

Business Interruption: Preparing for the Unexpected

By [Janet Wright](#), Director of Risk Management, Ryan Specialty Group | December 12, 2021



After a year and a half of lockdowns and travel bans, this past Labor Day was meant to be an economic boon for many cities across the U.S. For areas like Lake Tahoe the weekend was ruined by weather-related disasters.

On August 30, 2021, just one week before the Labor Day holiday, the Caldor fire marched its way across the California landscape toward Lake Tahoe. Poor air quality from the fire had schools postponing the beginning of the year, vendors cancelling outdoor events and hotels turning guests away.

Across the country, hotels in Louisiana faced a similar problem. Hotels throughout the Garden District of New Orleans thought they were getting the holiday-driven tourism resurgence they needed after being hit hard by the deep freeze earlier in the year. Instead, hoteliers were forced to close their doors and turn away

guests yet again to prepare for the potentially devastating effects of Hurricane Ida.

Weather-related disasters such as Hurricane Ida and the Caldor Fire are devastating, not only in terms of health and safety, but also in terms of business loss. And it's not just wildfires and weather-related catastrophes that can bring businesses to a halt. Any unforeseen event, such as a fire, vandalism, theft, or municipal evacuation order could lead a business to have to cease operations, which can be costly and damaging to the business's reputation.

Hoteliers who are aware of and prepared for the risks related to these events have an enhanced chance of minimizing financial and physical damage losses. Hotel management can protect their businesses by understanding their risk exposures and ensuring they have competitive insurance coverage in place.

Business Interruption Coverage: What is it?

The hospitality industry, already hit hard by the pandemic, has certainly seen its share of significant losses due to recent weather-related disasters. Catastrophic weather events can put hotels in a difficult position possibly looking at extended closures, necessary repairs and a lull in leisure travel after a storm passes through. Also on a larger scale, evacuations due to wildfire and closings related to sizeable events or civil unrest have led to business stoppages. And on a smaller scale, individual property fires, equipment breakdown, theft, vandalism, or a case of Legionnaire's Disease can lead to an interruption of business operations as well, highlighting the importance of business interruption coverage.

Business interruption coverage, otherwise known as business income and extra expense, is meant to help a business return its financial position to the same place it was before the event that triggered the loss. The coverage, usually included in a hotel's property package insurance policy can provide replacement income that is lost due to direct physical loss or damage to the hotel.

Simply put, business interruption coverage is designed to reimburse the hotel for revenue and certain covered expenses lost during the period of indemnity. The period of indemnity is the time that it takes after a loss for a hotel to return to normal business operations.

Understanding the Fine Print

Business interruption claims can come into play for a number of reasons. The most typical business interruption claims for hotels are related to:

- direct physical damage caused by a covered peril (such as a storm or unforeseen event)
- loss of attraction due to a covered peril caused by the event
- ingress and egress due to a covered peril
- contingent business interruption can be added to the coverage to a dependent property

Hoteliers should understand their policy limits; deductible (waiting period) and the terms and conditions of the policy. Note that there

are many variables that can influence and affect claims which should be reviewed and discussed with their insurance broker or agent. A business interruption worksheet should be used to understand what limit is necessary and the period of restoration that may be needed in case of a loss.

For example, hotels in Louisiana that experienced an interruption of business in the wake of Hurricane Ida, may benefit from business interruption coverage. The high winds from this storm and heavy rains caused extensive power outages and other damages which kept commercial businesses, like hotels, closed for extended periods of time.

For this reason, AM Best has predicted that business interruption losses will make-up the majority of overall insurance losses from Hurricane Ida. Hotels in areas impacted by hurricanes like Ida should work with their broker or agent and their insurance carrier to understand all aspects of their policies, including business interruption, to determine what is covered and what is not covered.

Preparing for Business Interruption

Before disaster hits, there are many things a hotelier can do to prepare for business interruption. Knowing the ins and outs of business interruption policy terms can protect hoteliers in the future. For instance, when shopping for or reviewing the policy, it is prudent to ask questions about how coverage would apply to specific scenarios.

A specialty hotel insurer can help hoteliers find the right policy for their hotel and walk them through what the policy entails and covers. They will consider many factors when writing a policy that will go a long way toward protecting hotels in the event of a covered business interruption loss. Some of these considerations include:

- **Lost Revenue Streams:** Determining how, or if revenue streams such as room revenue, food and beverage, retail shops, spa and golf revenue and more may be impacted during a loss.
- **Key Employees:** Helping a hotel owner determine which key employees' payroll should be included in business interruption calculations.
- **Partial Return to Operations:** Navigating policy language that can limit the business interruption coverage in scenarios such as a partial return to operations.
- **Branding:** Finding coverage to protect a hotel's brand in the event of business interruption.

A well-thought-out risk strategy is also important as business interruption claims are complex. Taking the following steps can help hoteliers prepare for the unexpected and mitigate their risk.

1. **Practice:** Have an emergency action plan (EAP) and perform regular drills so that all employees are well-versed in their duties before, during and after an emergency.
2. **Checklist:** Have a checklist for each portion of the EAP and for each part of the property so that in an emergency or before catastrophic event happens staff know the steps to take to protect the property, employees and guests.
3. **Gather Information:** Gather and frequently update emergency contacts for all employees, the fire department, police, utilities companies and more.
4. **Communicate:** Have a relationship with local first responders and a disaster services company. Perform drills and walk-throughs with them and make sure they are aware of any unique property specific risks.

Ahead of natural disasters, hoteliers can take steps to further protect their business, even if they've been evacuated. This includes ensuring the building and property are secure, utilities are turned off and downloading an emergency app such as the Red Cross Emergency App for situation specific guidance. Clear communication and transparency will always reign supreme in a crisis.

After a catastrophic event, hoteliers should secure and protect any damaged property, assess how teams handled the storm, adjust training and EAP as necessary and immediately assess and document damage. It is important to promptly report business interruption claims to ensure the claim is processed as smoothly as possible.

Filing a Successful Claim

In preparing to file a business interruption claim, it will be helpful to have a file on-hand with the following information:

- Balance sheet and Income statements for the last two years, including the most recent statement.
- A projected revenue and income analysis report from before the loss.
- Payroll records from before and after the loss.
- Payroll information for staff that has been laid off or had hours reduced.
- Prior Year Tax returns.
- Copies of utility bills and operating expenses.
- Copies of contracts for vendors and events.
- Records of ongoing business expenses and inventory records

This is the information that the insurance company may need to see. Other information that will assist in processing a claim in an

orderly time frame include:

- Occupancy rates for the last two years.
- Estimated revenue lost for: events, spa, food and beverage and retail sales.
- Estimated lost room revenue.
- Event bookings for the last two years.
- Fixed fees that still need to be paid such as property taxes; liquor licenses; etc.
- Documentation showing steps taken and expenses incurred protecting the property before and after the loss

Even the most prepared hotel owner may still be asked to provide additional information while going through the claim process. Open communication and frequent conversations with the insurance carrier claims adjuster, as well as the broker or agent who wrote your business interruption coverage will also help smooth over the claims process.

The hotel owner knows their business the best. During the claims process, hoteliers should be prepared to be on site and walk the claims adjuster and others through the property showing them how the damage impacted each area of operations. The more information an adjuster receives to help them understand the property, the better.



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[Extended Biography](#)

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