

Property Insurance for the 21st Century

By L. Ware Preston, III

While companies have always created value by developing and fostering relationships, their relationships are much more important and much more tenuous than ever before. Businesses are linked in complex supply chains spanning the globe. Customers, suppliers, employees, and investors have real time access to widespread information giving them many choices which they can exercise with little notice. Transaction speed is so valuable that computers are programmed to make decisions, immediately, without any human interaction. The high level of financial and operating leverage, which fuels the economy, is fantastically beneficial while it is working and devastatingly destructive when something goes wrong.

For example, after a company suffers a fire at one of its major facilities, everyone connected to it demands to know what happened and who is to blame. They want assurance that the fire will not affect them and that it will not happen again. But the problems leading to the fire and the required solutions are rarely obvious or simple, and everyone attempts to manage their risk by reducing their exposure to the company. Regulators show that they are vigilant by exerting greater scrutiny. They impose penalties and new rules, costing the company additional time, money, and effort. Customers look for other suppliers. Suppliers find other customers. Employees consider other jobs. Capital suppliers and rating agencies get nervous, making new capital expensive.

Restoring things to the way they were before the accident is no longer good enough. Everyone wants something more, and they all want it at the same time, when the company is least able to provide it. Maintaining good relationships is difficult enough under normal circumstances, but now everyone wants TLC, and the company needs to make things right or suffer a seriously diminished competitive position. What the company needs is love and understanding, but what it gets are warnings and demands.

Significant amounts of money will be required to repair these relationships, but this money will not come from traditional property insurance, which works by defining what is covered and requires proof and measurement of the loss. Nevertheless, property insurance can be supplemented with a new form of insurance called Transurance which can help cover this “discretionary” portion of the loss. Transurance provides money that can be used by the company in any way it desires to help maintain its business relationships and keep its position in the supply chain.

Traditional insurance provides the funds necessary for the company to resume operations and stay in the game. Transurance provides the funds the company will need to maintain its competitive position during a period of adversity.

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