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Plan Now so Company's Insurance Coverage Won't be a Washout

by Vince Morgan

There is no way to prevent natural disasters like hurricanes, but taking a strategic approach to insurance issues can enhance a company's protection against losses. The doctrine of fortuity holds that it is often too late to fix "coverage gaps" after a loss has occurred. The time to review the company's policies is now, not the day after a storm.

A team approach, drawing upon expertise from both internal and external resources, works best. In-house counsel and risk management groups should work together with accounting and operational departments to assess disaster preparedness, business continuity plans and fixed-asset verification tasks.

This group should also work closely with outside professionals such as the company's insurance broker and coverage counsel. A coverage audit using various hypothetical loss scenarios should also be at the top of the list of pre-loss activities.

Parts of the Policy

Understanding the components of an insurance policy may sound basic, but it is necessary for a full understanding of the insured's rights and obligations.

Most policies contain components that must be read together to have a full comprehension of what coverage is potentially available and what must be done in the days after an event in order to obtain the greatest possible recovery.

Declarations page. The policy's roadmap, this page contains vital information such as the named insured, the insurance company that issued the policy, the policy period, the types and amounts of coverage provided and a schedule of forms that allows the reader to determine if the policy is complete.

Insuring agreements. They describe what is covered by the policy and under what circumstances.

Exclusions. Exclusions carve out certain claims from what may be otherwise covered under the insuring agreement.

Definitions. Definitions for terms used in the policy are usually helpful, but they can occasionally be used as a way to limit coverage just as well as, if not better than, an exclusion.

Conditions. Conditions outline rights and duties usually associated with the reporting, handling and resolution of a claim. They are important and can be perilous if ignored.

Endorsements. Policies often contain endorsements that are attached to the main form. Sometimes endorsements add provisions to the policy, while other endorsements delete parts of the policy.

Core Coverages

A company's commercial property policy is usually the starting point for protecting its tangible property. Ensuring that the policy carries adequate limits, based on a current fixed-asset verification study is critically important. Additionally, the policy should be carefully examined for exclusions, deductibles and internal sublimits that may reduce available proceeds.

It may take weeks, months, even years to fully restore the company's revenue. Thus, there are a number of "time element" coverages that serve to protect against such losses. Coverages to protect a company's income include:

Business interruption. This coverage protects a company against the revenue lost as a result of covered damage to the company's own property. For example, if a hurricane causes damage to a company's facility which then results in "downtime" while the property is being repaired or rebuilt, business interruption coverage steps in to provide protection against this lost revenue.

Contingent business interruption. Hurricanes typically cause widespread damage to affected areas. As a result, a company's key suppliers or customers might also suffer outages that affect the company's ability to conduct its normal business operations. Contingent business interruption coverage protects against losses due to supply chain disruption.

Civil or military authority. In the aftermath of a disaster, and occasionally beforehand with approaching storms, government authorities may issue evacuation orders and other post-loss constraints on access to certain areas. After the Sept. 11 terrorist attacks, parts of Manhattan were off limits for several days. Likewise with Hurricanes Katrina and Rita. This coverage protects against losses arising out of prohibited access.

Service Interruption. Service interruption coverage is designed to protect against losses that result from the interruption of utilities such as water, power, communications or similar services.

Ingress/egress. Storms can cause damage to roads and other transportation infrastructure. Where, for example, the only road leading to a facility is "washed out" due to a storm surge, ingress/egress coverage can cover the lost revenue when access is prohibited due to lack of ingress/egress to the property.

Extra expense. This coverage provides protection for things such as overtime wages, meals, travel costs, security and temporary facilities. Tracking these costs—along with all the other losses—after the event is crucial to preparing the claim.

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