



Insurance Bulletin #107

of



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Services Provided

- 401K Plan/SEP
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- Condo/Co-op
- Disability Insurance
- Estate Planning
- Group & Individual Health
- Homeowners
- IRA/Keogh
- Key Person Insurance
- Life Insurance
- Long Term Care
- Mortgage Life
- Surety Bonds
- Tenants Policy
- Valuable Items Floater
- Workers Compensation

Insurance for your Business

The information contained here should be used as a guide when insuring your business. You will be able to use the information, and at least be conversant with the types of coverages that you will need if you start or own your business.

Your insurance needs for your business can be broken down into the following categories:

- Commercial Property**
- General Liability**
- Professional Liability**
- Workers Compensation**
- Commercial Automobile**



The following is a short glossary of common insurance terms.

SMP

Stands for Special Multi-Peril Policy. A package policy that covers buildings, contents, and liability all in one discounted policy.

BOP

Business Owners Policy. A new package policy covering building, contents, liability, etc. with loss of income and other coverages included at heavily discounted premiums.

CO-INSURANCE CLAUSE

Most policies contain this clause and it refers to the amount of insurance that must be carried and not the percentage of the loss that can be collected after occurrence. Most policies contain an 80%, 90% or 100% co-insurance clause, and it would be applied as follows:

If you have a building that would cost \$1,000,000 to replace, and your policy contains an 80% co-insurance clause, you must carry insurance as follows: **\$1,000,000 (replacement cost) x 80% (co-insurance clause) = \$800,000 (amount required)**

Formula used for settlement of a \$100,000 loss is as follows:

$$\begin{aligned} & \$800,000 \text{ (Insurance Carried)} \\ & \$800,000 \text{ (Insurance Required)} \times \$100,000 \text{ (loss)} = \$100,000 \\ & \text{Amount Collected} = \text{ \$100,000} \end{aligned}$$

However, if you decided to carry only \$400,000 insurance, formula settlement would be as follows:

$$\begin{aligned} & \$400,000 \text{ (Insurance Carried)} \\ & \$800,000 \text{ (Insurance Required)} \times \$100,000 \text{ (loss)} = \$50,000 \\ & \text{Amount Collected} = \text{ \$50,000} \end{aligned}$$

In this example, only 1/2 of the amount of insurance required was carried, therefore, the insurance company would only pay 1/2 of the loss, or \$50,000.

REPLACEMENT COST ENDORSEMENT

Most policies pay actual cash values, which means that they will pay the cost to repair or replace property less the accumulated depreciation due to age and obsolescence. You can, however, have the policy amended by writing it with a replacement cost endorsement so that no depreciation is taken due to the age of the building or contents destroyed. This is usually applicable to dwellings less than 35 years of age.

AGREED AMOUNT ENDORSEMENT

This endorsement negates the requirements of the co-insurance clause because the insurance company agrees, when the policy is issued, that the insurance carried is adequate to meet the co-insurance requirements, and that there will be no penalties for underinsurance in the event of a loss.

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A term to describe all the personal property owned by the business owners, including furniture and fixtures, supplies and leased property of others when so declared.

BUSINESS INTERRUPTION INSURANCE

A type of coverage used to cover the loss of profits and the continuing expenses after a loss occurs that is specifically covered under the policy such as fire, windstorm damage, etc.

EXTRA EXPENSES INSURANCE

Helps pay for the increased extra expenses when you move to a nearby location, should your building suffer a loss which would necessitate closing for extensive repairs. These expenses could be overtime payments to contractors, the telephone company, your own employees, etc.

GENERAL LIABILITY

Covers your liability exposure for either owning or renting the occupied premises and will usually also cover such things as products liability, personal injury (which is libel, slander, and false arrest)

PROFESSIONAL LIABILITY

Covers injury arising out of the rendering of, or failure to rendering of or failure to render the required services.

CLAIMS -MADE FORM

This particular provision pays your claim for as long as the policy is in force. **If you lapse the policy, your coverage for the past year(s) become null and void** unless you purchased a “retroactive date” on an extended reporting endorsement.

OCCURRENCE FORM

Liability policies which pay for claims that occurred during the policy term regardless of when they are reported.

BUILDING INSURANCE

Generally, because of the low rate, you will want to insure to full replacement cost of the building. Saving a small amount of premium on this item is not recommended. In addition, you should insure on a “Special Form” basis rather than on a restricted specified peril basis. Although insurance companies sometimes refer to broad form coverages as “All Risk,” this form usually excludes losses caused by earthquake, flood, war, nuclear fission, wear and tear, termites, etc. Even with these exclusions, it is still the best way to insure your buildings and the rates are usually very low.

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Here again you should consider insuring your contents for the full replacement cost, and also on a “Special Form” basis. When insuring your contents, pay particular attention to leased property such as office equipment, etc. Many leasing companies require you to insure the property for its full replacement cost. The leasing company will state that they are insuring the property while it is on your premises. This may be true, but make sure that their insurance policy has a clause in it, which stops their insurance company from paying them and then going against you for reimbursement. We usually refer to this as a waiver of subrogation clause or a hold harmless agreement. Always look at the insurance requirements of a personal property lease carefully, for there is no such thing as a standard lease or agreement.

BUSINESS INTERRUPTION INSURANCE

Your business, by its very nature, will be doing business because of its location. If a fire occurs, and it must be closed for six months, and if you cannot locate a replacement building in the immediate area, you will suffer a large earnings loss. Having to move five to ten miles away can destroy your earnings potential. If you cannot find a potential spot where you can move into quickly, then you should consider a form of earnings insurance. If you are under a Business Owners Policy, or "BOP" this coverage will be automatically provided at no cost. Under any other type of contract, you will have to declare the amount you would continue paying, such as the salaries of top management, etc. In addition, you will have to try to decide beforehand how long it would take you to rebuild after a catastrophe.

EXTRA EXPENSES

You need this type of coverage to defray increased expenses as a result of a covered peril. You will want enough to pay for expenditures in overtime pay for contracting telephone, people, supplies, and newspaper and/or TV advertising to inform all you clients that you are still in business but at a new location.

EMPLOYEE DISHONESTY



Every business has an exposure to dishonest employees. Your business, like all others, is subject to employee pilferage, which is almost impossible to stop. This is a cost of doing business, and while it is uninsurable, there are ways to mitigate the damages. At start up time, you are most vulnerable, for you have no guide to follow. Set up your system early, and perform a monthly audit while you are in the starting stages. If your employees handle substantial sums of cash, you can bond all employees on a blanket basis for a reasonably small premium.

MISCELLANEOUS COVERAGES

Neon signs, plate glass, and holdup insurance. These are optional coverages and usually cover such small values that most businesses should consider self-insuring the risk. There is nothing sacred about trading dollars with an insurance company, and usually that is what happens with these type of coverages.



FLOOD INSURANCE

Flood is usually defined as the overflowing of a stream river, or other body of water. The National Flood Insurance Program is usually the only available source of insurance, and is usually not too expensive. If you are near a small river, consider this form of insurance, for many times these small rivers go wild.

GENERAL LIABILITY / PROFESSIONAL LIABILITY

If you own or RENT property, then you are subject to lawsuits from anyone who injures themselves on the property. In many cases, there are no accident witnesses, but we can assure you that many juries can be sympathetic to the injured person. We believe nothing less than a single limit of \$1,000,000 will suffice. In addition to the premises exposure, you will also need an Errors & Omissions policy if you are involved in rendering a service. Malpractice lawsuits are no longer limited to doctors. All social service professionals, even clergy, are at risk.

During the last five years, settlements in the area have increased by more than 70%. Experts predict that this trend will continue. The worst part is, even an unfounded lawsuit can be costly. Defense fees can cost thousands of dollars.

You normally enter into many written contracts such as property leases, etc., where there is an argument to defend the landlord in the event someone gets hurt on the property. This is provided for in most general insurance contracts.

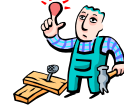
Personal Injury –

Personal Injury is defined as damage to someone's reputation as opposed to bodily injury caused by an accident. The damage to a reputation take the form of libel, slander, or false arrest. Business, you will need this form of coverage to protect your interests.

Automobile Non-Ownership Liability -

At some point, you will send one of your business employees to the bank, for supplies, or for your lunch. Usually the employee will be driving his or her own auto. In the event of an at fault accident, the employer's insurance company will have to defend and pay on behalf of both the employee and your business, if your business is dragged into the suit. In every state, the auto policy on a specific car provides primary coverage, but a jury could find your business liable because the employee was operating on its behalf, and hence the need for automobile non-ownership liability insurance, a low cost form of coverage.

WORKER'S COMPENSATION



This is usually mandatory in all states for all employees. For those of you who hire independent contractors, make sure your attorney sets up a system so that you will never be faced with Workers Compensation claims from people who you hired or thought you hired as strictly independent contractors.

AUTOMOBILE INSURANCE



Anytime your business owns automobiles, you will need high limits of liability. \$1,000,000 should be the minimum amount.

Anytime an automobile is registered to your business, the assets of the business are literally riding in the trunk of the automobile, so high limits are a must. For those of you who have inexperienced drivers, remember where the assets of the business are when you let these inexperienced people drive. Comprehensive and Collision Insurance to cover the damage to the auto should be considered, but keep in mind the value of the auto and the premium when compared to the potential loss. High deductibles are usually well worthwhile, especially in urban areas where auto rates tend to be higher.

UMBRELLA LIABILITY



An umbrella is a form of liability insurance which picks up where the basic policies leave off, and are usually written with a limit of \$1,000,000. If you have a malpractice policy with a limit on a big claim, the umbrella liability policy could be setup to provide excess coverage. The same thing applies in an automobile accident case. So an umbrella liability policy is an excess liability policy over any other primary policy covering the premises, professional, or automobile liability.

This is a short explanation of the types of coverages that you will be discussing with your insurance agent or broker. Every policy described has many clauses, which can be properly explained by a good Insurance Professional.

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