

Getting Your Insurance House in Order Before the Next Disaster Strikes: Lessons Learned After Katrina and Rita

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Following Hurricanes Katrina and Rita, some businesses either had their businesses interrupted by their employees' inability to travel to work in order to perform their daily activities or lost commercial property altogether. Yet when they turned to their insurers for compensation, some businesses found that the insurance they purchased was not adequate to cover their losses. As such, this article will serve as a short primer on what businesses should do to put their insurance coverage house in order before the next natural disaster strikes.

What Type of Catastrophic Insurance Coverage Do I Need?

The answer to this question will be driven by two considerations: First, an understanding of the basic geographic and weather conditions of the area in which the company conducts business. Each business should review the section of the policy for risks insured against to determine the disasters for which your insurer has agreed to provide coverage. If your policy does not provide you with the widest possible coverage against the types of natural disasters that are common to your geographic area, you may want to consider purchasing additional coverage. For example, some businesses try to get the broadest possible coverage by purchasing what are known as "all risks" or "all risk" policies, which literally can provide coverage for all risks of loss unless the cause of the loss is specifically excluded by the policy. Second, understanding the types of claims that may arise from your business following a natural disaster. You should conduct a risk assessment of the types of claims that either may be made against you or that you might want to make.

What Other Types Of Specific Coverage Should I Consider in the Event My Business Is Physically Damaged Or I Am Unable To Conduct My Business Indefinitely?

a. Code-Compliance Coverage

If you have a building that was constructed decades ago and it has now been damaged, the chances are good that the code in effect at the time your building was constructed is not the same code in effect at the time of your loss. As a result, when you hire a structural engineer to prepare repair schemes, you may find that the current building code might impose some additional requirements to your scheme, with a commensurate increase in your overall building repair costs. As a result of this possibility of a significantly more expensive repair plan, some policyholders purchase what is called code-compliance or code-enforcement coverage. Essentially, if the damage to – or the repairs made to – your property trigger the enforcement of state, city, or local

building codes, there can be coverage for the additional code-driven repair costs.

b. Relocation or Extra Expense Coverage

If you have to move a portion of your work force to another location while your property is being repaired, you will want to consider purchasing relocation coverage or extra expense coverage that will pay for the cost of transferring workers and purchasing or renting alternative buildings to house your workers temporarily. This coverage is usually based on a formula that is tied to the amount of time (sometimes referred to the period of restoration) necessary to make the needed property repairs.

c. Business Interruption Coverage

If your business is shut down due to a natural disaster, you have lost your ability to be productive. Every day and every week that goes by while your business remains inoperative can result in a multi-million dollar loss to your business. To offset that scenario, some businesses purchase business interruption coverage that will pay you an amount based on the length of time it takes you to get your business back to an up and running state.

d. Coverage for the Loss of Electronic Data

Many businesses are operating in or moving to a so-called "paperless" environment, such that all of the information and records concerning a business are stored in some electronic format. If a natural disaster results in the total loss of electronic data, the cost of trying to recreate that information can be quite significant. Thus, businesses who indeed rely primarily on electronic data should look into the possibility of purchasing coverage against such a loss.

Determining what type of insurance will best suit your needs will depend upon a thorough understanding of your geographic surroundings, business pursuits, and your existing coverage. Before the next disaster strikes, take the time to perform this assessment of your situation so that you don't find yourself asking the question: "Why didn't I have coverage for this?"