

By Michael Korn

As barely a week has passed since the horrific events in Japan began and, understandably, as many of the local citizens are dealing with issues of personal survival, the majority of our immediate insurance related questions have yet to be answered. The circumstances of the situation in Japan are combining to potentially push the insurance industry into unfamiliar waters. Consider the combination, and aggregate impact, of one of the largest seismic events ever, multiple massive aftershocks, far reaching tsunamis, refinery fires, nuclear reactor failures, explosions at the reactors, rolling black-outs, infrastructure failure, supply chain disruptions, civil authority mandated evacuations...and it is clear that what is still continuing to develop, a week after the initial earthquake, is something we have, as an industry, never experienced or adjusted before.

Though still complex, as the proximate cause will need to be determined for specific losses, the property damage aspect of losses will be the first and easiest to measure and settle. Business Interruption and Contingent Time Element losses will be much more difficult. Many Risk Managers suspect they may have contingent time element losses, but at this point don't have enough data to be sure. We are advising clients to monitor and track outages, interruptions in part supplies, production flow, customer orders and supplied services. We suggest doing this initially without consideration of how deductibles, coverage wordings or limits will eventually be applied. Our advice is to gather data now and interpret it later when we know more about how each of the components of the overall situation will be viewed by specific policies. Contingent losses will take time, perhaps months, to develop and be fully measured, so we recommend tracking any potential loss from the beginning.

The following potential sources of loss or coverage should be kept in mind when thinking about factors that may affect your company:

Business Interruption: Have you lost production or sales as a result of the earthquake, tsunami, fires, evacuations, even if there was no damage to your facilities?

Extra Expense: Have you incurred any expense above normal operating cost to continue operating such as renting generators, moving people or equipment to alternate facilities, travel expenses, or re-routing shipments?

Expediting Expense: Have you incurred expenses to facilitate the temporary repair or replacement of damaged property?

Contingent Time Element: Has a supplier to you (or one of their suppliers) sustained damage that has impaired their ability to supply you with parts or services? Has a customer sustained damage that has impaired their ability to take delivery of your product?

Ingress/Egress: Has any physical damage impaired your ability to get people, raw materials or finished goods in or out of your facilities whether or not the physical damage is on your site (e.g. damage to a nearby airport or roadway)?

Civil Authority: Has your operation been shut down or impaired due to the order of a civil authority?

Supply Chain Disruption: Has there been any disruption to the transit of your product?

Service Interruption: Has the delivery of any services such as electricity, water, telecommunications, steam, gas, etc. been disrupted?

There are many factors in play as the situation continues to unfold. It will take time to determine the proximate cause for each loss scenario and how individual policies will respond. The prudent action at this early stage is to monitor and measure any potential changes in your business operations so that once coverage wordings, deductibles and limits are overlaid you will have an understanding of your loss situation.

For More Information

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