

YOUR INSURANCE TOOL BELT

Supplies for successful disaster recovery

By Stanley W. Smith, CPA

Insurance planning and planning for disasters go hand in hand whether the disaster is a devastating fire or a devastating hurricane. A better understanding of insurance, its application and the “risks” confronting a business can make the difference between survival and financial ruins.

For those of us who are in hurricane prone areas, as we are in that time of year again, it should be noted that the intense hurricane seasons of the recent years reinforces the need to continually address the topic of hurricane preparedness and insurance planning. With regard to preparedness, the Director of the National Hurricane Center has most accurately stated on numerous occasions, “Preparation through education is less costly than learning through tragedy.”

One good source of education and knowledge is the “Hurricane Procedures Manual” produced by the Caribbean Hotel Association and the Caribbean Tourism Organization (*find at www.onecaribbean.org*). The manual covers preparedness and damage control, readiness during the passing of a hurricane, and post-disaster mitigation and recovery. It offers advice on guest and property safety and security, insurance coverage, and disaster communications.

Property Insurance Preparedness

From the standpoint of having the proper financial resources to recover after a catastrophic event, it is imperative that hotel and club management take the time to understand the terms and conditions of their property insurance policies — read the policy and ask your broker to explain what you do not understand. Secondly determine whether the limits of your insurance are adequate, especially if there is an averaging or coinsurance clause in the policy that can create a penalty if there is a claim and the property is under-insured.

In dealing with insurance coverages, it is important to understand some of the more common conditions of a policy and their application to make

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sure that insurance coverage is appropriate and avoid pitfalls before the loss occurs. Go over at least the following with your broker to see if they are in your policy:

- ☐ Replacement cost vs. actual cash value (Replacement costs are preferred because you get the cost to re-build)
- ☐ Coinsurance
- ☐ Agreed value endorsement
- ☐ Ordinance / code upgrade
- ☐ Loss of off-premises power and water
- ☐ Costs of architects and engineers in reconstruction
- ☐ Foundations, walkways, roads and landscaping
- ☐ Blanket coverage
- ☐ Consequential business interruption
- ☐ Extra expense coverage to assist in business interruption loss and quickly getting operations up and running
- ☐ Deductibles for windstorm and earthquake
- ☐ Appraisal clause — know that it exists

Other Considerations

Meet with your broker/agent. When you meet, be sure to “walk” the property and review the above. Discuss various coverages and limits of insurance that are warranted. With the assistance of the broker, evaluate alternatives and their costs (including sub-limits for different coverages)

- » Insurance application
- » Business income and extra expense worksheet

Consider competitive bids. On larger properties consider the issuance of an RFP (request for proposal) so that competitive quotes are identical. Make sure to allow for variations to permit savings (e.g., different deductibles)

- » Use Broker of Record letters to permit an orderly access to the markets

Start the process as early as possible. Note that a lot of underwriters wait until the last minute before releasing their premium quotation.

Document mitigation efforts and give them to interested underwriters. Not only to reduce premium, but on occasion to just get coverage

Policy forms. Request copies from the selected insurer to evaluate the terms and conditions, which are somewhat negotiable in the early stages — a fairly difficult task.

- » While saying this, many insurers, most notably the underwriters at Lloyd’s, sometimes do not issue the actual policy for six months or more after the policy commencement date

Be aware of these other insurance nuances.

- » Brokers versus agents
 - Most insurance is purchased through a broker or agent — not direct
 - Responsibility, potential conflict of interest; contingent fees
 - Length of time the broker has been doing business with the insurer

- Smaller Insurers — the more they retain vs. reinsure could present a problem in the event of a significant mass occurrence
- Reinsurance
- Syndicates / multiple insurers on a policy
- *A.M. Best* ratings of the insurers

The Recovery / Claim Process

In the event of a loss, the following are important things to note to maximize a recovery claim.

- ☐ Be proactive
- ☐ Understand policy terms and conditions, and how they apply to the loss
- ☐ Report loss to your agent on a timely basis. This gets the adjuster out early and accelerates the claim process
- ☐ Use 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
 - » Remember, losses can be settled on an estimated basis
- ☐ Mitigate further damages, this is your responsibility
- ☐ Be precise in uncovering critical detail
- ☐ Be aware of diminution of useful lives
- ☐ Use as leverage the mitigation of business interruption losses when settling property
 - » Efficiently handle continuing expenses
- ☐ Be well-informed when negotiating
- ☐ Pay careful attention to the business interruption loss and extra expense portion of the claim:
 - » Net income, plus continuing expenses — project based upon trends
 - » Ordinary payroll expense exclusion
 - » Address costs to stay in business and mitigation
 - » Restoration period and any extended period — think through to settle on an estimated basis

In summary, management must understand their insurance coverage and the terms and conditions of their insurance contract, which is not necessarily an easy task. There should not be any hesitancy to meet with the broker even if it is for hours at a time. But once you get your arms around the matter, you will have some control over your ability to survive in the event of an insured loss. ■