



By Gary Grosenick, Vice President

EXPECTATIONS AND REALITY

We are heading into the time of year when power interruptions become more frequent, but we are often unprepared when the outage is unexpected and more severe than anyone could predict. The 2006 windstorm was a perfect example of a force of nature exceeding anyone's expectations. On December 14-15, 2006, hurricane-force winds and heavy rainfall in Western Washington, Oregon and British Columbia caused \$400 million in damage and left nearly 1.8 million residences and businesses without power. Fifteen deaths were attributed to the storm. It is estimated that only half of the losses caused by the storm were insured. Although it was not as severe as the 2006 event, last year's winter storm serves as another strong reminder of the powerful effects of nature.

CAN YOU WEATHER THE STORM?

With the season upon us and knowledge of the broad impact a winter storm can produce, having contingency plans in place when the storm hits can help you recover faster. Sometimes, no matter how much planning is done to mitigate the exposure, events like last year's winter storm occur that leave everyone in the dark.

In too many cases, business owners think they have the right insurance coverage for events like this, but upon closer review, their policies exclude the circumstances that would have triggered coverage. Making sure your insurance program responds to these situations is an important part of "Storm Prep."

WHAT DOES YOUR POLICY SAY?

Many businesses buy "Loss of Income" or "Business Interruption" coverage as part of their property insurance program. Whether the cause of loss is a fire or a windstorm that causes a tree to fall on the building, this coverage helps maintain cash flow and continue operations during the period of recovery. But if the power goes out and the policy does not have special language covering the interruption, you are on your own.

Policy language in this area is often confusing, which can lead to holes or gaps in the coverage you thought you were buying. To make sure your policy provides the coverage you need, it helps to have a basic understanding of your policy and how this coverage is triggered.


HERE IS THE PROBLEM

Most Property policies exclude losses caused by utility service interruption and electrical currents. There is no coverage for damage caused by "failure of power or other utility service supplied to the described premises however caused if the failure occurs away from the described premises." This exclusion applies to Property and Business Interruption (and extra expense).

In other words, if a windstorm causes a tree to fall on a substation 4 blocks away from your facility and power is out for 3 days, there is no coverage for any damage or lost profits caused by the lack of power. The exception is if the failure of utility service results in a covered cause of loss to your property, the policy will pay for the damage caused by the covered cause of loss only. For example, if the lack of power caused the building to freeze and upon thawing, sprinkler leakage occurred, only the resulting sprinkler leakage would be covered.

WHAT SHOULD YOU DO?

Do not panic. There is an answer to this problem—the Utility Services Endorsements. A review of your current insurance program will help identify the extent of coverage and determine the appropriate remedy so that the policy can be amended accordingly.



A few basic considerations to keep in mind when going through this process:

- The coverages you carry on your own premises will dictate the coverages you are able to get under the Utility Services endorsements. If you want business interruption coverage from a power outage, you must carry business interruption coverage on your own premises for other types of losses.
- Remember that the expansion of coverage could result in additional costs. Being able to weigh the costs against the exposure and deciding accordingly (before an event) is a better position than not having had the opportunity at all.
- Insurance is not going to cover everything. As a prudent business owner, it is always best to approach any adverse situation as if you did not buy insurance and be prepared; it's better to be on your toes than on your heels.

THE FIX

The first step is to consider the exposures facing your company. Will being out of power for a period of time adversely impact your operations and profits? If it would not, you can stop reading. If you are still reading, the next step is to determine how your current insurance program would apply. This involves reviewing the policy language, evaluating the coverage and taking the appropriate action to amend the policies.

THE UTILITY SERVICES ENDORSEMENTS

Direct Damage and Time Element

These endorsements are designed to cover your property (Direct Damage) and Business Interruption (Time Element) if a physical loss at the utility's facility causes a power failure that results in damage to your property and/or a business interruption loss.

The extent of coverage under these endorsements depends on the perils and coverages in your own policy. For example, if the wind blows a tree onto a substation transformer causing an outage and your policy provides coverage for wind damage to your premises, the outage would be a covered event. Underwriters often require a time qualifier, meaning the power outage or service interruption must occur for a period of time before the loss qualifies as a covered loss. These time periods typically range from 4 to 72 hours.

A major point: many power outages are caused by downed power lines. These endorsements do not automatically extend coverage for loss caused by or resulting from the damaged transmission and distribution lines (T&D lines). This coverage is available, but must be requested and added by endorsement. Other utility services such as water, gas and communications can also be covered by these endorsements. Communication issues can be as devastating as the loss of power in some cases as we observed in last year's storm.

WHAT DOES ALL THIS MEAN?

It means that if you have the protection you need during a severe winter storm, you will be in a better financial position to re-start or maintain business operations and profits. Determining if your policies are endorsed correctly is the first step in knowing how the events following a utility service interruption loss will unfold. The second step is to amend or endorse to fully extend the coverage as previously discussed.



WE CAN HELP

Technical Expertise

Professional Claims Support

Parker, Smith & Feek can help you analyze your exposures and how the policies you currently have in place would respond to an interruption of utility services.

All of our employees are recruited for their technical expertise, team orientation and strength in communicating their knowledge to our clients. Being one of the largest brokers in the Northwest, we have strong relationships with many insurers and we call upon these regularly to assure our clients have the best programs available in the market.

Parker, Smith & Feek maintains the largest staff of claims professionals in the region. When a loss occurs, our claims professionals work to get you back up and running with as little interruption as possible.

Innovation in setting the stage for a successful outcome is one of our prime directives when it comes to claims. An example of this is that when the power outages occurred last December, we anticipated underwriters' coverage rejections for those clients that did not purchase T&D (transmission and distribution) line coverage. During and after the storm we monitored the utility company's website that provided service information and, in some cases, webcam footage of the damaged substation transformer that supplied our clients' premises. Adjusters initially denied coverage, claiming the loss resulted from downed power lines, until we presented them with the screenshot of the utility's substation showing damage.

Another example, this time involving the hospitality industry: because last year's storm losses occurred in the middle of the "holiday" peak season, many of our food service and hospitality clients lost revenue during their busiest, most profitable time of year. Many of the events had to be cancelled or re-scheduled after the New Year. A number of insurers attempted to adjust losses without taking into consideration the seasonal nature of profitability that occurs when events must be cancelled or rescheduled to a later date. Some adjusters even said that when an event was rescheduled, no real loss of revenue occurred. In the end, not only did the insurers pay for the differential in profitability, but they also covered our clients' lost opportunities for cancelled parties and for the days the rescheduled events took place.

While these examples describe some of the actions that can take place after a loss, having your insurance policy in good order before a loss is always the best strategy. If you would like us to look at your policy to determine storm related coverages, please contact a Parker, Smith & Feek professional.