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[ the business interruption e-source ]

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## NAMED STORM DEDUCTIBLE

Many businesses on the East Coast are still dealing with the aftermath of the destruction that Hurricane Sandy left. A majority of them did not buy wind protection, but those that did found a surprise waiting for them. Some property insurance policies carry named storm clauses, which can mean a higher deductible for damage caused by such a storm. In exchange, the policyholder typically pays a lower premium amount.

Most commercial property insurance policies have two deductibles—a deductible for damage from a named storm, and a deductible for all other covered damage. In an effort to provide affordable insurance, underwriters increase the applicable deductible for losses caused by named storms or named windstorms to cover partial and total losses. The increase, depending on your policy wording, usually doubles the deductible or applies a certain percentage. For example, if the clause doubles the deductible and your deductible is \$1000, then claims arising from a named storm or named windstorm are subject to a deductible of \$2000.

Other policies apply a minimum percentage. If a policy has this provision, then a deductible of 5%, 10% or whatever amount the underwriter has agreed to apply, would be deducted from the claim.

In addition, many of the clauses define named storms as including hurricanes, tropical depressions, and tropical storms. Some clauses used to state that it must be a tropical storm, located in specific states, or in an identified latitude and longitude zone. There is no mention of winter storms in the clauses I have seen.

It is interesting that these insurance clauses either require that the storm be named by the National Weather Service or the National Hurricane Center or are silent on the naming responsibility. I have not found any reference to storms named by The Weather Channel.

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**A NAMED STORM** or Named Windstorm is a storm, cyclone, typhoon, atmospheric disturbance, depression, or other weather phenomena designated by the U.S. National Weather Service and/or the U.S. National Hurricane Center where a number or name has been applied. "Hurricane Andrew", "Tropical Storm Mitch" and "Tropical Depression Number Seven" are examples of named or numbered weather systems.

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Here is where it gets confusing. The Weather Channel announced that it would assign names to winter storms that meet its criteria: events that involve snow and ice or extreme temperatures or wind or a combination; that significantly affect travel; and that the network thinks people need to know about. First was Athena on the east coast, then Brutus, a winter storm in the Northern Plains. Next will be Caesar and so forth. Until now, only hurricanes and tropical storms have been named and the names came from the National Weather Service. It is unclear as to how this will affect insurance policy holders going forward should they suffer a loss from a named winter storm.

The National Weather Service instructed its forecasters not to use The Weather Channel's names, and few news media outlets seem to be recognizing them. Those that cited Athena, for instance, such as The Associated Press and the *San Francisco Chronicle*, noted The Weather Channel's involvement and did not treat the name as a universal acknowledgment.

After The Weather Channel christened an East Coast snowstorm, Winter Storm Athena, some people feared such names could trigger higher deductibles for homeowners first walloped by super storm Sandy's winds, rain, and floods and then by the nor'easter's wind and snow. Could a cable network's decision to name a storm really end up costing people money in damage claims? Northbrook-based Allstate Corporation has referred to Athena by name on its website which raises the question: Could some named-storm clauses soon be rewritten to include winter storms?

As I understand, the nation's insurers do not seem to be formally observing The Weather Channel's plan to name winter storms. However, as far as I know, underwriting has been silent on this issue. I have not seen any discussion of expanding the named-storm deductible to include winter storms, but that is not to say there are not some companies who are talking about doing just that.

As always, read your policy thoroughly and discuss this issue with your insurance professional.

## b. (FUNNY!)

[ a little insurance humor ]

Golfer: "You've got to be the worst caddy in the world."

Caddy: "I don't think so sir, that would be too much of a coincidence."

Golfer: "Please stop checking your watch all the time. It's too much of a distraction."

Caddy: "It's not a watch - it's a compass."

Golfer: "How do you like my game?"

Caddy: "Very good sir, but personally, I prefer golf."

A client calls his insurance agent and tells him he needs to file a claim.

The agent says, "Tell me what happened."

The client tells him and the agent says, "I'm sorry, but that's not covered."

The client says, "Well, let me explain better what happened."

The agent says "I'm sorry, but that's not covered either."

The client says, "I'll tell you what, You tell me what's covered and I'll tell you how it happened!"

## b. (INFORMED!)

### BUSINESS INTERRUPTION SCENARIO

#### EXAMPLE: RETAIL STORE

#### STRATEGIC PLANNING

Establish and formalize the firm's disaster recovery strategy by looking at current and future operations, floor plan and marketplace requirements.

The disaster provides an opportunity to rebuild the business so it will be competitive and grow into the next decade.

First, complete a **Risk Assessment**, which determines the probability of a disaster and its impact on the organization.

Next, establish the **Return Time Objective**, which designates the length of time your customers will wait for the store to recover, such as 4 weeks. Keep in mind seasonality and any new business plan. Then identify the **Return Point Objective**, which is how much data the store can lose, such as 3 days lost data, so the back-up timing accomplishes this objective.

Define the current operations and decide what the organization should look like in the future. For example, do you change from a boutique to a mainline store; target certain customers like plus size; change from a partnership to a corporation; focus on specific products only; realign and streamline departments; change display logic; outsource payroll, human relations, legal, etc.? What changes could you make now?

Then, establish a formal **Records Management Program**. Establish records retention and destruction procedures, as well as suspect/hazardous mail procedures. At the same time, back up the computer hardware, programs, and data. Make certain the information can be recovered, and don't forget your legal and regulatory operations in your back-ups.

Finally, have a formalized **Life Safety Program**, including both evacuation and lock-down procedures, and practice them. Involve the fire and police chief during these drills.

#### EVENT MANAGEMENT

Since the Contingency Plan has been thoroughly tested and updated on a regular basis, everyone knows what to do when a disaster is declared. The **Event Management Team** reports to the Incident Command Center. Their responsibilities include:

- Immediately addressing needed life safety issues, such as evacuation and first aid.
- Alerting the Security Team to protect the premises.
- Issuing all employees a photo ID.
- Activating the Salvage Team.
- Setting up a temporary location or a tent in the parking lot.
- Delivery of inventory to this location. In 5 days, operations are up to full speed.

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