

When civil unrest breaks out

Businesses run the risk of property damage and so much more

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Events like the riots in Baltimore and Ferguson can sometimes be difficult to predict, but businesses can shield themselves from the potential financial risks by securing a comprehensive property insurance policy. Coverage that extends beyond the building and its contents (real property) can help businesses manage other possible losses resulting from civil unrest. If a business incurs a loss during a riot and must close, a policy that includes time element coverage can help replace lost income and cover continuing expenses such as mortgage or rent payments, taxes and employee wages.

BEING PREPARED

When selecting a policy, it can be a challenge to think through all of the possible events a business would need coverage for, but taking the time to do this puts you in a better position should a loss occur. When claims are filed, each loss is carefully measured and valued using various details related to the business. Whether the claim is for lost income resulting from a fire or other property damage, the claims adjuster will do a thorough investigation to determine the coverage.

Business income claims are only paid when certain events occur and the coverage is based on how the policy is written. Key items to take into account include:

- Physical damage – Business income coverage is triggered when property is damaged from an event such as a fire, hurricane or flood, and the business can no longer operate
- Vendor losses – If you are dependent on a vendor that incurs a loss that impacts your income and you have contingent business income insurance, then your business would be covered for the loss

- Civil authority implications – When local government officials impose a curfew, the resulting income loss may be covered if there is a civil authority clause in the policy
- Ingress/egress issues – If road closures prevent customers and suppliers from getting to your business, coverage for the lost income may be triggered for a limited time

In most policies, when triggered by direct physical loss, the coverage seeks to replace the income that a business would have earned had no events shut it down. For example, if a small store is robbed and set on fire during a riot, their property insurance policy may provide replacement coverage for the building, the store's inventory and other covered property; because they can't operate as they normally would, they will need business interruption coverage to replace the income that is lost, and pay employee wages and other expenses while the business is closed during the "period of restoration."



TAKING A CLOSER LOOK AT BUSINESS INCOME LOSSES

Forecasting business income in these uncertain economic times can be tricky. Like economists and accountants, insurance professionals do not use a crystal ball. Instead, they must consider the historical operating results to project the impact of an interruption on a business' income stream.

A business income loss calculation measures the policyholder's lost profit and continuing expenses during the period of interruption. Therefore, the claims adjuster focuses their attention on the revenue, expense and resulting net profit. It is crucial to present a projection that falls within a reasonable range – and reflects what the business would have done as opposed to what it could have done. The data needed is contingent upon the length of the loss period and other components. The total value is based on a comparison of the same months from the prior year, and includes information such as sales projections for the upcoming year, utility bills and any services purchased from outside companies. If a company continued to pay its employees while the business was closed, that would be a continuing expense. If a building is burned to the ground, the utilities are going to stop – making them non-continuing expenses.

Factors to consider:

- Number of locations – Five locations with \$20 million each in sales will have a lower risk of a large loss and higher probability of more frequent losses than one location with \$100 million in sales
- Overlap and interdependency between locations or vertically integrated supply chains – A loss can be greater if one insured location receives work-in-process or components from another insured location; the loss could be mitigated if the different locations produce the same products

- Realistic assessment of the repair time – A facility with complex construction and intricate machinery may take years to complete repairs and resume operations; a basic warehouse and assembly operation may resume operations in a few months; companies with detailed drawings of equipment, operations and buildings can expedite repair times

MANAGING THE RISKS

A key step toward reducing the risk is to understand what is and is not covered. An agent or broker can be a valuable resource, but it is critical for a business owner to thoroughly understand the policy including the coverages and exclusions, and what co-insurance is. The policy should cover the projected business income value for 12 months – businesses that are underinsured may carry more of the exposure. Understanding all of the exclusions and clauses can reduce surprises when the insurance valuation is completed and the final statement of loss is rendered.

Other key tips to help businesses manage risks and reduce losses:

- Review your business continuity plan every six months – If important elements of the business are in one area, having a planned redundancy or outsourced functionality (i.e. computer servers, supply chain) is critical; ensure employees have the ability to work remotely when curfews are imposed or roads are blocked; when there are ingress/egress rules restricting traffic to and from certain areas by civil authority, or local government officials impose a curfew and businesses have to close, the time element coverage for losses caused by civil authority would come into effect and it is often available for 14 days



- Consider purchasing a mandatory evacuation policy – This would offset these types of risk exposures addressing ingress and egress to physical locations
- Event cancellation policies are available to protect costs associated with conventions, concerts, movie productions, etc.
- Add dependent properties coverage – In a situation where a retail chain is receiving goods or a manufacturer is receiving raw materials through a shipping port that is shut down, that can impact future sales – the only way a business will be covered for that time element loss that happened miles away is through dependent properties coverage; when a business depends on a provider whose operations are interrupted, the business can file claims for future losses in sales if they have this type of coverage
- Have a disaster recovery plan – This may include workaround options for obtaining power and water, a back-up plan for protecting and replacing items valuable to the business such as a computer program, a mold or a special process; backing up data and powering down computer servers before outages; and having emergency services and salvage companies lined up in advance
- Keep copies of your policy, drawings and important records on site and off site – If there is fire or water damage, you will be able to access these copies

When a business is physically damaged and financial losses occur due to civil unrest, severe weather or other catastrophic events, it is important to have the appropriate amount of insurance to cover continuing business expenses and get up and running again. Sedgwick provides property adjusting and investigations through its subsidiaries – VeriClaim, an independent adjusting firm, and Unified Investigations & Sciences, a multidisciplinary forensic engineering firm that provides independent forensic analyses and origin-and-cause investigations. Both have extensive experience assisting businesses with these types of losses.