

## Is Your Insurance Policy Prepared for a Disaster?

By Jeffrey W. O'Connor

**W**ant to know how reliable a car might be, ask a mechanic. Want to know how reliable your insurance policy might be, ask an adjuster — a public adjuster. Public adjusters document damage and adjust property insurance claims on behalf of the business owner. We are the policyholders' advocate to ensure your claim is prepared, presented and adjusted so that your best interests are protected. In this article, we outline several insurance coverages and clauses you need to know about so that you can protect your assets in case the unfortunate happens.

When researching policy options for property insurance, consider these tips:

### Purchase Replacement Cost

This may seem a little elementary since almost everyone knows to insure at replacement cost. Replacement cost policies pay to replace your old asset at today's cost for a new asset of like kind and quality. However, this coverage is not without its own set of potential issues. In many policies you may be penalized if you insure at replacement cost but do not carry enough insurance to replace the asset. This brings us to the next topic, coinsurance.

### Avoid Coinsurance Penalties

Many of our insureds are shocked to discover they can be subjected to penalties for underinsuring their properties. It is common for commercial insurance policies to contain a coinsurance clause.

Coinsurance is a form of insurance under which, in exchange for a favorable premium amount, the insured agrees to always maintain an amount of insurance relative to the value of the assets insured. The amounts required are not stated in dollars but rather as a percentage, typically 80% or 90% of the asset's value. If you fail to live up to your end of the bargain (pay the insurance company the desired amount of premiums) and underinsure your assets, you will be penalized for an amount equal to the amount you underinsured yourself. There are numerous complexities in the application of coinsurance and any resulting penalties. Of course, you can avoid the possibility of such a penalty by always maintaining the proper amount of insurance. But that amount is subjective; it can vary depending on the person calculating it. With improvements, additions,

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We hope you have found this issue of *The Loss Advisor* to be of interest. We invite you to contact the editor, Marshall Gilinsky with your questions and/or concerns:

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fluctuations in material and labor costs, it is a moving target over time. Perhaps the best way to avoid this unpleasant trap is the "agreed amount" endorsement.

### Consider an Agreed Amount Endorsement

This endorsement may be the greatest value in insurance today. For the extra premium dollars, it can save you tens, thousands or hundreds of thousands of dollars when faced with an insurance claim. It is a simple endorsement that suspends the coinsurance clause, thereby avoiding any penalties. Often a pre-loss appraisal may be necessary to determine your insurable values and the amount of insurance required. Ask your agent if you have coinsurance. If you do, ask them to include an agreed value endorsement.

### Protect Your Future with Business Interruption Insurance

Business interruption insurance insures your loss of net income and continuing expenses for the period of time your assets are damaged by an insured loss. Business interruption insurance is more important for some businesses than others. A retail store might be able to move to another location; apartment owners might be able to move tenants to other properties. However, manufacturers may have long repair or replacement times on equipment, hotels are unable to rent damaged rooms and restaurants might have extensive build-outs, equipment and location issues.

Business interruption claims are often the most difficult claims to resolve, as the recovery is dependant on historical performance, the time required to return to operations, expenses that may or may not continue and policy conditions such as coinsurance, monthly limitations, extra expenses, etc. All of these factors are subjective, and the resulting claim amounts can vary greatly depending on the professional preparing the documentation. Since business interruption claims can challenge even the most experienced adjusters, you can expect that the insurance carrier will hire an accountant who specializes in business interruption claims to assist them in this area.

### Consider a Business Owner Policy

Many "main street" small- to medium-sized businesses may benefit from purchasing a Business Owner Policy. These policies offer several advantages: valuation is typically replacement cost; there is no coinsurance; loss of income coverage is typically included without a limit; and, because it is a package policy

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(including property and liability coverages), its premium is often less than if you purchased these coverages individually. Not everyone will qualify for a Business Owner Policy and coverages may vary, so consult your agent or broker.

### Evaluate Flood Insurance Options

The events surrounding Hurricane Katrina brought new awareness of the shortfalls and failings of the needs of insureds and the policies that protect them. Their lack of adequate coverage was most glaring with regard to flood insurance. The federal government encourages owners to protect themselves by purchasing flood insurance through the National Flood Insurance Program. However, the policies underwritten by the program are basic and undervalued for the needs of many business owners. Some individual insurance companies recognize this and choose to write and service their own flood policies. Called "Write Your Own" insurers, they often provide larger coverage amounts and greater options than the federal program. If you are eligible to purchase flood insurance, especially if your business is in a coastal area, consider discussing your flood coverage with an agent for a Write Your Own insurer.

Be prepared when you consult with an agent on flood insurance. Not all flood policies are alike, so ask questions about the building limits, contents limits, business interruption coverage and debris removal charges. Ask about coverages and limits for stock, raw materials, decking, fences, walkways, parking lots, outdoor lighting, landscaping, sprinklers, pools, pool equipment and other assets of your business.

### Consider Wind Insurance Options

For business owners in coastal areas that need wind insurance as a separate policy, consider purchasing policies underwritten by individual companies. As with flood insurance, the private market may provide you with greater coverage limits and more options than policies underwritten by state "pools." Have a checklist of concerns to discuss with your agent such as exterior painting, wind-driven rain, exterior lighting, fences, decks, pools, etc.

### Earthquake Insurance

Standard commercial policies do not cover damages from earthquakes. Depending on your

location, earthquake coverage can be provided through a Difference In Conditions policy, which may be added to your existing policy by endorsement or purchased as a stand-alone policy. Check with your agent and inquire about what additional types of losses the policy may cover (some include flood, landslide, mudslide, collapse, sinkhole and any other earth movement that involves the sinking, rising or shifting of earth). The deductible is typically a percentage of the policy amount. Be aware of how the deductible applies to buildings and contents; some policies will treat buildings and contents separately, meaning the deductible applies to each one.

### Tips to Reduce Premiums

- **Shop around:** Prices vary from one company to another. Not all policies are alike, so compare the differences to get the coverage and price that best suits your needs.
- **Purchase a package policy:** Policies such as a Business Owner Policy that combine several coverages are typically less expensive than individual coverages.
- **Consider a blanket policy for multiple buildings or properties:** A blanket policy combines properties into a single coverage amount. Research this carefully, as having a blanket policy offers benefits to some, drawbacks to others.
- **Raise the deductible:** The higher the deductible the less you pay for the policy.
- **Get credit for actions that prevent losses:** Check with your agent to see what you can do to minimize the chance of having a major claim. Policies give credits for such things as smoke detectors, sprinklers and workplace safety procedures.

While insuring your assets to the best of your ability can benefit you greatly if you have a claim, it's only one part of the solution. The claims process is complicated and time-consuming, with many trips and traps. Assembling a team of professionals to put your policy to work for you can make all the difference. We encourage you to talk to a professional claims adjuster whenever you have a property insurance claim. ■