



#### RISK & INNOVATION

## When Disaster Strikes: Lessons From Hurricanes Harvey & Irma

### OVERVIEW

The 2017 Atlantic hurricane season has been one of the most devastating on record. From the tiny islands of the Caribbean to some of America's biggest cities, hurricanes Harvey, Irma and Maria have impacted many and caused billions in property damage.

Hurricane Harvey hit the U.S. Gulf Coast on August 25, with 130 mph winds and 33 trillion gallons of rain. It caused widespread flooding in the Houston area and at least 82 deaths, and is likely to become one of the U.S.'s costliest natural disasters. Preliminary reports suggest that insured losses, including those paid by the private sector and the U.S. National Flood Insurance Program were likely to exceed \$10 billion.

Days later, after cutting a swathe through the Caribbean, Hurricane Irma struck the Florida Keys with even greater force, wrecking homes, businesses and infrastructure. It is estimated to have killed as many as 69 people in Florida and the Caribbean, and left 1.5 million without power or basic necessities for days. Shortly after, Hurricane Maria gained "major hurricane status" causing destruction across Puerto Rico, and the Turks and Caicos islands.

In addition to the lives lost by these storms, economic damages are still being assessed. Aon Benfield's Reinsurance Market Outlook September 2017 report finds that a significant proportion of the flood losses will be uninsured – exacerbating the damage, hindering recovery and highlighting the existence of a global insurance "protection gap."

"The damage that has resulted from this year's increased hurricane activity, particularly the devastating consequences of hurricanes Harvey and Irma in the United States, has highlighted the global protection gap, which is the difference between the insured losses and economic losses caused by a natural disaster," says Eric Andersen, CEO, Aon Benfield. "In the cases of Harvey and Irma, unfortunately many of the losses experienced were uninsured, leaving the United States government, and therefore taxpayers, to pick up most of the bill."

### IN DEPTH

#### Texas And Florida – The Aftermath

With a combined loss of life of at least 151, hurricanes Harvey, Irma and, most recently, Maria have had a tragic impact on many communities. The devastation will be further amplified by the long-term damage it will have on the economies of the affected areas, hampering recovery efforts. Business both inside of and beyond state lines will have to start assessing the implications and prepare for a long period of disruption.

Hurricane Harvey left Texas, which accounts for nearly 8 percent of U.S. economic output, with impassable roads and railways, while enormous bodies of flood water ruined homes, businesses, and vehicles. Days later, Hurricane Irma caused Florida's \$150 billion agricultural sector to lose up to 70 percent of its citrus harvest.

Construction and manufacturing backlogs are inevitable in both states as businesses scramble to replace vehicles, buildings and infrastructure in the weeks ahead. Automobile dealer Cox Automotive estimated up to 500,000 cars and trucks were disabled in the Houston region alone, according to trade publication Auto Remarketing.

With mobility compromised and businesses closed, federal jobless claims rose by 62,000 after Harvey – the largest single-week spike since the 2012. However, such post-disaster spikes are typically short-lived, as rebuilding efforts have the opportunity to create jobs and stimulate local economic recovery.

Overall estimates of Harvey's economic damage range from \$65 billion to as much \$190 billion. For Irma, the spread has ranged from \$50 billion to \$300 billion. (In comparison, 2005's Hurricane Katrina is estimated to have cost \$160 billion.)

### **Economic Damage Ripples Far Beyond The United States**

Hurricanes Harvey and Irma could slow national economic growth by up to 1 percent for the third quarter, according to early assessments. Global trade could also be buffeted by the storms. While oil production in the Gulf of Mexico is recovering quickly, several major ports in Corpus Christi and Galveston, Texas have sustained damage which could impact the region's ability to export. Meanwhile, JPMorgan predicts the distribution, construction materials, auto sales, financial services, air freight and logistics industries firms will grow in the aftermath, CNBC reports.

Although insurance claims will be substantial, the disaster has highlighted the magnitude of the "global protection gap" – a measure of underinsurance based on the difference between insured and total losses as a share of the economy.

### **A Business Is Its People: Helping Employees Get Back to Normal**

An essential part of crisis and business continuity planning includes considering the messages that need to go to different audiences. Jim Hoff, Senior Partner and Leader of Aon's Strategic Advisory Communication Team, stresses the need for communication to be focused first on employee safety and any critical operations of the business. "Proactively getting information to employees and customers, through multiple channels – email, web and intranet postings, social channels, texting – is crucial."

Houston-based Joshua Ross, Partner, Southwest Market Leader for Aon's Rewards Practice, experienced the devastation of Harvey first-hand and offers advice to organizations – and their employees: "With such events, it's important for organizations to help their employees get back to normalcy as soon as possible."

While infrastructure rebuilds can take months, important short-term support for impacted employees can be given in several ways:

- **Immediate resources:** Ensuring people are out of danger's way is an essential first step in helping employees affected by a catastrophe. This can include removing people from areas hit by a storm and setting up temporary housing for those who have lost their homes.
- **Flexibility:** Those impacted by catastrophic events know the importance of flexibility – especially as it relates to damaged property. Insurance claims, for example, can require multiple meetings with adjusters and contractors – usually during a workday. Ross notes that flexibility from an employer when it comes to a work schedule post-event is critical in getting people back to normal.

Hoff points out that disasters like a major hurricane can impact companies in different ways. Some could have most of their people and operations far away from the storm, but might have a single call center or distribution center impacted, significantly affecting the employees in that location and potentially affecting customers across the globe. While others could have their entire operations impacted if they are concentrated in the path of the storm. In both situations, organizations need to reach and account for the safety of those directly impacted, and to communicate with those not impacted to make sure they know what they need to do to keep the business moving and what they can do to help their fellow employees.

While not all companies might experience such direct devastation to their employees or locations, J.D. Piro, Senior Vice President & Leader of Aon's Health & Benefits Legal Consulting Group, notes another way organizations are supporting relief efforts: Leave Donation Programs. "Companies and their employees can participate in 'Leave Donation Programs' to mitigate the impact of hurricanes and other natural disasters. Such programs are put in place for employees to donate their unused time off to a charitable organization helping those that have been impacted by the event."

### **Keeping Moving: Ensuring Business Continuity During Disaster**

Effective contingency planning involves carefully considering all the direct and indirect effects a catastrophe may have on a business, employees, customers and the surrounding community – and empathizing with them as well. For example, Virgin Group founder Sir Richard Branson chose to stay and help staff manage the impact of Hurricane Irma on Necker Island, his exclusive resort.

"A major loss event, whether hurricane, fire, or other catastrophe, entails a range of critical, time-sensitive actions that must be managed and implemented properly," says James Pinzari, CBCP, Director, Business Continuity Management, Aon. "These may include initial response, stabilization, on-scene assessment and recovery escalation. If an organization currently lacks a crisis management team, it should prioritize creation of one that includes senior management from each major department."

Aon's business-continuity primer and checklist details the steps companies must make to expedite their recovery, support operational resiliency and assure continued revenue.

For businesses not directly affected by Harvey or Irma, the events should serve as a reminder to update contingency plans and review their risk exposure in order to prepare for and resolve potential losses when they do occur. Focus on the various deductibles for each peril (windstorm vs. earthquake vs. flooding, for instance) and what is and isn't covered.

When it comes to accurately valuing assets for replacement, companies should take into account forces like inflation, supply and demand, changes in technology or materials, and improved productivity on top of the normal changes in value over time.

Mitigation plans should identify and coordinate external professional resources, including an emergency restoration service that can respond urgently to a loss at any crucial facility. After Hurricane Katrina, many Gulf Coast businesses were unable to stem their losses because they did not have such arrangements in place. Those who did were first in line for assistance and consequently among the first to resume operations and limit losses.

Catastrophes like Harvey and Irma can serve as a reminder of the need for proper planning and protocols that can cope with the unexpected. "The key to addressing a major hurricane on the scale of Harvey, Irma or Maria isn't just mounting a successful response," notes Nancy Green, Executive Vice President and author of Aon's white paper Keys to Success in Managing a Black Swan Event. "It's doing so while simultaneously managing the shock of facing something on a size or at a scale your organization has never experienced before, and recognizing that leaders and employees in affected areas face that in a very real way. There *are* ways to counteract the effects that shock factor creates and improve ability to respond effectively, and there *are* ways to prepare – this is one of the most empowering messages for any organization to embrace for itself and its employees."

## **TALKING POINTS**



"We're not going to let paperwork and money get in the way of saving lives" – Brock Long, Head of the U.S. Federal Emergency Management Agency (FEMA)



## FURTHER READING

- Hurricane Harvey Could Be The Costliest Natural Disaster In U.S. History – Business Insider, August 31, 2017
- Hurricane Harvey's Impact – And How It Compares To Other Storms – FiveThirtyEight, September 2, 2017
- Investor's Braced For Irma's Impact On Markets – Financial Times, September 10, 2017
- How Do Cities Rebuild After Hurricanes Like Harvey And Irma? – The Guardian, September 8, 2017
- Hurricane To Cost Tens Of Billions, But A Quick Recovery Is Expected – The New York Times, August 28, 2017

