

PROPERTY & CASUALTY

Hurricane Impacts The Aftermath



Large-scale catastrophic events can have significant impacts on your business. The most obvious is direct damage to your facilities, which can also result in impaired operations. However, many secondary issues can have detrimental effects. Utilities (including power, water, sewer, gas, etc.) often become unreliable due to wind damage or flooding. Infrastructure can sustain damage, which impedes access to and from your facilities. Governmental or other civil authorities may issue orders that restrict access to your locations. Even if your business location is outside of a catastrophe-prone area, you can be impacted by a catastrophe if large customers or suppliers sustain damage, which hinders their production.

Catastrophic conditions often trigger additional ancillary coverages included in many policies. Frequently, these additional coverages have their own sublimits, specific deductibles or waiting periods. It is essential to review your specific policy terms and conditions. The following discussion is not intended to be a comprehensive review of coverages. Instead, use the following to provide an idea of what to look for depending on your circumstances.

Protection & Preservation of Property (Property Damage & Time Element)

An insured incurs costs to temporarily protect a property from an impending threat (for example, boarding up in advance of a hurricane). This impending threat may also cause a business to shut down, resulting in a loss of income. Issues to consider specific to this coverage may include:

- The costs generally need to be spent on *insured* property due to an imminent threat from an *insured* physical loss or damage and the threat must be considered *temporary* in nature.
- If the event ultimately does not materialize, generally, the deductible for the event that would have happened is applied to the coverage.
- There may be a stipulated recovery time for Time Element losses (for example, 48 hours before and after protecting property).



Ingress/Egress (Time Element)

Your property may not be accessible due to damage to roadways, bridges, tunnels or other infrastructure. This lack of access may result in Time Element losses. Issues to consider specific to this coverage can include:

- The prevention of access generally must be from *physical damage of the type insured to property of the type insured* and at an *insured location*.
- Whether the damage needs to be within a certain radius of an insured location.
- There may be a specific number of days the coverage is afforded for or there may be a separate sublimit.
- Whether access needs to be completely shut off or if partial impairment qualifies for coverage.

Civil/Military Authority (Time Element)

Authorities may restrict access to your facility, resulting in a Time Element loss. Issues to consider specific to this coverage can include:

- The order must be from *physical damage of the type insured at an insured location* or within a specified radius from the impacted location.
- There may be a specific number of days the coverage is afforded for or a separate sublimit.
- Whether access needs to be completely shut off or if partial impairment qualifies for coverage.
- Whether there is a specified amount of time the order must be in place (Waiting Period):
 - » For coverage to apply and is subject to a different deductible OR
 - » That serves as the deductible for this coverage

Service Interruption (Property Damage & Time Element)

Your facility may sustain damage from a loss of incoming/outgoing gas, sewer, electricity, water, refrigerant, etc. This may also result in a Time Element loss for operations that rely heavily on utilities for their processes. Issues to consider specific to this coverage can include:

- Review exclusions to confirm if a change of temperature or spoilage is covered specifically for Service Interruption (for operations where this may apply).
- Is *physical loss/damage of the type insured to property of the type insured* required or is any *accidental event* to the utility provider's property sufficient to trigger coverage? Some policies require that a specified peril (i.e., wind, flood, etc.) damage the utility's property before coverage applies. Additionally, damage to certain types of the utility's property may be excluded (transmission and distribution systems, for example).
- The damage to the utility's property may need to have occurred within a certain distance from your affected location.
- Losses may be subject to a specified waiting period before coverage applies (24 hours, for example). This measurement may be different between Property Damage (the length of time utilities are interrupted) and Time Element (the length of outage and the amount of time to resume normal operations). The waiting period can serve as a coverage qualifier with a separate deductible or it can be considered the deductible itself.
- The insured may need to notify the utility of the outage and save this documentation in support of your claim.



Contingent Time Element

Even if one of your locations is not in an area affected by the storm, customers or suppliers critical to your operations can be damaged by a catastrophic event. These scenarios can become complicated quickly as the damage has not occurred to your property and you may have limited control over the situation. Issues to consider specific to this coverage can include:

- Generally, the customer/supplier must be impacted by *physical loss or damage of the type insured to property of the type insured* and at a *contingent time element location*.
- The definition of a contingent time element location should be reviewed closely to confirm the number of customer/supplier tiers included. Policies can consider only the first/direct tier, a specified number of tiers or include all tiers.
- There may be specific sublimits/deductibles for Contingent Time Element coverage, which can also be scheduled on a per customer/supplier basis.

Attraction Property (Time Element)

Your property can be spared from significant damage. However, it may rely heavily on a nearby property, which you do not own or control, that becomes damaged. For example, a hotel that relies on guests being attracted to a nearby non-owned theme park. Issues to consider specific to this coverage can include:

- Generally, the Attraction Property must have been impacted by *physical loss or damage of the type insured to property of the type insured*.
- The Attraction Property may need to be within a specified radius from your location.
- There may be a specific number of days that the coverage is afforded for or there may be a separate sublimit.

Deductibles

Deductibles may seem like a relatively straight forward issue, but they can quickly become complicated if there are multiple perils involved (i.e., flood and wind in a hurricane), several locations or if they are calculated on a non-monetary basis. Deductibles can apply on a:

- Per Occurrence basis – One deductible applies to all losses associated with the same event (no matter the number of locations involved).
- Per Location basis – A separate deductible is applied to each location involved, even if more than one location is involved in an event.
- Combined Property Damage/Time Element basis or separate deductible for each coverage type.
- Generally, only the largest deductible applies to a loss unless otherwise specified in the policy.

There can be several different ways that deductible values are determined. Examples include:

- **Monetary Deductibles:** A specific stated dollar amount.
- **Percentage Deductibles:** Generally, a stated percentage in the policy is applied to the values present at a damaged location (Property Damage) or to the annual Time Element value that would have been earned (Time Element) to determine the monetary value of the deductible. Depending on policy wording, the percentage can be applied to all values combined or separately to each individual unit of insurance involved (Building, Stock, Contents, Time Element, etc.). Percent deductibles often apply to properties in high-hazard wind or flood zones.
- **Day Equivalent (or Average Daily Value):** A stated number of days multiplied by the total daily Time Element value at the affected location (plus the proportion of the Time Element value at any affected interdependent locations).
- **Day Equivalent Contribution:** A stated number of days multiplied by the Time Element value for which the damaged property contributes to the entire affected location (plus the proportion of the Time Element value at any affected interdependent locations). This deductible can have a significant advantage over the Day Equivalent when a location has a loss where only part of operations is affected. For example, consider a plant with three lines, all of which contribute one-third of the operations' value. If only one line is damaged, then the Day Equivalent Contribution deductible only applies to the Time Element value passing through the damaged line. This results in a deductible which would be one-third of the Day Equivalent, which considers the total Time Element present.



How Brown & Brown Can Help

Insurance claims can quickly become complicated and confusing, especially following a catastrophic event. Brown & Brown has the knowledge to assist with navigating complex property damage and time element claims to help mitigate operational impacts and expedite the claims process.



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