

Property & Casualty Insurance Discussion

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Basics

What is Insurance?

* A social and economic device for reducing risk by combining a sufficient number of homogeneous exposure units to make their individual losses collectively predictable.

Why do you need it?

* It's an avenue for you and your company to transfer risk to an insurance company in return for payment of premium.

* If you have property, employees, provide a service and/or produce a product, you will need to transfer the risk of a catastrophe and insurance is most likely the best way to do this.

Overview of Coverage Parts

The following coverage parts should be viewed frequently with your agent:

- * Property (building & Contents)
- * Business Income and Extra Expense
- * General Liability (including EBL and EL)
- * Auto Coverage
- * Executive Liability Coverage
- * Crime
- * Umbrella

Property Coverage

- The insurance company and the agent will determine the reconstruction cost of the building(s) that are owned/managed using a analysis of yr blt, construction type, square footage etc. This value has no relationship to market value, it is strictly based on construction costs.

Important items to look out for:

You will want to make sure the property is insured for replacement costs and not actual cash value. Replacement cost means the company provides monies to rebuild the property fully. Actual Cash value will take into consideration depreciation.

Property Coverage Continued



For example, if a roof has a life of 20 years and is 15 years old with a value of \$20,000, the company will only pay 25% of the \$20,000 if the house is insured under “actual cash value”. The math is as follows: $15/20=75\%$ of the roof is used leaving 25% of life left.

Coinsurance

- Another important item to avoid is the concept of Coinsurance. If the property policy contains coinsurance, then the insurance company can penalize you if determined that the property was underinsured.
- If, for example, the policy contains a coinsure percentage of 80%, then the property limit must be at least 80% of the reconstruction value or the company will only pay 80% of the claim. The way to avoid coinsurance is to have your agent endorse the “agreed Amount” endorsement onto the policy which waives the coinsurance penalty. This means all three parties (agent, company, insured) agree that the limit is a true value to the best of our knowledge.

Property Coverage Considerations

- Always examine deductibles as an avenue of reducing costs
- If you have multiple properties, consider placing them on a “blanket” form which will gain you the appropriate economies of scale and would provide one limit to pull from in the event of a loss.
- Always evaluate Business Income & Extra Expense coverage which provides cover for loss of rents. In addition, it will provide temporary housing for tenants while the building is being repaired.
- Other considerations are back up of sewers and drains, ordinance & law coverage etc.

General Liability



- General Liability protects your business from third party claims for bodily injury, associated medical costs and damage to someone else's property
- General Liability coverage excludes coverage for professional services such as nurses, counseling etc.
- A separate Professional Liability policy will be required if these services are performed.

Auto Coverage



- Even if your organization doesn't have vehicles, it is still important to have hired/non-owned auto coverage including physical damage coverage.
- This provides coverage for the organization when employees drive their personal autos for company business.
- This also provides coverage in the event the organization were to rent vehicles.

Executive Liability



- Directors and Officers Insurance: provides coverage for D's and O's of the organization in the event they are sued in conjunction with the performance of their duties as it relates to the company.
- Employment Practices Liability: provides coverage for management of employees. Common exposures include sexual harassment, wrongful termination and discrimination.

Crime Coverage



- ***Crime insurance*** protects organizations from loss of money, securities or inventory. Common claims allege employee dishonesty, embezzlement, forgery and other criminal acts.
- ***Employee dishonesty coverage*** covers losses by most dishonest acts of employees such as embezzlement & theft.
- ***Money & Security coverage*** pays for money and securities taken by burglary, robbery, theft, disappearance and destruction.

Umbrella



- Umbrella policies provide additional limits over the primary General Liability and auto limits. It is a cost effective avenue of obtaining higher limits of liability and should be considered for any business. The specific limits should be discussed with your agent based on the exposure present.

Additional Thoughts

- *What effects my ability to obtain coverage at a reasonable premium?*
- *First and foremost, running a safe and organized operation.*
- *Being mindful of all potential exposures to your business*
- *Updated structures, most importantly, roof, wiring (avoid aluminum wiring if at all possible) and HVAC.*
- *Loss history. If there are previous losses, what has been done to prevent them from happening again?*
- *Loss control, is there a plan in force for loss reduction and loss prevention?*
- *Economies of scale, the more properties you have, the better rate per location you will obtain.*
- *Experience in the industry.*