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PROTECTING YOUR PROPERTY

Riots, Vandalism and Insurance Knowing Where Your Value Lies is Key to Smart Decision-Making

Today, no one needs to be reminded of how real the threats of riots and vandalism are, or of the disruption they can cause to the facilities and operations of a business or institution.

Do you own or lease property in an urban area? Are you considering whether to maintain your presence in the city or move to a safer location?

Standard property insurance covers the cost of repairing and replacing property damaged by vandalism and riots, plus the income lost when an enterprise must shut down as a result of such damage. This is almost always the case whether the coverage is provided for “named perils” (damage resulting from specified causes) or “open perils” (damage by any cause other than those specifically excluded).

While this might make insuring against riots and vandalism sound like an open-and-shut case, a variety of factors can influence how your property insurance would compensate you for what’s at stake.

A Challenging Question

Even before deciding on an approach to risk management, urban property and business owners must ask themselves a simple but challenging question: *Are you more valuable to the location, or is the location more valuable to you?*



If you determine that your products and services will attract people on their own, you have the option of selecting the safest practical location. If you decide to stay in an area prone to vandalism and disturbances, you can protect your organization by purchasing the highest available limits of property insurance, presuming your business will continue to attract customers even after an event.

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In the wake of the latest series of civil disturbances in American cities, urban enterprises are likely to see higher prices and higher deductibles for property insurance.

Also, insurers will be inclined to mandate loss control measures that would have been merely recommended in the past. These could include “warranties” regarding the installation of exterior lighting, use of security cameras, installation of safety glass, securing of valuable items of property, and other measures.

Broken Windows

Urban enterprise operators need to be aware of two property insurance details that could determine what they recover in the event of a vandalism or riot loss.

First, does your policy cover broken windows? Probably, but perhaps not.

In the late 1900s insurers regularly excluded property coverage for the breaking of building glass. The

reasoning was that windows were broken and replaced much more easily than other building components, so maintaining them was just a cost of doing business.

That treatment began to change in 2000 when the Insurance Services Office (ISO), which develops the standardized policy forms used by many insurers, released a new version of its commercial property policy that removed the exclusion for building glass.

It takes several years for insurers to adopt new versions of standardized forms, so while most commercial property forms today cover building glass, not all of them do. That’s not a reason to reject a policy that otherwise meets your needs at a good price, but you should know what you’re buying.

If your property policy does not cover building glass, you can request that it be added by endorsement — or purchase a separate glass coverage policy, which is still offered by some insurers.

Theft and Looting

A second important detail concerns the distinction between theft and “looting.”

ISO’s named perils coverage for “riot or civil commotion” explicitly includes coverage for “looting occurring at the time and place of riot and civil commotion.” In its description of coverage for vandalism, ISO states that “we (the insurance company) will not pay for loss or damage caused by theft, except for building damage caused by the breaking in or exiting of burglars.”

The distinction between “looting” (generally covered) and “theft” (often not covered) means that a commercial



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insured will likely be covered for items lost during frenzied looting, but not necessarily for the loss of uniquely valuable items or pieces of equipment that are reported missing.

For example, a shop will likely be covered for lost or damaged merchandise in the wake of a well-documented disturbance, but it may not be covered for items stolen in the aftermath of a disturbance. Especially vulnerable for theft are valuable items such as computers, sports equipment, jewelry, clothing, etc., which can be stolen by anyone having access to the premises, following the event — even employees.

Any business that stocks valuable items should confirm with its insurance agent or broker whether it is covered for theft, and to what extent and under what conditions.

Loss of Attraction

Things are different if you determine that your location constitutes as much if not more of your value than your products and services.

Insurance for vandalism and riot damage will not allow a business to survive if patrons shun a location in the wake of a violent episode. Indeed, if your business is a few blocks from where damage occurs and outside the area closed off by public authorities, you would receive no recovery at all from your property insurance. Consequently, a business that is heavily dependent on its location may have reason to reduce its reliance on traditional property insurance (through lower limits and higher deductibles) and consider new forms of coverage for “loss of attraction” or “workplace violence.”

Available primarily in “surplus lines” markets, insurance for loss of attraction will pay part of the difference

between what a business would normally earn and its reduced earnings caused by a decline in commerce in its location. Unlike business interruption insurance, loss of attraction coverage would not require damage by a “covered peril.” It would respond to economic changes, regardless of the cause.

“Workplace violence” insurance entails a range of new programs that provide coverage for losses caused by violent events, and are otherwise known as “active shooter” and “active assailant” insurance.

Of importance to urban property and business owners is that these programs often cover costs of advertising and public relations to re-establish the attractiveness of a location after a violent event. Some of them will pay to replace a structure that is damaged only slightly, if at all, but no longer suitable for business because of a traumatic event that occurred there, such as a mass shooting.



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Transferring and Retaining Risks

What these other new insurance options will not cover are the costs to repair and replace property damaged by vandalism and riots. Those losses remain the domain of standard property insurance.

All of this compounds a central challenge facing business and property owners today: how to manage a growing range of risks and growing demands to purchase additional types of insurance.

Vendors and clients are increasingly requiring their business partners to have insurance for cyber, professional and product liability. Public authorities and real estate lenders are mandating environment liability coverage. And there is a growing clamor for employment practices liability coverage.

With only so much money to spend on insurance, urban property and business owners need to carefully identify risks they must transfer through insurance and ones they can afford to “retain” on their balance sheets.

Preparing for Riot and Vandalism Losses

To limit the extent of losses from vandalism or civil disturbances, Beecher-Carlson Insurance Services, LLC recently issued a report on “Proactive Preparation for Civil Unrest and Rioting” which provides a detailed series of steps to take in advance of an impending event:

1. Cover all windows and doors with exterior grade plywood.
2. Separate roadways and parking lots from storefront areas with temporary fencing or barriers.



3. Remove high-value merchandise from plain sight or storefront windows.
4. Remove or conceal items that could be used as tools for illegal entry or projectiles to cause damage or personal harm.
5. Secure or conceal trash receptacles that could be set afire.
6. Illuminate storefront areas with portable lighting.
7. Protect roof access ladders or ladder cages.
8. Relocate or conceal company or privately-owned vehicles.
9. Remove cash and computers with customer information.
10. Hire temporary visible security presence (in addition to law enforcement patrols).
11. Consider modifying business hours (e.g., opening or closing earlier than normal) or temporarily closing.

Measures such as these are essential for any risk retained by a business or property owner — and they may be required for any risk transferred to an insurer.

¹ Beecher-Carlson Insurance Services, LLC, *Proactive Preparation for Civil Unrest and Rioting*, June 2020; accessed at <https://beechercarlson.com/wp-content/uploads/2020/06/Proactive-Preparation-for-Civil-Unrest-and-Rioting.pdf>