

BLOGS

Natural Disasters

Natural Disasters in 2017 Caused Billions in Losses: Are Companies Ready for 2018?

From the “Bomb Cyclone” winter storm that roared across the East Coast; to Hurricanes Harvey, Irma, Maria and Jose that exacted an enormous human, financial and business toll; to the California wildfires that killed 43 people, consumed 10,000 structures and devastated numerous wineries – it seems that we cannot escape news these days of disasters that have a deep and wide-ranging impact on lives, property, and commercial activity. We begin the New Year with a hope that we will see fewer, less severe disasters but also with the question in mind: “What can I do today to be prepared for a disaster that could affect my business?” Of course, a critical component of preparing for disasters is taking the necessary precautions to avoid or limit losses in the first place. But some losses may be unavoidable, so companies should also prepare ahead of time to maximize their recovery of insurance for the losses that do arise. Some steps to take that will help:

- Take the time to assess the types of catastrophic events to which your company might be vulnerable. 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 its reputation. Think outside of the box and do not constrain your assessment to the types of disasters that come easily to mind. It is those that we did not see coming, or the severity of which we underestimated, that we are least prepared for.

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- 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. If 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.
- 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 of 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.
- 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.