



Date/Issue: **August 2011/Special Quest**

Title: **Can your business weather the storm?**

Author: **Andriana Davis, Senior Product Manager, Avalon Risk Management**

With a 5.8 magnitude earthquake striking Virginia and surrounding areas this week, and reports of Hurricane Irene hitting the Eastern Seaboard by this weekend, we're reminded that natural disasters can happen at any time.

Damage from this week's earthquake was sudden and far reaching, causing estimated damages of \$100 million. Tremors were felt as far north as Maine and reached as far south as North Carolina. According to the American Red Cross, 45 states in every region of the country are at a moderate to high risk of an earthquake. In addition, Hurricane Irene could cause an estimated \$330 billion in damages if she sustains her Category 2 strength all the way up the East Coast, the first hurricane to do since 1956.

In disasters like these, it's important to keep you and your business safe by being prepared. At Avalon, we have our own business continuity planning to ensure our people and systems are available 24/7 to be there when you need us most. In the event of any emergencies this weekend, please find a list of cell phone numbers and email addresses for our management team. You can also email our IT Department at [helpdesk@avalonrisk.com](mailto:helpdesk@avalonrisk.com) if you experience any technical difficulties with our Merlin system.

For your own business, Avalon works with top Property and Casualty insurers like CNA, Chubb and Great American that offer complimentary business continuity services as part of your Business Insurance program. Resources are also available to assist you in preparing for natural disasters, such as [this Disaster Recovery Self-Assessment Checklist provided by CNA](#). Maintaining the proper Business Insurance is an integral piece of your business continuity planning. In the event of a catastrophe, it's important to understand your insurance coverage.

### **Flood and Earthquake Exclusions, Difference in Conditions (DIC) Policy**

Catastrophic perils such as floods (even when caused by a hurricane) and earthquakes are generally excluded from most standard property coverage forms. To protect your business from these risks, you should consider a special type of policy called Difference in Conditions (DIC). Avalon can assist you in securing various quotations that can provide DIC coverage for your owned assets as well as Business Income and Extra Expense if your business cannot operate due to a catastrophic event

Some insurers may offer catastrophic perils coverage under a Property policy, but this is typically available in areas that are less prone to such losses. DIC policies are available from specialty insurers and typically provide coverage subject to specific limits, percentages and/or duration of time deductibles. Since coverage capacity is limited in certain areas for flood and/or earthquake, expect higher premiums and deductibles for higher risk geographic locations. If you are interested in a DIC quotation, please contact your local Avalon representative or email [marketing@avalonrisk.com](mailto:marketing@avalonrisk.com).

*The Quest Newsletter is published quarterly and is designed to provide critical information in the transportation industry. Avalon Risk Management is not responsible for the accuracy or reliability of information contained in articles. The reader/user assumes all risk in the use of such information.*



*Also consider the following implications for your business:*

### **Replacement Cost vs. Actual Cash Value**

Even if you obtain all the necessary insurance coverage to protect your business, do you know how your assets are insured? The most common valuations used are Replacement Cost and Actual Cash Value.

- Replacement Cost is simply the cost to replace lost or damaged property with similar property.
- Actual Cash Value is more complicated, as deductions are made for depreciation. Consider a computer insured as actual cash value which becomes damaged. The insurance company would take the replacement cost of the computer, and subtract the years of wear and tear the computer endured before it was damaged to determine the amount of reimbursement to the insured.

### **Coinsurance**

Coinsurance is a penalty imposed if a policyholder under-reports or under-declares the value of his or her property. Coinsurance will be expressed on a policy as a percentage – usually, 80%, 90% or 100%. If coinsurance on your policy is 80%, the property will need to be insured for at least 80% of its value to avoid a penalty at the time of loss. Keep in mind that while insuring to 80% of property's value would avoid the coinsurance penalty, it would still result in a 20% underinsurance situation. To be insured properly, consider insuring your property's full value. Property must always be accurately reported and updated to reflect inflation and other increases in cost. Avalon can work with you to ensure your assets are properly insured through agreed values, blanketed limits, and other risk management solutions you can consider.

### **Cargo Insurance**

Hurricanes often cause flash floods, which can damage roads and ports. It's important to note that if cargo is damaged in a storm, carriers are not liable for "Acts of God" and shippers will only be reimbursed if they purchase Cargo Insurance. You should also review your Cargo Insurance policy to make sure it includes a deviation clause, which provides coverage in case cargo needs to be rerouted once it is already in transit. If you are insuring goods all-risk within a warehouse, you should verify if the coverage includes the perils of earthquake, windstorms and floods.

### **Am I liable if goods are damaged from a catastrophic loss while in my care, custody or control?**

Just as carriers are not liable for "Acts of God" you should not be held liable even if cargo is damaged due to a catastrophic loss while traveling under your bill of lading or air waybill. Especially if you are storing goods in your own warehouse facility, you do need to act prudently in the event of an incoming storm to protect the cargo. This should be a key risk management component of your business continuity planning.

Such plans should include the steps that must be taken to keep cargo inside a boarded facility and as fully tarped or wrapped as possible. Cargo should not be stored on the floor to avoid potential damage from ensuing floods. And any temperature controlled goods should have backup generators. Of course, the safety of you and your employees are most important, and your various transportation documents, bills of lading, and warehouse receipts should contain strong Force Majeure clauses that specify you are not liable for acts beyond your control. Maintaining the proper Professional Liability coverage will also ensure you are provided with legal defense if you are sued for any damage to cargo that is caused during a catastrophic loss. Warehouse Legal Liability policies can also be enhanced with Property of Others coverage that can be extended to include hurricane, flood, and earthquake for additional premium and special terms.

*The Quest Newsletter is published quarterly and is designed to provide critical information in the transportation industry. Avalon Risk Management is not responsible for the accuracy or reliability of information contained in articles. The reader/user assumes all risk in the use of such information.*



*Page 3 of 3*

**How can businesses protect themselves?**

A disaster can occur at any moment, and it's important to work with strong, financially secure insurers. Businesses whose insurance is dictated primarily by premium costs may find that less expensive policies may often lead to less protection when disaster strikes. Avalon's comprehensive business insurance programs understand the nature of your logistics industry and protect the full scope of your operations. We stay current on industry trends to keep you informed and protected.

For more information, please contact your local Avalon office or Andriana Davis at (847) 700-8087 or at [adavis@avalonrisk.com](mailto:adavis@avalonrisk.com). A list of our offices may be found at [www.avalonrisk.com](http://www.avalonrisk.com).

*The Quest Newsletter is published quarterly and is designed to provide critical information in the transportation industry. Avalon Risk Management is not responsible for the accuracy or reliability of information contained in articles. The reader/user assumes all risk in the use of such information.*