

What is Business Interruption Insurance for Airports?

Richard Terlecki, January 16th, 2019



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Business Interruption insurance – insurance against loss of net profits and continuing fixed charges during a period of total or partial suspension of business activity because of damage to described premises from specified perils.

Business Interruption is one of many “Time Element” coverages typically included in a commercial property insurance policy. Others are Extra Expense, Soft Costs, Rental Expense, etc.

What Triggers Business Interruption Insurance



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Business Interruption insurance typically requires three elements to trigger coverage:

- **There must be an actual loss of business income.** Business income is defined as net income and continuing operating expenses. To determine if there has been a loss of business income, net profit or loss is added to necessary continuing operating expenses and then compared to what would have been earned but for the loss.

- **The business must experience a necessary suspension of operations during restoration.**

Some older forms do not define suspension, but more recent Insurance Services Office policies have defined the term to mean both a complete cessation of operations as well as a slowdown.

The period of restoration usually begins some specified amount of time following the loss – 72 hours for the ISO form – and ends when the property should be repaired or replaced with reasonable speed or when the business resumes at a new location, whichever comes first.

- **The loss must result from direct physical loss or damage at the premises described in the declarations that is caused by a covered cause of loss.**

(Or Contingent Business Interruption Coverage)

Discussion on Historical Airport Business Interruption Losses



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- **1992 – Reopening of Miami International Airport on August 25, ONE DAY AFTER Hurricane Andrew**
 - Hurricane Andrew struck the southern portion of Dade County, FL, at 5:05 a.m. on Monday, August 24, 1992, causing incredible destruction of homes, businesses, Homestead Air Force Base, etc. Miami International Airport sustained high winds from the hurricane and debris was all over the airfield including the runways. A sizeable percentage of airport/airline employees could not come into work because their homes and/or cars were either destroyed or seriously damaged. Others could not come in because roads were blocked with downed power lines and trees.
 - Despite the horrible situation our county was in, hard work and dedication by MIA's management and dramatically reduced staff got the airport operational by mid-afternoon Tuesday, August 25th and commercial airline flights resumed at that time. Concourse C was out of service because a temporary connector to it from the main terminal had blown down. We had fifteen gates out of service, mostly due to jet bridge damage. Some of the airlines operated a reduced schedule for a day or two until the rest of the gates became operational. We not only got the main terminal operational but we also got the former Eastern Airlines maintenance base laid out and striped that week to handle numerous Air Force C-5A and C-141 cargo relief supply flights that were vital in helping out residents in the devastated areas of our county.

Düsseldorf Airport Fire April 11, 1996



During the worst fire in the history of Düsseldorf and the incident with the highest loss of life in the Federal Republic of Germany since the end of World War 2, 17 civilians died, 72 people suffered serious injuries, and several hundred people suffered minor injuries. The cost of the damage is still not completely known, as some areas of the airport have not been restored to full operation. Estimates vary between 300 million and 1 billion German Marks ([approximately U.S. \\$200 million to \\$600 million](#)).

The airport was completely shut down for [3 1/2 days](#) following the fire. Limited operations were restored the Monday after the blaze, and the airport was back to 90 percent operations as of July 1, 1996. Tents and hangars were used as temporary terminals.

1994 Northridge Earthquake Occurred on January 17, at 4:30:55 a.m. PST



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The magnitude 6.7 Northridge earthquake occurred on a fault buried beneath the San Fernando Valley of Los Angeles on January 17, 1994.

The three airports in the area with most severe shaking in the Northridge earthquake were closed for runway and taxiway inspections. However, all three were **reopened quickly** when the inspections were completed and showed no significant damage.

- The blind thrust earthquake had a magnitude of 6.7 (Mw), which produced ground acceleration that was the **highest ever** instrumentally recorded in an urban area in North America.
- With strong ground motion felt as far away as Las Vegas, Nevada, about **220 miles** (360 km) from the epicenter.

Orlando 2004 Hurricanes Charley, Frances and Jeanne



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- It started with **Hurricane Charley** when it made landfall on the southwest coast of Florida on August 13, 2004. The storm caused \$15 billion in damage and killed 10 people in the United States.
- At the time, Charley was the strongest hurricane to hit the United States since Hurricane Andrew in 1992.
- On Labor Day weekend in September 2004, and just three weeks after Hurricane Charley, central Florida was clocked again.
- **Hurricane Frances** barreled into Florida's east coast as a Category 2 hurricane.
- Winds were 105 mph, five people were killed in Florida and \$9 billion worth of damage was done in Frances's wake.
- **Hurricane Jeanne** – It was September 25, 2004 when weather-weary, storm-rattled central Florida residents were delivered another powerful punch.
- Only six weeks after Hurricane Charley and three weeks after Hurricane Frances slammed into Central Florida, the area was rocked again by Hurricane Jeanne.



Greater Orlando Aviation Authority was closed for 1.5 days

Hurricane Katrina Made Landfall on Monday, August 29, 2005



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- MSY reopened to commercial flights on September 13, 2005, after the devastation of [Hurricane Katrina](#) the previous month, with four flights operated by [Delta Air Lines](#) to [Atlanta](#) and a [Northwest Airlines](#) flight to [Memphis](#).

The Worst Hurricane to Strike the U.S., with the airport 7 feet below sea level and they were up and running within 2 weeks of Hurricane Katrina.

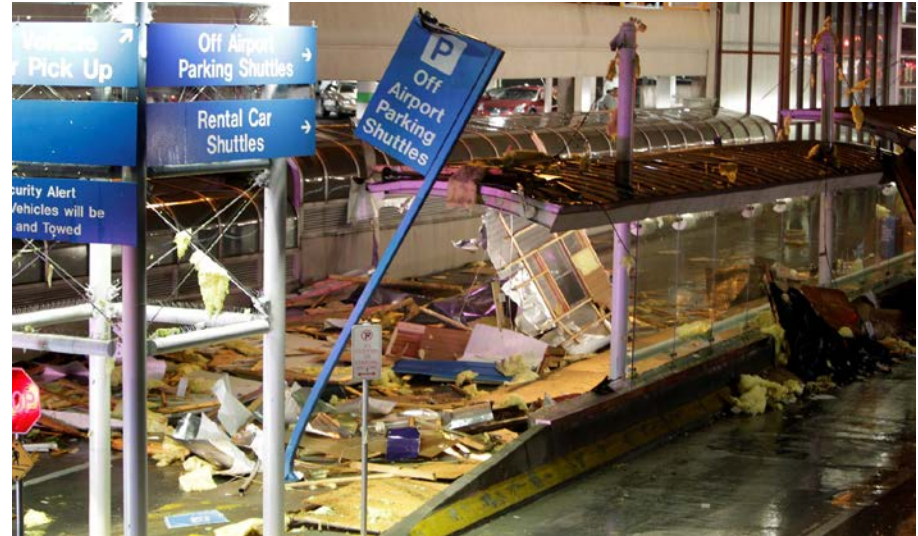
Friday, April 22, 2011 Lambert-St. Louis International Airport Tornado



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- Airport Director Rhonda Hamm-Niebruegge said the airfield was functioning Saturday, but Concourse C in Terminal 1, which sustained heavy damage, would be closed for up to two months. Concourse C houses Air Tran, American, Cape Air and Frontier airlines. **Those flights will be moved to other concourses.**



Japan's Kansai Airport to Reopen Partially after Typhoon Damage



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Flooding at Kansai International Airport after 2018 Typhoon Jebi hit western Japan. The airport is built on an artificial island. Strongest storm to hit Japan since 1993.

The airport was closed for **3 days** then partially reopened and fully opened **17 days** later.

We Have Just Looked at the Worst Hurricanes, Tornados, Typhoons, Earthquakes and Fires in History



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- Let's do a quick survey of the audience:
 - How many of you have collected a \$50M Business Interruption Loss _____
 - How many of you have collected a \$25M Business Interruption Loss _____
 - How many of you have collected a \$15M Business Interruption Loss _____
 - How many of you have collected a \$10M Business Interruption Loss _____
 - How many of you have collected a \$5M Business Interruption Loss _____

What is Business Interruption Costing Your Airport



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How is Your Business Interruption Premium Calculated

1. You are asked to report your airport's annual Business Interruption values as if you would be shut down for 12 months.
2. Or the insurance company sends in accounting type individual to assist you in calculating this number.
3. A composite rate is applied against that annual B.I. value to come up with an annual premium amount.
4. Some actual examples of annual B.I. values I have seen reported are \$500,000,000, \$250,000,000, \$175,000,000.
5. At an average rate of .10/\$100 of value that means these airports are paying \$500,000, \$250,000 or \$175,000 per year for annual protection.
6. **The real question, given the previous real life scenarios, how long would your airport realistically be shut down for?????**

How Much Business Interruption Would I Buy?????

Let's Fix the Problem – How!!!!



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- Just as underwriters are willing to place a limit of liability on a building if you do not wish to have it insured to replacement cost.
- Have the underwriter place a limit of liability on the amount of Business Interruption you conservatively feel that you will need according to the potential length of a shutdown.
- From the previous real life examples and your answer to the maximum amount ever collected, probably \$10M is way more than you should ever need.
- For an airport, Extra Expense is far more important than any Business Interruption limit.

A New Concept from a Major Airport Property Insurer



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- If loss or damage occurs at your facility, however, if passengers would not be traveling to your airport due to damage to the surrounding area, then no Business Interruption can be claimed!!!!!!
- My main goal in agreeing to be a presenter is to give each of you something you can actually take back to your airport and utilize to benefit your organization; hopefully you feel I have accomplished that today.

Thank you!

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