Today's Veterinary Business

BUSINESS PROTECT & DEFEND

By Ed Branam, DVM, CIC

Ripple Effects

As insurers rethink and reprice their coverage, practice owners can lessen the risks of extreme weather events like floods and tornadoes.

Twenty-eight natural disasters causing at least $1 billion in damage each occurred in the United States in 2023. They were evidence of what climate experts see as a new normal: the increased frequency and heightened severity of nature-related events. For example, hailstorms are no longer limited to states historically considered part of "Hail Alley," and tornado activity is expanding east. Recently, catastrophic floods devastated inland Kentucky, Missouri, southwest Virginia and the Las Vegas Strip. And I haven't even mentioned wildfires, hurricanes, droughts and heat waves.

When it comes to natural disasters and insurance costs, veterinary practice owners should conduct regular risk assessments to identify their financial exposure and vulnerabilities. They also should consider property improvements and business continuity plans.

Weighing the Risks

Catastrophe modeling is the key to understanding how insurers evaluate a business's risk for one or more natural disasters, particularly hurricanes, floods, wildfires and earthquakes.

The insurance industry traditionally examines historical weather patterns and actuarial losses when determining a customer's overall property exposure. The data serve as the basis for financial loss projections and the subsequent pricing of policyholder premiums.

Insurance companies are highly regulated by the states in which they do business. State officials approve all rates and any increases.

The challenge for every insurer is threefold:

- Actuarial data used to project an insurance company's financial exposure often don't reflect potential future losses due to the changing nature of catastrophic natural disasters. Therefore, many insurance policies are underpriced relative to actual losses.
- The insurance industry perceives several states as having outdated or onerous regulations that restrict its members from using updated actuarial and meteorological data to price individual policies.

Typical profit margins with standard insurance policies are significantly lower than those in the average veterinary business.

The results over the past couple of years are twofold:

- Insurance companies have experienced claims losses far exceeding traditional predictive models, leading to unsustainable financial shortfalls.
- Insurers are leaving areas they deem high risk. Many companies are either not renewing policies or declining new business. Several large carriers have told insurance officials that the companies will not return to their states until CAT modeling statutes or regulatory restraints are adjusted to allow for significant variations in policy pricing.

California and Florida are two of the most notable examples. Since 2022, multiple insurance companies have withdrawn from those two states. More recently, AAA decided not to renew high-risk exposures in Florida, and 15 other carriers no longer cover new customers there.

Therefore, veterinary practices in higher-risk areas must focus on building design, protection strategies and resiliency measures. A business owner who demonstrates proactive risk mitigation and formulates detailed post-event protocols is more likely to find a broker to negotiate favorable CAT coverage prices, terms and conditions.

The scenario also holds true for practices with multiple locations because one business location can significantly affect an insurance company's calculated loss estimate.

Targeted Risk Control

Depending on existing catastrophic exposures, a practice owner can minimize operational downtime and building damage by installing protective materials or systems. For instance, hail-resistant coverings and decks can negate the need for a roof replacement. In addition, installing FEMA-certified flood panels can prevent water from entering buildings through openings and protect sensitive equipment like transformers and heating, ventilation and air conditioning units.

Regularly clearing brush from around buildings can reduce the wildfire risk. Installing impact-resistant windows, storm shutters and other weatherproofing can significantly mitigate the likelihood of significant water damage incurred during rainstorms and hurricanes.

Likewise, using high-quality materials is crucial when retrofitting or building structures. Compared with typical framing materials, robust, fire-resistant components can significantly reduce a structure's vulnerability to wildfire, ensure longevity, and reduce the need for costly repairs or rebuilds.

By making small investments in a building's resiliency, you can significantly minimize any damage and prevent extended closures after an extreme weather event. Many insurance carriers offer significant savings on premiums when the property owner improves buildings vulnerable to catastrophic events. Targeted risk control can prevent or mitigate losses, insurance premium increases, and outright policy cancellations.

Emergency Response Planning

By evaluating the risks and impacts of different catastrophes, you can develop an emergency plan tailored to your business. Specifically, an effective pre- and post-emergency strategy involves identifying the who, when and how behind each type of event. For example:

- Who is responsible for what duty?
- When is the action required?
- How is the task completed?

The process involves setting up a claims team and a designated account adjuster familiar with your operations. Partnering with an emergency response contractor before a loss can give you priority after an event for servicing critical operational equipment like generators, HVAC units and refrigerators.

The plan should be specific to your operations and exposures and designate the individuals to carry out particular tasks. Also, test the plan to look for needed improvements or to account for what-if situations.

By developing, formalizing and implementing pre- and post-emergency procedures, you can protect your assets and people, minimize downtime, and become a more desirable risk to insurance companies. During a presentation at the 2023 VMX conference, the presenter, an attorney specializing in cyber-related exposure, was quoted as saying, "There are two types of businesses — those that have been hacked and those that don't know they have been hacked."

The assertion might be slightly exaggerated, but a critical point was made.