or any claim, noting the details of the conversation while they are still fresh in mind.
- Always obtain and keep a complete copy of your insurance policy. Do not rely on a mere declarations page or summary of coverage because your coverage will be interpreted based on the whole policy.
- Review contracts you have with business partners even if you have not suffered any direct harm. Sometimes, contracts with suppliers or “down chain” business partners include provisions requiring your business partners to add your company as an “additional insured” on their policies. If that is the case, some of your losses might be covered under policies that you did not purchase.
- Make sure that you can quickly retrieve all the insurance policies issued to your business or under which your company is an additional insured. This means keeping an electronic or paper copy set offsite. Also confirm that your broker has a complete set. When you are an additional insured, ask for the full policy and do not rely solely on a Certificate of Insurance. If there is a conflict between the Certificate and the policy, the policy will usually control.
- Pay careful attention to reporting and proof-of-loss deadlines in your insurance policy, know the difference between the two, and make sure that the steps your company needs to take to comply with these requirements are incorporated into the company’s recovery plan. In the event of a disaster, the primary focus, of course, will be on ensuring the safety of employees. Making sure the company fully resumes operations and services as soon as possible will also demand an extraordinary amount of time, effort and resources. Knowing the reporting and proof-of-loss requirements ahead of time will help the company avoid overlooking those requirements and help to maximize your insurance recoveries.
- Have a system or procedure in place to document losses and your efforts to make repairs, resume interrupted operations and mitigate further losses. If possible, do not try to go it alone here. There are many good accounting firms that specialize in calculating and documenting property, business interruption, and contingent business interruption losses and claims. Forming a relationship with one of these professionals *before* disaster strikes will help ensure that your company has the right resources in place.
- Get help if needed. Much litigation involves the interpretation of the myriad business interruption provisions in property policies. These provisions are notoriously difficult to decipher. If you have business interruption coverage, for example, it would be wise to consult an attorney to make sure you fully understand what coverage is available under your insurance policies.

Advance planning before any disaster is a critical component to recovery. Knowing what to do from an insurance perspective is an important part of that planning; not simply because doing so will help to maximize insurance benefits should a loss occur, but because it will go a long way towards allowing you to focus your efforts immediately after a loss on the most important matters: the safety and well-being of employees and resuming full business operations as soon as possible.