

The Right Insurance for the Storm Season

It seems like every time of year is storm season for someone's center. In the Spring and Summer it's tornado and hail season, and in the Summer and Fall it's hurricane season. Then it's time for the ice storms that much of the United States faces during the Winter season. Common sense dictates that we take whatever precautionary measures that we can, like keeping heat on during the winter, preventing major accumulations of ice and snow on the structure, keeping the sprinkler system in operating condition (even in freezing weather) and making sure any fire suppression system or extinguishers are available and functional.

With this in mind, let's review the critical aspects of proper property insurance that will work in any of the storm seasons. There are basically two types of property insurance forms common in today's world. The first is called a "named peril" form and the other a "special perils" form. A named peril policy insures only perils shown on the policy, like fire and lightning, hail, windstorm, sudden and accidental discharge of smoke, land vehicles, falling objects, etc. You get the idea. A special perils form starts out covering all forms of direct physical loss and then excludes coverage not intended under the form. For instance; flood, earth quake, vermin, inherent vice and rot are all excluded. The point is that if it's not excluded, it's covered and that's important. Nonetheless; either form covers the types of losses we are talking about here.

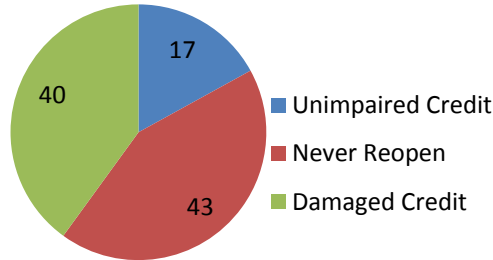
INSURANCE TO VALUE

This is one of the biggest problems in ANY type of loss. If you are not insured to value, YOU are going to be penalized. Every property policy has a page or two explaining exactly how this works. Of course, we don't read the policies, so this comes as a big surprise. The penalty works like this. For simplicity I'm going to assume a 100% coinsurance clause, but you will usually see either 80% or 90%. You are agreeing to insure your property for Replacement Cost (Cost to clear the slab and rebuild) and to insure it for at least the amount agreed to, in this case 100%. If you have a \$1,000,000 building you must insure for \$1,000,000 (100% coinsurance clause). If you insure it for only \$700,000 (maybe that is what you paid for it) you have a problem at loss time. Since you have insured it for 7/10 of the required amount the company will pay 7/10 of your loss, less the deductible. Assuming a \$100,000 roof loss and a \$5000 deductible the company would only pay \$65,000. That's a pretty steep penalty, and yes, it's carefully explained in the policy.

BUSINESS INTERRUPTION COVERAGE

Nearly 85% of companies without this coverage never reopen or have severely impaired credit after any type of loss. Yet this is one of the least purchased coverages in the market place. After a loss certain expenses remain, yet there is no income to pay these expenses. Examples of these expenses would be a mortgage payment, salaries to key people, reduced utilities, taxes, insurance, lost net profit and any other expense that is fixed. If your business is closed for several months you can imagine what the consequences would be. The chart below graphically illustrates just how severely you can be impacted by not carrying, or by not carrying enough business interruption coverage.

Consequences of NO Business Income Coverage



COVERAGE FOR OFF PREMISE POWER FAILURE

OK, you made it through the storm undamaged, but the utility company took it on the chops. Transmission lines are down, the electric grid is severely damaged by the storm and is not expected to be operable for weeks or months. Since you have no damage your policy doesn't respond; or does it? Actually it depends on you and your agent as well as an understanding underwriter. There are a couple of ways to actually have this coverage added to your policy. There is an ISO property endorsement that allows for off premise power failure and at least one Mechanical Breakdown Policy (North Pointe Insurance Company) that gives you this coverage. The recent hurricane season left many businesses without power for weeks. After a three day deductible this coverage was triggered and those ongoing bills were paid under the applicable endorsement.

Remember, most any policy will pay for the damages, it's those other expenses that can come back to haunt you. Sometimes cheapest isn't best. You spend lots of money on insurance, make absolutely sure you understand the deductibles, coverages and any limitations to your policy that might impact you at payment time.

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