BLOG

Business Interruption – Another Cost of Climate Change

By Spencer Macalaster, Executive Vice President and Real Estate Practice Leader

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By the time Hurricane Florence hit the Carolinas on September 14, 2018, it had diminished in strength from a Category 4 hurricane to a Category 1 tropical storm, but that didn't diminish its destruction. It had expanded in size and slowed to a crawl before stalling over a wide swath of coastline, dumping torrential rainfall and bringing with it a 13-foot storm surge. Unprecedented flooding impacted areas upriver that had never experienced flooding and massive power outages persisted long after the hurricane left.

Property damage, estimated at about $50 billion, told only part of the loss story. Catastrophes like Florence leave businesses temporarily paralyzed, even as orders still need to be filled and sales still need be made.

Business interruption (BI) loss is one of the most complicated property-type losses you can experience. There are multiple components of a BI claim, including how the loss is accounted for, what are the claim triggers and how deductibles are applied.

In the example of Hurricane Florence, mandatory evacuation orders were issued by state authorities in parts of Virginia, North Carolina and South Carolina in advance of the storm hitting, forcing the evacuation of both private residents and businesses. When a civil authority imposes a shutdown, it can, trigger a BI loss under a property policy. However, there can be grey areas.

When was the order given? When was the evacuation executed? Was it a named storm or a different type of catastrophe? How long were businesses down? What business income was lost during the period of restoration after the storm?

Other factors that could trigger BI coverage include loss by a supplier, electric grid or critical infrastructure failure, as well as other property damage such as fire, that fall outside a direct wind or flood loss definition. Determining what caused the loss can significantly affect the claim. For example, a wind storm in most policies carry a higher deductible, followed by flood. Other direct types of property loss carry lower deductibles. When we evaluate losses for our clients, we work closely with engineers on claims teams to talk about the extent and cause of damage, before notifying a carrier of a loss.

Cataclysmic reports on the growing threat of climate change are being published almost weekly from around the world combined with dramatic increases in concentrated property development and values; the consensus points to a future with more risk. As hurricanes and other natural disasters continue to change patterns and increase in both frequency and severity, we can expect to see a heightened number of business interruption claims. To learn more about protecting your business, contact the real estate tem at realestate@risk-strategies.com or me at smacalaster@risk-strategies.com.

This is one in a series of posts looking at the risk and insurance implications of the changing climate. To see the other posts in this series, click here

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