Small Business Success Podcast:

Insurance: Emergencies and Disasters

The **SCORE Small Business Success Podcast** features interviews with the best and brightest in the world of small business, covering topics such as business plans, financing, marketing, human resources, SEO, social media and more. In this podcast, SCORE mentors chat with Peter Hedberg.

* Peter Hedberg started his insurance career in 2003 at Hayes Company in the midwest. Peter handled management liability lines, and professional and privacy insurance. In 2013, he moved to New York and joined the underwriting side at Hiscox, a global specialty insurance company based in London. He currently manages new and renewal technology, professional, and privacy liability insurance for the Northeast Region of Hiscox.

Fred Dunayer: Welcome to the SCORE Small Business Success podcast, Been There, Done That! To get free mentoring services, as well as to see the wide variety of resources available for small businesses, visit our website at www.score.org or call 1-800-634-0245. Now, here's your host, Dennis Zink.

Dennis Zink: Episode number 41, Insurance: Emergencies and Disasters. Fred Dunayer joins me today in our studio as co-host, SCORE mentor, and our audio engineer. Good morning, Fred.

Fred Dunayer: Good morning, Dennis.

Dennis Zink: Again, we have Peter Hedberg returning as our guest today on Been There, Done That. Hello, Peter.

Peter Hedberg: Hi, guys, how are you?

Dennis Zink: Great. Peter Hedberg started his insurance career in 2003 at Hayes Company in the Midwest. Peter handled management liability lines and professional and privacy insurance. In 2013 he moved to New York and joined the underwriting side at Hiscox, a global specialty insurance company which is based in London. He currently manages professional and privacy liability insurance for the Northwest region at Hiscox. Peter, how does a business owner's policy protect small business during an emergency?

Peter Hedberg: I think it's really important to know there's a difference between an insurance emergency and in filing a claim. I think a lot of people think that if there is an emergency or something happening in the immediate that they have to call their insurance company. A classic example is say a home owner's policy where, let's say you had a storm that tore a hole in your roof or something like that, and people think, "Oh, I shouldn't touch that. The insurance company is going to want to take control of this whole thing," or, "I don't want to jeopardize my insurance somehow, so I'm just going to let the water keep pouring in." That's an emergency, and it's okay to take the necessary steps to protect yourself and the property in that case. Whether that be put a tarp up on your roof or something that prevents the water from continuing to come in, those are okay things to do. The insurance company wants you to take action so that you don't have further loss, obviously. It also wants you to take action to make sure that everyone stays safe. That includes dialing 911 if somebody's hurt or something is on fire, or something to that effect. Then, the claim filing process can begin once the crisis or the emergency is over.

I think it's important that people don't jeopardize further loss by worrying what the insurance company is going to do. Again, we bring that up because there is, there's a distinction between when you file a claim and when there's an emergency.

Dennis Zink: Peter, once I've solved the immediate crisis, what do I do?

Peter Hedberg: Let's say you're in a position where you need an additional place to work, or an alternative place to work because where you typically work, and that could be out of your home if you're a small business, is unavailable to you. What you can do is when you get in touch, this is when you want to start filing the claim; this is when you want to start the claim process because that's when you're going to get an insurance adjuster who's going to recommend an alternative place to work, or make those arrangements, or even ask you if you have alternative arrangements and what the cost is going to be so that they can start directly reimbursing you for those additional costs to have an alternative place to work.

Fred Dunayer: Peter, once the insurance adjuster has helped you get settled in, there could be all sorts of other things going on, lawsuits and who knows what. What do you do about those things?

Peter Hedberg: That's a good question. There's a huge difference between when you have a property style emergency where you need an alternative place to work or there's a fire versus when you're actually staring at a lawsuit. I always joke, in the movies the always have these characters who deliver service of suit. They ask you your name, and you identify who you are and then all of a sudden they throw a lawsuit at you. It does work sometimes like that, but most of the time it just shows up in the mail when it comes to a business. You're staring at this lawsuit and I think a lot of people's first inclination is to call a lawyer and say, "Oh, what do I do? I've got to respond to this in a certain amount of time." Every lawsuit has a certain specified period of time that you have in which to respond. It is very important to file the claim and start that process as soon as you can because the adjuster is probably going to be the one that determines what lawyer that's going to be.

Now, if you have a personal attorney that you like and trust, that's okay to call them and consult, but they may not actually be used by the insurance, so you may bear that risk or that cost on our own.

Fred Dunayer: I suspect a pretty good percent of the time it ends up being insurance company lawyer against insurance company lawyer.

Peter Hedberg: It's certainly very possible; although, if you're being sued or somebody is bringing a plaintiff attorney action at you, usually those are plaintiff attorneys. In the world of lawyers, there's a really, really bold line that's drawn between who's the defense attorney and who's the plaintiff attorney. If you can imagine, the insurance companies don't often like to employ people who are plaintiff attorneys as defense attorneys, but when I was an insurance agent, I did, I had a very interesting experience where my insured was a construction firm, and one of their key people, overnight, took a bunch of equipment, and took a bunch of people, and started up an alternative company in another state. They bid it on the same job that his previous company was bidding on. It was a classic non-compete tortious interference claim. They decided to sue this guy who left over the weekend and took all their stuff and started an alternative company. Then he counterclaimed, and he claimed defamation and all these other things. All of a sudden the attorney they hired to go after this guy was also defending the company as well against these things.

Dennis Zink: Wow.

Peter Hedberg: It was very strange because we had to work with the insurance company to figure out what percentage of the work the attorney's were putting in was based on the plaintiff action versus the defense action. It got very messy, and of course we were dealing with an insurance company that didn't like the fact that the attorney billed on the quarter hour. They wanted him to bill on the tenth of the hours. There's all these things that play into it, but that's when it's nice to have a good insurance agent as well, because that insurance agent will be advocating for you. To the original point, yes, if you're staring at a lawsuit, that's a very good time to call the insurance company. It's a great first step.

Dennis Zink: Do you have a certain amount of time that you can do that?

Peter Hedberg: Yeah, most of the time when the way the insurance companies write their policies, they want you to report that claim as soon as practicable. That's the key word is practicable. Now, for a lot of attorneys that read and critic insurance policies, they don't like the term practicable because they think that just is going to be something the insurance company interprets for themselves, especially since attorneys often times have to deal with what are called late reports. When somebody was aware of the claim, but didn't tell the insurance company, or told them too late, but really practically, for small business, when we're talking about as soon as practicable, as soon as practicable means when you know it's a claim you have to call it in.

A great example is if you're staring at a lawsuit, that's a claim, so as soon as practicable means the next business day or whenever. Let's say you're on vacation and you can't turn it in for three days or something, okay, fine, it's three days. It was practicable; you were on vacation, or you didn't know about it, i.e. when the lawsuit arrived and it somehow got thrown in the mail or was mixed up or something. Again, practicable means as soon as you're aware, and as soon as you're able, you have to turn that claim in.

Dennis Zink: If it's beyond a certain amount of time, will they just not pay the claim if it's over 20 days or something?

Peter Hedberg: There is no real set period of time. Again, we use that word practicable, and it's a little squishy, but a good example of a denied claim for a late report is, and I had this happen as an insurance agent. I had one of my customers who received an EEOC notice, and the EEOC notice was handed down by the Equal Opportunity Employment Commission. They said that whoever this person is that your fired, we have determined that it is possible that you fired them for race or age or creed or something of that regard, and there is a hearing, and you need to attend it. This was misinterpreted by the mail room. It was thrown in a file box somewhere that was never seen. Two years later they received a fine in the mail that said, "We sent you a notice. You didn't show up to the hearing. We're leveying a fine against you." The insurance said, "Well, you received it, and you guys didn't file it correctly. You guys put it into a box somewhere that no one ever saw it again. You can't come to us now, that's a late report. As a business you should be aware of when those things arrive and what to do with them."

Dennis Zink: Let's talk about what kind of disasters there are today that you're typically seeing. I mean, there is a lot of weather issues right now, so I imagine you're seeing tornadoes and hurricanes, and earthquakes. Are those the main ones or, and fires? What else is there?

Peter Hedberg: Yeah, it's funny. When you think about the insurance industry and you think about it politically, it's a finance industry, and you can often times expect some more conservative viewpoints politically. There is still some contention about the science behind global warming. I can respect that, and that's fine and everything, but if it's one thing that insurance actuaries don't joke about it's the fact that global warming is real and that they believe in it, and that the incidents of fires, hurricanes, and other weather related events, the frequency is increasing now.

That's what we're seeing a lot of, and a couple of big things happened recently in the insurance industry in the last 10 or 15 years that have really changed the way that insurance approaches risk. The first one was actually September 11th, which isn't related to global warming. I'll go back to that. September 11th was, first of all, it was called an act of war by the President of the United States at the time, and a lot of people did consider it to be an act of war, but those words are very powerful when they come to insurance language, because most insurance, if not all insurance, excludes war. War is not a good risk, ever. You never want to insure it. There is no reason to, but the way they define war in a lot of these insurance policies is that it is going to war with a state or a state actor.

If you remember Al-Qaeda, Al-Qaeda is not a state. Isis claims to be a state even though they are not a recognized country, but Al-Qaeda certainly wasn't. Al-Qaeda was a terrorist network of individuals, and so a lot of insurance companies, both because it would have been very, very bad from a public relationship standpoint, but also because I think it would have been hard to hold up in court, did into deny September 11th as a claim. They paid it. In some cases they paid it in full, but in other cases they didn't and that's very interesting because, again, it comes down to wording. The actual towers in September 11th were struck by two planes. They went down independently because, again, they were struck by two planes.

Now, when people build property insurance for very large structures like the World Trade Center, they stack it. They build what we call towers, towers of insurance, so different insurers take different hunks of that tower. The first three layers of the insurance were interpreted that an occurrence occurred two times with the towers. That's important because two limits of insurance were then paid. It was the difference between one billion and two billion, only it was a lot more than that. That only applied to the first three layers of the insurance.

The next layers of insurance used different wording, and they went to court over what the difference in occurrence language was. The court decided that occurrence meant both towers, so it was only one occurrence after that. The rest of the insurers on that tower only paid 1.1 billion dollars versus 2.2 billion dollars. Again, it hung on the definition of word, and it was litigated. It was litigated because of that. It's kind of a fascinating thing. The reason I bring it up is 9-11 was a completely unexpected event. There wasn't enough money in the insurance industry to pay for that necessarily, so a lot of the re-insurers who pick up the loss in excess of a certain amount for all of what we call these primary insurers, primary insurers being the one that everybody typically works with, a lot of those re-insurers ended up going out of business. They wrote a check for everything they had, and the closed the doors. There was this new era of insurance when we realized there wasn't enough capacity. Several new insurance companies started to come around. Then, also, guess what the insurance companies started to do. Most of them started to exclude terrorism because they didn't necessarily want to be exposed to that again.

The federal government realized that not many people wanted to insure terrorism. It's a tough business, so the specialty market's picked up some of it, but they only picked it up after the federal government stepped forward and signed a major piece of legislation for our industry called TRIA, the Terrorism Risk Insurance Act. Then, latter it was called TRIPRA, which was when they renewed it. What that basically says is the insurance industry is responsibility for the first 100 million dollars of a terrorist event and then the federal government picks up the rest.

Again, you see this, and we'll talk about this more, you see this with certain types of risks. The federal government steps in when no other, when the private market doesn't want to touch it because there could be no profitability in it.

Terrorism is now very well insured. It's insured by the federal government and in the first hundred million it is insured by several private insurance companies around the company. Again, it's hung on the definition of the word occurrence. Right?

Dennis Zink: That's fascinating. I didn't know that. I know flood insurance is insured by the government. You have to buy flood insurance from the government. There is no ... it doesn't first go to insurance companies and then the feds step in in a secondary market. Is that correct?

Peter Hedberg: That's exactly right. The insurance companies used to cover flood way back in the day. When I say way back in the day I mean like 60 or 70 years ago, back when they thought they could make it profitable. They soon found out that flood is never profitable. It's an extraordinarily difficult thing to underwrite, and if the private insurance market did actually underwrite it and put out policies, it would be so exorbitantly expensive that no one would purchase it. The federal government stepped in, and it's called the NFIP, the National Flood Insurance Program, and if you were a homeowner in areas prone to flood, in Coastal Florida, obviously Louisiana, and some of those other states that we read about in the news quite a bit, and even back where I'm from. I'm from Minnesota. The Red River Valley in North Dakota and Minnesota flooded perennially, and it used to only be a one in one hundred year event or one in three hundred year event.

Dennis Zink: Is that what they mean when they say it's a hundred year flood plain or something. They're talking about that they estimate that there could be a flood every hundred years, is that what that means?

Peter Hedberg: Exactly, so when they put together tables on flood plains, the GIS service and several different private organizations also put together these maps, they determine the rate or the frequency with which these catastrophic floods will happen.

Now, with climate change we've actually seen those tables start to lose some of their credibility because we're seeing them more often. We're seeing four or five one in one hundred year floods within a ten year period or something like this. Right? In those areas, if you've mortgaged your house, the bank is going to require you to buy flood insurance. The only place you can buy it is from the government.

Now, there is this vicious cycle with the NFIP right now which is really challenging. Part of that is because the flood insurance itself is actual cash value, which means if your house is flooded, they are not going to pay you to replace your house. They are going to pay you what your house was likely worth on the open market or according to an amortization or depreciation schedule. You're not going to be made whole necessarily. You'll get some money, but you won't get the money you need to go buy another house somewhere else or rebuild your house.

On top of that, the insurance is expensive; it's very expensive. There are places in Long Island that I can tell you right now are paying thousands of dollars a year in premium for this coverage.

Dennis Zink: I'm assuming the homes on the Island, on Long Island are very expensive and that's why the insurance is so much.

Peter Hedberg: Yeah, exactly, because a lot of it is based on the value of the home as well, but you'd be surprised. Some of the values of homes in the Gulf region, some of those areas are lower income and the home values, but the insurance is very high. If it's a low income area I think it's a little foolish to expect these people to be able to afford their insurance premiums. There is usually not enough money in the flood insurance program to compensate everybody that's involved, and so it's like I said, it's in this kind of vicious cycle where there's just not enough capital to keep refreshing to pay out all the losses.

Fred Dunayer: For years people have been arguing that there shouldn't be all this development on the coast and especially on the barrier islands, and while policy makers have problems making those kinds of decisions, it looks like insurance makes the decisions for people.

Peter Hedberg: That's exactly right. I think it's an interesting inner play between when the federal government tries to do something, but if the private market, the private industry can start to inform people's decisions around there. I mean, again, if the insurance is so exorbitant to live in some of these areas, maybe you try to seek alternative housing somewhere else. Maybe the free market can work its way out that way, but sometimes people live in those areas because that housing is super affordable, and the price of the insurance they can bear because obviously their mortgage isn't going to be that much, so it is. It's a difficult situation. I don't know if insurance or the government have all the answers necessarily.

Dennis Zink: Peter, with Katrina and in Louisiana recent floods have been horrible, what should business owners do in areas like that?

Peter Hedberg: I think that if you're a small business, make sure that you're purchasing business interruption coverage. The reason I say that is because we had a lot of ... a lot of business interruption claims are just not getting settled from Katrina because the forensic accounting and trying to determine what the loss should actually be was in such contention and such argument. It's interesting because a lot of places weren't damaged by Katrina. Not one drop of water touched them, maybe some rain, but they couldn't enter their building, their facility or their business because of what's called Civil Authority, so the local government said, "It's not safe yet. We haven't determined that the ground water is safe. We haven't determined that the electrical has been safe. Some of the power lines may have been damaged. You can't enter your building."

It's sort of an unforeseen circumstance when people say, "Well, I can literally see my business. I just need to go open it up," and the government says, "You can't. We haven't cleared the area yet." That's a business interruption claim. You can't access your business because of a weather related event.

The other important thing, especially when we're talking about Louisiana is if you can afford it and if you've been purchasing, and make sure you have flood insurance because a lot of insurers ... I know that a lot of private insurers, private market insurers and personal insurers, they did not receive very good press after Katrina because they determined, based on a waterline in the house, what was flood and what was wind storm. That's important because flood is insured differently. Obviously, it's insured with the NFIP, or if you have flood insurance at all, a lot of people don't carry flood insurance if they own their home because it's so expensive. Then everything above that waterline was considered wind storm, which is covered, so people were receiving checks for half the value of their house. It was a very bad situation, so make sure you're fully insured. Make sure you're purchasing business interruption. That's the best advice I can give for those areas.

Dennis Zink: On the example you gave about the waterline, are you saying that, and I understand that flood is different from windstorm, the higher amount would have been the windstorm. Is that what you're saying, or the lower amount?

Peter Hedberg: It depends on where that line was, and it depends on how big your house is. Let's say you have a split level house, depending on where the waterline is it could only be 50% of the house. Let's say you have a three story house with a basement, depending on where the waterline is, it may be half, or you may have even only gotten 1/3 of the value of your house, because maybe the top floor was the only one that just sustained wind damage, and the rest of it was flood.

Dennis Zink: You'd almost hope for the whole house being flooded, and then you'd be covered, correct?

Peter Hedberg: Right, but remember the coverage is actual cash value versus replacement, so the level of coverage may not be as good. You almost wanted the windstorm to damage more of the house because you would get replacement value coverage.

Dennis Zink: I think that that's interesting too.

What happens with earthquakes? There's been some really bad earthquakes of late, and not necessary in the United States, but I mean, it devastates; a whole town gets wiped out. What happens? I mean, how do they pick up that kind of a bill? Your whole life is ruined. Forget having a business in there. Your house is gone. Your family may be gone. Your whole way of life is gone. How do you insure for that?

Peter Hedberg: Yeah, earthquakes, especially the ones recently in Italy, are super devastating as well. In Italy it was especially devastating because you've got stonework and masonry and foundations that have been un-reinforced and have been the same for four hundred years. You can only imagine that it is literally going to come apart like Legos if there's major earth movement. Earthquake is insurable, in the United Sates. It's often times not granted right away with your property coverage. What you do is you have it endorsed. This is probably a good segue way into a small discussion on endorsements.

When you endorse a policy, you're changing the wording, and you're either changing it for the better, or you're changing it to take away some coverage. In the case of earthquake, you can get an earthquake endorsement for your property policy. A lot of people, obviously in California, are purchasing this. Some people in New York even purchased it. We do have small earth movement in New York. It's not dramatic or anything, but you want to make sure you have that because I think a lot of property insurers, when they initially underwrite accounts, they just exclude earthquakes because they don't want to think about it necessarily. They just want to issue the quote. If you want earthquake, you have to ask for it.

Dennis Zink: Peter, what about fires. That's probably the only disaster we haven't covered yet. Is there anything unique about fires?

Peter Hedberg: Yeah, absolutely, and when a fire strikes a single home in a residential area or a single family home or something like that, this is a classic fire example that's used to sell homeowners insurance, and it is, it's a tragedy, but it's an isolated event. I think when it comes to fire a lot of people are beginning to realize now that we have an issue with wildfire in this country. A wildfire doesn't just take out a few houses on the periphery of wherever the fire is and it gets contained. Wildfires can take out entire towns. We saw this in Canada actually this year already. I know that Hiscox was actually on a lot of those. We're going to be paying on some of those losses up there, and wildfires are happening with increasing frequency. Part of the problem is, a lot of it is forestry management. We have a lot of undergrowth that's not taken out, so that just creates all this fuel. Then we have very irregular weather patterns right now. Again, some scientists attribute this to climate change. We have irregular weather patterns which will dry out these forests with periodic droughts which create right conditions.

If you're in those areas, obviously, you're homeowner's insurance probably costs a fair amount of money. It's probably good because fire is often a total loss. Fire is, I would say it's more rare that it's a partial loss where part of your house burns. Sometimes if you're in a residential neighborhood with good fire response services, they can be contained and it's a partial loss, but when you're talking about a forest fire, we're talking about total loss most of the time. It's very sad.

Dennis Zink: Is there anything unique if lightning caused it, or it doesn't matter?

Peter Hedberg: No, the source of the fire, obviously, it will be covered if say arson was involved, but the person who caused the arson won't be covered, obviously, for the criminal act. They will be found and prosecuted and so forth, or hopefully, but no, if it's lightning, if it's caused by mechanical fire, or if it's caused by, say electrical fire or something like that, fire is fire in many cases.

Fred Dunayer: Now you could have a small fire that creates a lot of smoke damage, and the loss could be mostly from smoke damage. Is that as effectively covered as the fire itself?

Peter Hedberg: It is, so you're right. Smoke can actually be devastating as well. It will stain items. It will put a smell in them that just cannot be taken out. Sometimes people have to actually take out all of the drywall in their house, even a good heavy coat of paint won't even do it. They have to take out all the drywall in their house because of the smoke, and yes, the smoke from a fire is covered.

Dennis Zink: What about these endorsements you're talking about? How does it affect the premium, and is it based on the kind of endorsement?

Peter Hedberg: Yeah, absolutely so. Let's say you purchase an endorsement to increase the deductible on your policy, and you can do that midterm, obviously that endorsement would then give you some money back because you increased the amount of risk you're taking on, but let's say you're adding in earthquake, and you have a business in San Francisco, okay, that's probably going to have some additional premium associated with it, and that will be, obviously, rated based on how much insurance you're purchasing and the value of what you're insuring.

Fred Dunayer: Peter, as we wrap up this discussion on insurance related disasters and emergencies, is there anything that you would want to make sure that we walk away from in the top of our mind?

Peter Hedberg: Yeah, absolutely. When it comes to disasters, know that sometimes the actual damage from a disaster may not be bad, but you might lose your ability to work in a particular space, whether it's a We-Work or a Regus space or your home or something like that. Disasters can often remove your ability to be there, whether it be from civil authority or whether there is some obstruction, and so business interruption is an absolute must. I highly encourage small businesses to consider the purchase of that unless you are abundantly confident that you can operate your entire business off a laptop in a Starbucks, which I don't necessarily recommend per se either. The other thing to note to that there is insurance available for really bad things that might not be insurable in some cases. You can get flood insurance. You can get terrorism insurance. It may not be the cheapest thing in the world, but it is a lot better than the cold comfort of not being insured in those losses.

Fred Dunayer: Peter, is there any advantage to developing a relationship with your insurance agent so when these things happen maybe there's a queue of a thousand people in line to get an insurance claim filed. Maybe you're not going to admit to this, but are there relationships that would help to take precedence if you were in a claim situation?

Peter Hedberg: Yeah, absolutely. Even more so than having an insurance agent. It is important to have a nationally recognized insurance brand that is going to be able to handle that capacity of claim. That's one of the reasons that we developed Hiscox.com. You can report claims there. There's an 800 number. You can fax. You can email. We have several avenues for people to be able to report their insurance. That is part of the value that we bring as an insurance company is our availability in those times of disaster. A lot of national insurance companies are very good about staffing up in the middle of disasters. I have seen several insurance companies, especially with what's happening in Louisiana, they literally pull adjusters off their jobs in the Northwest, in the Midwest, in the Northeast, and they send them all down to the South to start handling claims. They are very good about allocating resources, and again, Hiscox, we try to open up every avenue for reporting of claims.

Dennis Zink: Peter, thank you for enlightening our listeners today on emergencies and disasters.

Peter Hedberg: Yeah, it's been my pleasure, guys.

Fred Dunayer: Thanks, Peter.

Fred Dunayer: You've been listening to the SCORE Small Business podcast Been There, Done That. The opinions of the hosts and guests are theirs and do not necessarily reflect those of SCORE. If you would like to hear more podcasts, get a free mentor, view a transcript of this podcast, or would like more information about the services we provide, you can call SCORE at 800-634-0245, or visit our website at www.score.org. Again, that's 800-634-0245 or visit the website at www.score.org.