Preparing for the 2018 Hurricane Season

Q&A with Brian Dove, USI’s National Real Estate Practice Leader

The overarching theme is that companies need to fully understand the financial impact of a natural catastrophe. Specifically, the impact on retentions, limits purchased and the cost of insurance. Companies can benefit from a deeper understanding of exposures through in-depth analysis, which will inform them about how to use capital efficiently.

What did last year’s events reveal about the adequacy of catastrophe limits?

There were definitely limit issues related to flood coverage from Harvey because no one anticipated 52-inches of rainfall that led to properties sitting in water for more than a week and widespread power outages. Irma did not necessarily create limit issues but there were companies who were surprised by the level of retention.

If the upcoming 2018 hurricane season is anything like last year’s, businesses should prepare for successive land-falling hurricanes capable of causing widespread and unpredictable destruction across large areas of the country.

According to various estimates, 2017’s powerful hurricanes, notably Harvey, Irma and Maria, produced more than a quarter-trillion dollars in insured and uninsured losses.

Harvey’s torrential rainfall inundated Texas and Louisiana with record floods. Irma and Maria’s high winds and storm surge crippled commerce, communication and power infrastructure in Florida and across the Caribbean. The frequency and severity of these storms hurt businesses in ways even catastrophe models did not anticipate.

In this article, Brian Dove, USI’s national real estate practice leader, discusses the variability of recent storm losses, emerging coverage issues, and why a comprehensive risk management approach is essential to fully protect businesses against hurricane risks.
Why were companies surprised by the amount they had to pay out of pocket for losses?

Many companies didn’t fully understand the retention and how it applied, and therefore were surprised by the actual deductible amount they faced. Some of those issues, which we heard about in Florida, were due to inadequate consultation with risk advisors. For this reason, USI works very hard to eliminate surprises by educating our clients about not only exposures but also how their coverages work.

What other lessons from 2017 can help to improve coverage for clients going forward?

We are working closely with major carriers to address coverage issues related to civil authority and ingress/egress. We heard from companies that suffered sizeable income losses because access to their properties was restricted before, during and after the hurricanes. In a number of cases, it was a combination of how the policy language was applied and inadequate limits. Going forward, we plan to not only negotiate higher limits for this exposure for our clients but to find a permanent solution by getting the policy language improved.

What about flood risks? How are clients preparing for this growing exposure?

Flood continues to be the largest and most devastating natural disaster. It is estimated that in Texas nearly 75% of homes and buildings damaged during Harvey were outside of a 100-year flood zone. Of course, when you have 52 inches of rain, everybody is in a flood zone. The important lesson here is to determine whether companies understand their exposure to flood and the limits they carry. Carriers are scrutinizing properties for flood risks and applying reduced limits and higher deductibles for locations that often don’t need to be under the increased level of scrutiny. Companies should work with an experienced broker to make sure property characteristics are factored into the underwriting process.

Was 2017’s large flood losses a wake-up call that coverage is essential even outside flood zones?

Yes - private insurers are now writing flood insurance at historic levels across the country as insureds are starting to recognize the importance. Another thing we are doing is staying abreast of unexpected changes to flood zones during the policy year. This can create uninsured exposure if property owners are not notified. There are many cases where FEMA has changed flood maps without notifying insureds, causing carriers to limit payout on flood claims. USI has a process to negotiate specific policy language that identifies locations in a flood zone when a policy is first renewed and allow coverage to apply to those locations even if the designations change during the course of the year.

To learn more about USI’s property risk solutions, contact a USI representative or visit usi.com.