



## Catastrophic Weather Events and their Impact on Coverage for Seasonal Properties and Business Interruption

By Brian Butcher\*

Certain seasons herald an increase in particular types of severe weather events in the United States. As we have seen with Hurricane Sandy, such catastrophes can have a significant impact on property losses and, as a result, also potentially impact insurance professionals' liability exposure.

Therefore, it's always opportune to discuss weather-related catastrophes and their potential impact and reflect upon the steps an insurance professional might take to ensure that customers are adequately protected and informed about the nature of the weather-related risks they face. Even if the insurance professional and client are located in an area of the country where there is a low risk of a particular type of weather-related catastrophe, the customer might still face exposure to these risks. Although the impact of weather-related catastrophes is wide-spread, this article will focus on two areas: Seasonal Properties and Business Interruption Coverage.

**Seasonal Properties:** Many agents have customers who own seasonal properties, such as a mountain cabin or a seaside bungalow, located in a different part of the country than the agent's office. Consequently, it is crucial that the agent be mindful of particular weather-related risks associated with the area of the country in which the seasonal property is located. For example: Does the area where the property is located have a high risk of earthquakes? Does the area have high winter snowfall, or extremely cold temperatures, making the property susceptible to collapse from the weight of snow/ ice or water damage as a result of frozen pipes? Is the property vacant for long periods of time and does a vacancy clause in the policy preclude or limit coverage if a loss occurs while the owner is away? Does the property sit on a flood plain, or is it otherwise susceptible to damage as a result of floods, severe storms or hurricanes?

As with any insurance transaction, the axiom, "Know Your Client" is crucial. It is a good idea for the agent to discuss weather-related risks with the client and find out what types of risks the customer needs insurance coverage for. Particular types of coverage, such as earthquake or flood, could be difficult or costly to obtain, depending on where the property is located. Nevertheless, the agent can reduce their E&O exposure by thoroughly discussing all potential exposures and coverage options with the customer and document these discussions in a letter and a note to the file. Additionally, the agent should consider obtaining a signed rejection form for all significant coverage offers the customer declines. In short, communicate, inform, document.

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**Business Interruption due to Catastrophic Weather Events:** We are all familiar with Business Interruption Coverage and its traditional application in the event of a property loss. However, one often overlooked area is how a catastrophic weather event could impact a supply/distribution chain. Again, the weather related exposures could be quite different in the area of the county where the supplier or customer of the policyholder is located vs. the location of the policyholder. Also, the nature of this exposure depends, in part, on the nature of the customer's business. For example, is the customer an end customer, supplier, or middleman? If the customer is an end-user whose supply chain is cut, the customer's business could be significantly impacted by a catastrophic weather-related event affecting one of the suppliers, whose location is in a higher risk area. If so, the agent should consider discussing coverage which could help minimize the customer's loss of business. Two such coverage options include: **Contingent Business Interruption Coverage** (generally covers lost profits resulting when a customer or supplier sustains property damage that prevents the customer or supplier from accepting goods from or supplying goods to the insured, thereby interrupting their business) and **Contingent Extra Expense** (covers certain additional costs the insured incurs to avoid or minimize the interruption of business when a customer or supplier sustains property damage which prevents the customer or supplier from accepting or supplying goods from the insured).

Again, the agent should follow best practices for documenting the discussion and offering of coverage.

In short, it is worth remembering that even if the agent does not think they are in a high risk weather area, it is quite possible that their customer may have a risk in one of those areas that needs coverage.

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