

Planning Ahead for the Next Disaster

The unprecedented hurricane season of 2005 created widespread destruction for businesses, local and state governments, other institutions and homeowners across the U.S. Gulf Coast. Wortham Managing Director and Vice Chairman Bob Hixon discusses some of the key lessons that businesses and individuals can learn from these storms.

What advice can you provide businesses from your experiences with hurricanes and other disasters?

Most large or publicly traded businesses—particularly those with risk managers on staff—already have hurricane preparedness procedures and disaster recovery plans in place. However, as we learned a few years ago when we handled hundreds of claims following Tropical Storm Allison, many small and medium size businesses and nonprofit organizations do not have disaster recovery plans.

The high number of hurricanes in 2005 and their devastation again emphasize the need for all organizations and individuals to work with their insurance agent or broker to design an insurance program tailored to their needs.

Describe some issues that businesses need to address in developing a disaster recovery plan.

Businesses need to think about the steps they should take to keep their operations running after a disaster. They need to establish a command and communication structure. In some instances, prior to a disaster, they should secure offsite computer facilities where they can quickly move to their keep business going. Computer systems should regularly be backed up and stored offsite in a secured location—perhaps in an area outside of their headquarters city. In addition, companies need to plan for dealing with long-term power outages.



Welcome to the first issue of Wortham Insight, a quarterly newsletter that examines insurance and risk management issues that can affect your business. Wortham Insight is published for our clients, employees, our industry partners and other interested parties.

As we saw in the aftermath of Katrina and Rita, businesses need a well-developed plan for dealing with their most important asset—their employees. People run businesses, but they also have to care for their families in the event of such disasters. You need a plan to help employees with extra expenses, transportation issues of

getting to and from work, and even temporary housing. Companies that address their employees' immediate needs will be able to resume their operations successfully and quickly.

What insurance products can help a business prepare for a disaster?

Most small and medium-sized businesses don't think about Extra Expense and Business Interruption Insurance. Basically, Extra Expense Insurance provides funds to cover additional expenses above normal operating expenses to keep your business going, such as rent for temporary office space while your building undergoes repairs. Business Interruption provides insur-

ance for lost net profits and continuing expenses while your business is shut down due to the disaster.

Generally, these types of coverage are triggered only in the event of direct damage to your insured property. However, contingent business interruption and extra expense insurance are available if your property is not directly damaged, but damages sustained by others results in your business being totally or partially closed. For example, consider power outages or situations where you cannot get to your premises or are not allowed entry to your premises by civil authority. Or, your facility could be in great shape, yet your supply of raw material or feedstock has been interrupted or you can't transport your finished goods or products to your customers. Contingent insurance coverage is complicated, but can

be designed to meet the specific needs of each business.

What other recommendations would you give a business owner?

You need to review all of your properties to make sure they are insured to the proper limit to maintain replacement cost protection. Many businesses do not have enough insurance to rebuild. You need to keep in mind that the cost to rebuild in a disaster area can be significantly higher after a disaster has struck.

For companies in Houston, flood insurance coverage—particularly in some parts of the greater metropolitan area—is either not available through commercial insurance markets or is provided on a limited basis. The Federal Flood Program will provide minimal limits to cover real and business property, but the policy has limitations. For instance, this program will not cover business interruption losses. Also, there is a ceiling on the amount of insurance one can procure through the federal program. Excess flood coverage should be explored for both your business and personal exposures.

What effects will the 2005 hurricane season have on the insurance industry?

The insurance market is still getting a handle on the

magnitude of insured losses for the 2005 season.

It's clear that the country has experienced massive catastrophic losses that created huge dislocations for people and businesses. Estimates of the total impact to the insurance industry have been as high as \$50 billion from 23 tropical storms and hurricanes in six months—the most ever in a single season.

We definitely expect to see higher premiums and deductibles and more restricted coverage. We are seeing adverse reactions from the global insurance market. And we need to keep in mind that the market was still trying to recover from the 2004 hurricane season. At Wortham, we are working closely with our clients to provide additional information to underwriters as we negotiate their insurance coverage.

The bottom line: All businesses—small to large—need to take proactive steps to protect themselves and their operations from disasters. Some preplanning and a review of current coverages can be the key to their survival.

For more information, contact Bob Hixon at 713.346.1344 (bhixon@jwortham.com) or Jim Gleaves at 713.346.1337 (jgleaves@jwortham.com).

Serving Our Communities

Sharing His Expertise

Mack Rogers is doing his part to help develop the next generation of insurance professionals. A Managing Director at Wortham with over 25 years of experience with the Company, Rogers shares his knowledge of and enthusiasm for the industry with undergraduates at the University of Houston's C. T. Bauer College of Business.

As an Adjunct Professor at the Bauer College of Business' Finance section, Rogers teaches two evening courses in commercial property insurance and commercial liability insurance. The Finance section offers a minor degree in risk management and Rogers' courses are part of the program.

For Rogers, the classes are an extension of his keen interest in teaching and sharing his insurance industry expertise. Prior to teaching at the University of Houston, he taught advanced insurance certification courses to industry professionals for 15 years.

"I've always enjoyed teaching. The discussions and exchanges with students are energizing and give me



fresh perspectives," Rogers explains. "In my classes, we discuss practical applications and real life situations, which the students enjoy tackling. My courses are geared for students interested in pursuing careers in the financial field as well as those who plan to enter the insurance industry. My goal is to help students better understand the role that insurance plays in an organization's financial position and its ability to prosper."

In addition to teaching, Rogers also volunteers with Habitat for Humanity in Houston.

For more information, contact Mack Rogers at 713-346-1273 (mrogers@jwortham.com).

A Boost for Healthy Hearts, Thanks to Wortham Walkers

Dating back to its founding more than 90 years ago, Wortham has been a proud supporter of charitable organizations that help improve the quality of life of our communities. In November 2005, the Company's Houston office continued this long-standing tradition with its sponsorship of the American Heart Association's HeartWalk.

Nearly 80 Wortham employees, their family members and friends participated in this fundraising event. Organized by Tina Morriss, the Wortham team raised over \$15,000 for the American Heart Association.

The route of the five-mile HeartWalk is along Buffalo Bayou, just west of downtown Houston.



The Wortham Tower is near the course's halfway-point.

Wortham has been a long-time supporter of this charity event, with employee teams participating in the HeartWalk and its predecessor activity, the Heart and Sole Fun Run, since the early 1980s.

Along with sponsoring the HeartWalk, Wortham supports the American Heart Association with leadership and guidance. Wortham Managing Director and Vice Chairman Charles Flournoy serves on the Board of the Houston Chapter of the American Heart Association and is the current Chairman of the Board of the Texas Chapter.



For more information about our newsletter or services featured in our articles, please contact George Sikielski, at 713.346.1397 or email him at gsikiel@jwortham.com.

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