

(The following is an article on Hurricane Preparedness written by Stan Smith of Smith Orloff & Associates, International Insurance Loss Consultants and Allied Members of the Bahamas Hotel Association and the Caribbean Hotel Association. Mr. Smith is a recognized expert in insurance loss consulting and risk management and has been a speaker on the subject throughout the Caribbean as well as at the Caribbean Hotel Industry Conference.)

## **INSURANCE PLANNING & HURRICANE PLANNING GO HAND IN HAND**

### **A BETTER UNDERSTANDING OF INSURANCE CAN REDUCE STORM LOSSES**

#### **Introduction**

The intense hurricane seasons of the past two years and warnings of another elevated hurricane season this year reinforces the need to continually address the topic of hurricane preparedness. Researchers for the National Oceanic and Atmospheric Administration (NOAA) have said that the climatic ingredients are now in place for intense hurricane development and hurricane forecaster Dr. Gray has said we have in fact entered an era of more and more powerful storms.

The chief economist for the Insurance Information Institute in May of this year warned the property-casualty insurance industry that they can at some point count on a year of catastrophes inflicting insured losses nearly double last year's record \$58 billion; specifically stating "*We are on a trajectory for a \$100 billion year*". For the 2006 season, while NOAA has decreased the number of storms from first predictions they are still forecasting a number of major hurricanes. We furthermore should not be fooled by a slow starting season this year.

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*".

#### **Preparedness Education & Knowledge**

CHA in conjunction with CTO has produced a manual entitled the "*Hurricane Preparedness Manual*". 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. In addition, both BHA and CAST offer Hurricane Preparedness Workshops that should be considered as an essential part of hurricane preparedness.

NOAA also has a web site that deals with Hurricane Awareness and preparation, which is <http://www.nhc.noaa.gov/HAW2/english/intro.shtml>. By knowing your vulnerability and what actions you should take, you can reduce the effects of a hurricane disaster.

The goal of this Hurricane Awareness web site is to inform the reader of hurricane hazards and provide knowledge, which can be used to take action. Hurricane hazards come in many forms: storm surge, high winds, tornadoes, and flooding. This means it is important to have a plan that includes all of these hazards.

#### **Building Upgrades & Mitigation Efforts**

Certain aspects of hurricane preparedness relating to building improvements and upgrades as well as mitigation efforts (storm shutters, etc.) are not only important in preventing

destruction of the property, but also extremely important in obtaining property insurance at rates more favorable than otherwise. This aspect of preparedness should be reviewed on an annual basis and not overlooked. Initial focus should be on building areas that seem to always “get hit”.

### **Catastrophic Insurance Markets**

Based upon historical events, as a result of recent catastrophic occurrences the insurance markets for windstorm and flood have tightened up and premiums are increasing in many markets, especially the reinsurance markets. Therefore the availability and cost of insurance will become even more significant to everyone’s operations and each property must be more proactive in addressing mitigation efforts to help reduce risk and control premiums. Further in this regard, each property must find the means to disseminate this property information to potentially interested insurers. One client on St. Croix has taken a very constructive and innovative approach to this matter by creating, and continuously updating a web site for their property insurance. I refer you to [www.schooner-bay.com/insurance](http://www.schooner-bay.com/insurance) for what can be done to impress and effectively communicate with prospective underwriters and brokers.

### **Property Insurance Preparedness**

From the standpoint of having the proper financial resources to recover after a catastrophic event, it is imperative that each Hotelier take the time to understand the terms and conditions of their property insurance policies as well as determining that their limits of insurance are adequate, especially if there is an averaging or coinsurance clause in their policy.

#### Some of the basics of how to prepare for a hurricane loss claim include:

- Review & understand your insurance policy, especially any problem areas like coinsurance and exclusionary type language. Also insure you have a complete copy of the policy & keep it in a safe place.
- Pre-hurricane season preparation – plan for protection from the storm, particularly areas that are more vulnerable as a result of wind direction or wave action.
- Photographs of the property prior to hurricane season to show conditions.
- Report loss to your agent on a timely basis – gets adjuster out early which accelerates the claim process and settlement.
- Photograph all damages after the storm.
- Protect damaged property to mitigate further damages – facilitates full recovery. Emergency post storm clean-up – tarps on roofs, water extraction – prioritize for your needs.
- Address “extra expense” to minimize any business interruption loss and mitigation efforts.
- Reservations – maintain records to assist in documenting lost revenues. Maintain historical financial records in a secure place.
- Insurance company reserves – prepare early estimated damage assessments to assist in setting the reserve on your loss -- as accurate as possible (very difficult, but extremely important) – helps avoid an up hill battle later in the claim process.
- Claim preparation – must be proactive - prepare your own detailed loss assessment on an estimated basis – it is not necessary to wait for final actual costs.

In dealing with insurance coverages, it is important to understand some of the more common conditions of a policy and their application and make 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
- Coinsurance
- Agreed value endorsement
- Ordinance / code upgrade
- Loss of off-premises power & water
- Costs of architects & engineers in reconstruction
- Foundations, walkways, roads & landscaping
- Blanket coverage
- Consequential business interruption
- Deductibles for windstorm & earthquake
- Appraisal clause – know that it exists

### **The Recovery / Claim Process**

In the event of a loss, the following should be noted to maximize a claim recovery:

- Must be proactive
- Understand policy terms and conditions & how they apply to the loss
- Use of 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
  - Losses can be settled on an estimated basis
- Responsibility to mitigate further damages
- Precision in uncovering critical detail
- Be aware of diminution of useful lives
- Mitigation of business interruption loss used as a leverage in settling property
  - Efficient handling of continuing expenses
- Use of extra expense coverage
- Negotiating skills / negotiating on an informed basis
- Business interruption loss & extra expense portion of claim -
  - Net income plus continuing expenses - project based upon trends
  - Ordinary payroll expense exclusion
  - Address costs to stay in business & mitigation; i.e., extra expense -have a plan
  - Restoration period and any extended period – think through to settle on an estimated basis

### **Questions / Assistance**

In the event of any questions or need for assistance, please do not hesitate to contact any of our principals – Leonard Orloff, Esquire, John Crowley or myself.

My best wishes to all for a safe and secure season.

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**A note from the Caribbean Hotel Association & the Caribbean Alliance for Sustainable Tourism --**

Insurance companies have professional adjusters protecting and representing their own interests. In the event of a hurricane loss, it's in the hoteliers' best interest to also have a qualified and experienced expert (adjuster) protecting and representing their interests. As the hurricane season is upon us, keep in mind the resource available to you through the Caribbean Hotel Association's relationship with Smith Orloff & Associates, insurance loss consultants to the Caribbean hotel sector. The benefit of using Smith Orloff is that they can assist you in maximizing your recovery and insuring that you get the money you are entitled to as a result of a storm. Smith Orloff has extensive experience in the Caribbean, representing the policyholder with their insurance company in catastrophic losses. Their staff would assemble the claim and negotiate a settlement with your approval, allowing you to concentrate on getting your operations back to normal. Their work includes the preparation of building, contents, extra expense, and business interruption claims. Smith Orloff can be contacted at 610-526-2213, 215-886-1204, or via e-mail at smith@smithorloff.com, ~ and be sure you identify yourself as a CHA or BHA member. Remember, membership in CHA is as beneficial as you make it by tapping its resources to your advantage.