

RECOMMENDATIONS

PROPERTY

▪ **INSURABLE VALUE**

The determination of accurate values constitutes a real problem that should be given attention before a loss occurs. After a serious fire, it may be extremely difficult to determine values — possibly resulting in a complicated and unsatisfactory loss adjustment. Please refer to the definitions in the property section of the proposal, paying special attention to replacement cost, actual cash value, etc. Care should be taken not to utilize "book" or "depreciated" values, as these normally reflect the maximum depreciation allowable under tax schedules and other purposes, and not the true insurable value.

An up-to-date appraisal is the recommended way to assist in determining the insurable value of buildings. To determine the value of contents, an inventory should be made. This inventory, if kept in a safe place away from the premises, will prove invaluable in the event of a loss.

▪ **FLUCTUATING CONTENTS/VALUES**

For risk with fluctuation in values, a policy is desirable on which the coverage and the premium follow the fluctuations in value automatically. The reporting form is designed to accomplish this purpose. The reporting form allows you to pick a value that you anticipate will cover your maximum exposure. During the policy period, you report to the company on a monthly basis your actual values, and the premium is adjusted at the end of the policy term thereby allowing you to pay only for the actual property at risk at any one time.

▪ **WORK IN PROGRESS**

All insurance policies are designed to cover the hard value of your contents. However, for a manufacturing risk such as yours, there may be an additional value such as man hours spent, product in the process of assemblage or development, plus the actual finished product. Therefore, when establishing your contents limit we should be sure to include not only the value of machinery and equipment, furniture and fixtures as well as raw stock, but also the value of "work in progress" as well as your finished product.

▪ **SELLING PRICE CLAUSE**

Akin to the previous recommendation, a selling price clause is designed to cover either goods that are sold and not yet delivered or manufactured but not yet sold. Unless a selling price clause is added to the policy, there is no allowance for profit in the case of destruction of the stock of merchandise.

▪ **CONDITIONAL SALES AGREEMENT**

Basic fire policy does not provide coverage for sold merchandise after leaving the premises. An "installment sales floater" is designed to cover merchandise sold "on time," during delivery to customers and after arrival until fully paid for. Coverage on merchandise leased, loaned or sent out on approval is also provided for a specific period, conditional upon such values being property reported.

RECOMMENDATIONS

- **DEMOLITION INSURANCE**

Demolition insurance is provided when a building is partially destroyed and local building ordinances require that the remainder of the building be torn down to conform to local ordinances. Therefore, since the fire policy does not provide coverage for demolition of an undamaged portion of the building, a certain limit of liability must be chosen in order to pay for the cost of demolishing the remaining portion of the standing structure.

- **LIABILITY FROM BUILDING ORDINANCES**

Once again, since local building ordinances require that you tear down the undamaged portion of a building damaged by an insured peril, the "contingent liability from building Ordinances" would provide coverage for the demolition of the undamaged portion of the building by in essence making "demolition" an insured peril.

- **INCREASED COSTS OF CONSTRUCTION**

As a last contingency of the implications of local building ordinances, various laws may require that a building that is damaged and to be rebuilt must be done so with materials of better value and greater cost than those of the building that has been damaged and subsequently razed. Since the fire policy provides coverage for materials of like kind and quality, an Increased Costs of Construction endorsement would provide you with the necessary extra costs to bring you into conformity with the local building ordinances. Obviously, a separate limit of liability would have to be chosen to conform with those ordinances as well as determining whether or not any such ordinances would apply under the circumstances outlined.

RECOMMENDATIONS

BUSINESS INTERRUPTION

▪ "GROSS EARNINGS"

This part of the policy, when elected, provides coverage for the net profit and continuing expenses of the business which would have been earned had no interruption occurred. The policy provides the necessary coverage on profit and continuing expenses to keep you in the same financial condition that you were prior to the loss. In addition, the policy covers "expense to reduce the loss." If it is possible to get you back into business at a temporary location even on a reduced scale, it should be done. The policy will pay the necessary expense to do this so that the overall business interruption loss will be reduced. Obviously, any business interruption payment is subject to the limit chosen. Should a quote on this portion of your insurance protection be desired, please complete the Gross Earnings Worksheet included in the Business Interruption section.

▪ EXTRA EXPENSE INSURANCE

If your business must remain in operation even though your property has been damaged, either because of the nature of the business or because a shut-down might result in permanent loss of business, then extra expense insurance is needed. In addition to the necessary emergency arrangements which might have to be made, operations at a substitute location probably entail a sizable additional expense. Such things as overtime wages for employees, extra distances to travel, working with substitute or makeshift facilities would all add to the normal expenses of the business. It is the function of Extra Expense Insurance to pay for these expenses which are over and above the normal expenses to keep you in business. Extra expense insurance does not cover profits or fixed charges as does business interruption insurance, but it does cover the additional expense of continuing business if your location is damaged as the result of fire or other peril insured against.

▪ LOSS OF RENT INSURANCE

If your building is destroyed or damaged by fire or some other peril, you may be subject to a loss of rental value because the building (or portion of the building) has been rendered untenable. Even though both buildings are owner-occupied, you may be allotting a certain amount of rent, even if only on the books, to be paid to the building owner. Furthermore, if the buildings are owned in the name of another entity, e.g., a trust, and actual rent is disbursed to that trust, then a real rental income exposure exists. Furthermore, if you sub-lease any or all of the premises or if the lessee must continue to pay rent even though the premises are rendered untenable, once again you have a true rental value exposure. Though these do not highlight the entirety of rental value possibilities, they are the most common and probably the most prevalent given your set of circumstances. In any case, if business interruption insurance under the gross earnings form is not chosen, loss of rents coverage would pay for those continuing expenses such as payments to a lien holder.

RECOMMENDATIONS

- **DEMOLITION AND INCREASED TIME TO REBUILD**

Many communities have ordinances which require certain kinds of construction and further require that buildings damaged beyond a certain point be torn down and replaced with the required type.

Business Interruption pays for that period of time necessary to repair or replace the property with material of like kind and quality. A business located in a building that does not conform to the requirements of the ordinances would be faced with a possible increase in the length of time it would take to rebuild to meet any ordinances.

The basic Business Interruption policy would pay for only the length of time to repair the damage to the building with the same type of material.

The Demolition and Increased Time to Rebuild endorsement pays for any additional time required to tear down any undamaged portions plus any additional time required in the rebuilding process. In providing this endorsement for risks where this hazard exists (obviously you must check your own town and/or city building ordinances), care should be taken to increase the Business Interruption amount to adequately cover any increased period of interruption by the operation of such ordinances.

- **OFF PREMISES OR POWER SUPPLY ENDORSEMENT**

An interruption of the supply of either of these could easily mean a total or partial suspension of your business. This would be particularly important to manufacturers such as yourself. An endorsement is available extending the business interruption coverage due to suspension of operations because of damage to or destruction to the source of power or water by the peril insured against. Coverage may also be provided on off-premises transmission lines.

- **EXTENSION OF THE PERIOD OF INDEMNITY**

Business interruption coverage ceases to pay when the damaged property has been restored or replaced and the "doors are open for business". An Endorsement Extending the Period of Indemnity is designed for situations where coverage is needed beyond the date of reopening to make up the difference between what is actually earned and presumably would have been earned had no loss occurred.

- **CONTINGENT BUSINESS INTERRUPTION**

If you obtain material or an essential part or component from one supplier or may sell your finished product to one customer, Continuous Business Interruption coverage may be needed. Fire, explosion or other hazard which causes an interruption of business to either the supplier or the customer could cause stoppage of business at your premises even though there was no damage at your location. Therefore, consideration should be given to those potential situations where either a supplier or customer controls a large portion of your input or receives a large portion of your output which could potentially put a stranglehold on your business and its profits.

RECOMMENDATIONS

SPECIAL PROPERTY COVERAGE

- **TRANSIT**

The standard fire insurance policy provides coverage for property (building and/or contents) while at a designated insured location. Property in transit not otherwise covered by a transportation policy or by a shipping company should be considered where the values are either large and singular in shipment or more consistent in shipment over a period of time. Coverage can be provided for land transportation, overseas or via air and are contingent upon whether shipment is done directly by you or in concert with a bona fide shipping company. The bill of lading is extremely important in determining whether you are insured and the extent to which the insurance applies.

- **PLATE GLASS INSURANCE**

Since all policies provide minimal coverage to plate glass, a special plate glass policy should be considered in lieu of what ostensibly would be self-insurance in this area.

- **SIGN COVERAGE**

Fire insurance policies provide coverage for property in the open while on the premises within a hundred feet of those premises. However, sign coverage for a freestanding or electric sign is something that should be provided underneath an Inland Marine policy in order to assure proper protection.

RECOMMENDATIONS

GENERAL LIABILITY

▪ **CONTRACTUAL LIABILITY**

Any and all contracts into which you have previously entered or are about to enter should be reviewed by your insurance broker so as to prevent assumption of liability or entrance into "hold harmless" agreement

▪ **CERTIFICATES OF INSURANCE**

Any work that needs to be sub-contracted to an outside vendor should immediately give rise to your request of that source for a certificate of insurance. Such certificates should evidence coverage for, at the very least, comprehensive general liability, automobile liability, and worker's compensation liability. Such certificate of insurance should be reviewed by your broker to be sure that those limits are adequate to protect your interests. Also, an "additional insured" endorsement might be requested of the subcontractor in order to further protect your interests.

▪ **PERSONAL INJURY PROTECTION**

Your current quote provides personal injury insurance for the following three groups of hazards:

False arrest, detention or imprisonment, or malicious prosecution;

Libel, slander, defamation or violation of right of privacy;

Wrongful entry or eviction or other invasion of right or private occupancy.

The standard form of personal injury liability coverage may be modified by the deletion of the employee Exclusion (Exclusion C). This modification will provide coverage for personal injury claims by employees against the named insured. At company discretion, employees may be added as additional insureds and contractual liability exclusion may be deleted and the coverage extended to discrimination as to race, color, creed or national origin.

FIDUCIARY LIABILITY IN CONNECTION WITH EMPLOYEE BENEFIT PROGRAMS

The Pension Reform Act of 1974 established the fact that any persons with any power or control over the management or disposition of any pension or employee benefit fund must assume a personal legal obligation for the faithful and prudent performance of his duties in such areas as management, investment diversification and reporting, and to refrain from specific prohibited acts relating to conflict of interest or self gain. The pension law permits the purchase of insurance to cover a fiduciary's responsibility.

Furthermore, to provide coverage for errors and omissions in the administration of worker's compensation, unemployment benefits and social security, an endorsement to the liability coverage would be recommended. The endorsement covers injury caused by an negligent act, error or omission of the insured, or any other person for whose acts the insured is legally liable, in the administration of the named insured's employee benefits. Once again, this is an endorsement that is issued cautiously and at insurance company discretion.

RECOMMENDATIONS

- **AUTOMOBILES OR PROPERTY OF OTHERS ON YOUR PREMISES**

Accidents attributable to you or your employees parking vehicles that are not owned, rented or loaned by the company on covered premises should be reviewed thoroughly. Since you store several box trailers of others as well as automobiles for sale on your premises lot, clear understanding of the agreement, whether oral or written, between you and the other party must be obtained in order to assure proper protection is provided.

RECOMMENDATIONS

CRIMINAL LOSS

- **DISHONESTY INSURANCE**

One of the major exclusions of coverage under the property portion of the policy is for theft of property by an employee. For this reason Dishonesty Insurance is recommended. Since undetected computer generated transfers, check forgery and alteration, etc., are primary vehicles for fidelity loss, an employee dishonesty bond should be considered. Coverage can be purchased either on a per-employee, per-loss or blanket basis. Each category should be discussed to determine if coverage would be appropriate.

- **THEFT OF MONEY**

Since property policies provide little, if any, coverage for theft of money if your company has more than a petty cash exposure consisting of hard currency on or off premises, certificate of deposit, stock certificates, bearer bonds or the like, a comprehensive crime policy covering the corporation for theft of these items should be addressed.

- **EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 (ERISA)**

In all cases where you have a health and welfare pension fund, a bond must be written to comply with ERISA.

ERISA requires several statutory endorsements, which must be added to a bond covering a health and welfare pension fund for employees of any insured.

If the named insured does not specifically mention the health and pension fund, it is in conflict with ERISA and should be corrected.