

## Catastrophic Losses: Plan ahead for your credit union – and your members

By Kriss Besch, Product Support Manager

*John F. Kennedy once said the time to repair the roof is when the sun is shining. It's good advice that still rings true today – especially for credit union leaders who may be putting off the development of a disaster response and recovery plan.*

A look at headlines this spring is evidence that disaster can strike anytime and anywhere, whether it's the mudslides in the Pacific Northwest, tornados in Texas or the recent wildfires in Oklahoma. In fact, the National Oceanic and Atmospheric Administration (NOAA) reports that Americans live in the most severe weather-prone country on earth, with 90% of the declared disasters attributed to weather<sup>1</sup>.

Now is a good time to develop or update your credit union's plan to protect and restore your operation when disaster strikes. And while you're at it, ask yourself whether you're also prepared to guide your members through a catastrophic loss. Kriss Besch, product support manager for CUNA Mutual Group offers guidance for ensuring your credit union and your members are protected.

"Don't let past performance dictate current behavior," Besch advises, noting that 2013 was a relatively light year for natural disasters. "Last year we had the fewest storms since 1982<sup>2</sup>. And with no major storms to drive up loan losses, it's easy to become complacent," she says. "With a relatively late cool spring, 2014's springtime hazards may linger longer than usual, and trouble may be just around the corner."

Tornado season is heaviest during the spring and summer months and is most prominent west of the Rocky Mountains. Lloyd's of London estimates that 1,200 twisters occur each year, causing \$100s of millions in property damage<sup>3</sup>.

Wildfire season, marked by dry weather and high winds, can occur any time and is estimated to have a \$1-2 billion impact on property annually<sup>4</sup>.

Hurricane season stretches between May and November, depending upon which coast you live, and it accounted for 42 percent of insured catastrophic losses between 1992 and 2011<sup>5</sup>. More recently, Super-Storm Sandy singlehandedly accounted for \$19 billion in insured property losses in 2012<sup>6</sup>.

Flooding is probably the most insidious of the four hazards, because it can occur any time as a result of seasonal or unseasonal rainfall. NOAA estimates that flash and river floods alone caused more than \$400 million in damage during 2012<sup>7</sup>. Compounding the risk, flooding is also a common byproduct of wildfires, tornados and hurricanes, whether it's flash flooding made easier in fire-stripped areas, or a tidal surge resulting from a tropical storm.

### Prepare now

Preparing for catastrophic losses before disaster strikes is a must for all credit unions, but getting started can be a daunting task, Besch acknowledges. "Fortunately, CUNA Mutual has a number of resources, including tip sheets, white papers and staff specialists who can help."

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A good place to start is making sure your flood zone determinations are current, Besch says. Citing FEMA statistics, she notes that flood zone maps have changed significantly since you probably last checked. Between 2005 and 2011, approximately 520,000 residences have moved into flood zones, while nearly 570,000 are now out of flood zones<sup>8</sup>.

“Your protection may be in the wrong place,” she explains. “It’s in your credit union’s and your members’ best interest to audit your files to make sure they are current and updated annually. You should ensure your members understand their flood risk, and confirm coverage is in place to protect their property and your credit union’s loan risk.”

In addition to ensuring members have flood coverage on their loans, Besch recommends checking all other collateral protections and confirming they are in effect. “It’s important to verify your members have the appropriate insurance coverage by watching for coverage deficiencies, monthly paid policies and exclusions. Also confirm whether you have processes in place to pay claims when catastrophic events occur,” she says. “Ask yourself how you’ll know whether your members are affected and protected, and what you will do to help them recover.”

### **Don’t be the disaster**

Protecting your loans from catastrophic loss is vital, but, don’t forget to protect your credit union’s property as well, Besch adds. “Make sure you’re there for your members if disaster strikes,” she urges. “Review your property and liability insurance coverage annually, especially Extra Expense coverage limits. Industry data and CUNA Mutual’s experience suggests that coverage to help restore operations following a covered loss or disaster is the most under-insured type of property loss.”

When facing a disaster, your ultimate goal is to ensure continued financial services to your credit union members, Besch concludes. “No one can prevent a disaster, but good planning and a knowledgeable partner can help you prepare for the worst, get you back in business and protect your member loans,” she says.

For more information and resources on risk assessment and disaster planning, visit the Protection Resource Center at [cunamutual.com](http://cunamutual.com). You will find a variety of helpful links, including a disaster preparedness assessment tool, webinars, Property and Business Liability Risk Alerts, and access to CUNA Mutual’s Disaster response team.

<sup>1</sup> [“Storm Ready,”](#) NOAA.gov, May, 2014.

<sup>2</sup> [“Slow Atlantic Hurricane Season Coming to a Close,”](#) NOAA, November 25, 2013 (Updated February 11, 2014).

<sup>3</sup> [“U.S. Tornadoes as Deadly, Costly as Hurricanes: Lloyd’s,”](#) Property Casualty 360, February 27, 2013.

<sup>4</sup> [“How to Prepare for a Wildfire,”](#) America’s PreparAthon, FEMA.gov

<sup>5-6</sup> “Prepare for Catastrophic Losses Before Disasters Hit,” Credit Union Directors Newsletter, July, 2013, Volume 39, Issue 7

<sup>7</sup> [“Summary of Natural Hazard Statistics for 2012 in the United States,”](#) NOAA, 2012.

<sup>8</sup> [“For Average Joes, Fighting FEMA Flood Maps Isn’t Easy or Cheap,”](#) NBCNews.com, January 2014.

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