

CONFRONTING THE CONSEQUENCES OF EVENT CANCELLATION

By Tom Marchetti



In addition to membership dues, special events and programs are of critical importance to any association. But what happens when bad weather or an unexpected occurrence forces the cancellation of an event or prompts a significant drop in attendance? Association executives and meeting planners have been addressing those issues with increasing frequency in light of news regarding extreme weather, the risk of a natural disaster, concerns about terrorism and even the fear of a pandemic.

Of course, careful planning can help many associations reduce the risks of cancellation. In addition, many associations find that event cancellation insurance has become a critical solution to protect against the financial consequences of event cancellation or curtailment in participation. While a number of insurance companies currently offer this coverage, policies may vary and association executives should carefully read and understand coverage deemed “standard” or “optional” (perhaps an event requires both) as well as any terms and conditions.

For the most part, policies can be structured to provide coverage for circumstances that include severe adverse weather; acts of terrorism; venue unavailability due to fire, earthquake, structural collapse, gas leaks and flooding; labor strikes, including a transportation strike that would prevent members from attending; power blackouts and wildfires; communicable disease and pandemics; the non-appearance of a key speaker or entertainer; major riots and civil commotion; and national mourning. Event cancellation insurance can be arranged to protect gross revenue and the expenses incurred for hosting one or more functions. Events of any size can be insured, and many associations opt to cover events that are expected to generate \$100,000 to \$50 million in revenue—or more.

Premium rates for event cancellation policies generally range from 1 to 2 percent of the total revenue expected from the insured event. However, these costs can be affected by various factors, such as:

- **The geographic region.** Events in areas vulnerable to flooding, windstorms, earthquakes and other natural hazards may have higher premiums.

- **The time of year.** Seasonal weather and climate conditions mean more risks, and events scheduled for certain times may be more expensive to insure.

- **The venue.** Will the event take place inside or outdoors, where a group is exposed to the elements? In the case of the latter, developing a backup plan for inclement weather is a prudent risk management strategy.

- **The number of events.** A concentration of events in a certain region during a risky time of year may result in a higher premium. However, multiple events spread out over a longer time period and in different geographical locations will improve an overall risk profile and subsequently reduce insurance costs.

- **Natural disasters.** Following a disaster, regardless of where it occurs, insurance costs can rise. Purchasing coverage years in advance for an event will lock in a rate, even if natural disasters happen in the interim.

In addition, groups must consider the threat of terrorism. Associations seeking insurance against terrorism risks should be aware that underwriters rate some major cities as higher terrorism risks, such as Washington, D.C., New York, Boston, Los Angeles, Miami and Chicago. Thus, insuring against terrorism risks in these cities generally will have higher insurance rates than other cities.

For terrorism risks, both “limited” and “full” terrorism insurance are available optional coverages. Limited terrorism has restrictions, such as set limits on financial recovery and a distance limit for terrorist acts that occur within 50 to 150 miles of any insured event. As a result, most associations choose full terrorism protection. Optional added coverage for nuclear, chemical and biological risks is available but can add significantly to the premium. Whether or not a group chooses optional coverages, associations with multiple events often can obtain better pricing by packaging them together under a single insurance policy.

With careful planning and appropriate coverage, associations can manage risks and protect essential revenue streams provided by their special events and programs. Organizing a group event of any size without a backup plan could prove to be costlier than anyone imagines. ■

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