

Business Owners Risk It All If Property Claims Occur

When a company decides to secure business insurance, some of the immediate things that come to mind is securing coverage to satisfy a lease agreement, which in most cases is liability, based. For others, they could have a contract not only requesting liability coverage, but also a specific demand requiring other exposures like garage keeper's legal liability, flood, earthquake and or business auto coverage. However, what many owners tend to overlook is the most critical coverages design to protect critical assets that allows the company to exist after a loss.

Building Coverage - If a company owns a building, determining the replacement cost of the structure should be the starting point to properly aligning coverage should it be damaged. Most over looked portion of building protection is Building Ordinance coverage, which will recognize the additional money needed to bring the structure up to code should a city or county impose upgrades due to changes in city and or county ordinances. Without building ordinance, any increase in construction could impede the process of recovery and strain a company's capital. Note: certain lease agreements also require that the leasee secure building coverage, so be sure and have your agent review the insurance requirements of your lease for proper compliance.

Earthquake Sprinkler Leakage can be added to any property policy with overhead sprinkler systems. Coverage is afforded for damages caused by the disbursement of water causing damage to the building and or personal property, for example.

Business Contents should recognize all assets that are not permanently attached to the building. Items to consider are tenant improvements a company may be responsible for via lease or rental agreement, Fixtures and furnishings, tools, equipment, machinery, raw materials, work in progress and finished goods are easily accounted for. But most often what can easily be overlooked is HVAC, alarm and phone systems to name a few.

Electronic Data Processing Equipment coverage, also known as EDP which is designed to protect critical computer electronics that can be susceptible to damage due to increase in moisture, or sensitivity to heat, etc. There are many machines and processes driven by computer technology that needs to be evaluated and if written on an EDP form would provide broader coverage than a standard property policy.

Property of Others needs to be considered for items that may be left in a company's care custody and control could be damaged and the company in possession of said goods could be responsible for their repair and or replacement. Damages to these assets could create reputational challenges or worse derail commerce if not properly protected

Employee Tools –For those who have employees and allow them to leave their tools on premise to perform work on your behalf need to make sure coverage limits are inline to meet the need should a loss occur due to burglary or fire. If not protected, loss of productivity can occur and challenges in the relationship may be realized.

Property in Transit – Many business owners work with outside machine shops, powder coating and other sub-contractors causing goods to be put in motion to and from these third party facilities. Therefore, the cost if those items being damaged, stolen or lost needs to be evaluated.

Business Interruption – Business Interruption insurance, commonly known as business income coverage, is a sub component to a property policy and can be triggered by the same covered perils on the policy. What many business owners do not realize is there are a myriad of issues that need to be considered when establishing the limit or coverage or monies needed to assist in stabilizing the business by mitigating further losses. This in addition to taking into account the potential for market share erosion that can come from lost net profit over an extended period of time.

The following is a brief review of some of the critical areas that should be contemplated when establishing the limit or monies needed as follows:

- Extra Expense reimbursement for reasonable expenses beyond the fixed costs normally incurred by the business prior to the loss that allows a business to continue operations during the recovery process. These expenses can be as small as hiring a contractor to board up a hole in the building to temporary equipment and can add up quickly. This in addition to considering expediting expenses like cost of freight to obtain a critical part or tool.
- A temporary location or equipment may be needed to support the recovery process. Money to pay for non-recurring expenses to stay in business is critical.
- Fixed costs also known as ongoing operating expense and other historical expense that still exist after a loss regardless if revenue isn't normalized. It is true that expenses are reduced when a business isn't running like lower energy demands, labor costs etc., but continuing expenses like key management and personnel salaries, including overtime pay or lease payments that must be maintained need to be accounted for.
- Profits that would have been earned based on prior months performance can make the difference of business thriving during and after a claim versus merely surviving. What many don't realize is market and reputational erosions can occur which factors into the length of time of said recovery slowing the net profit returning to the place it was prior to the loss. If a business isn't open for 6 months customers will go elsewhere and this creates a potential added risk of them not returning once the establishment is reopened.

There is much to know about property and business income coverage and their importance can easily be over looked. Here are 4 things every business owner should do immediately upon negotiating their next property renewal:

1. Work with an agent that understands risk assessment on the topic.
2. Obtain quotes from multiple carrier so to evaluate cover forms.
3. Spend time evaluating a catastrophe plan that will mitigate the value of a loss should one occur.
4. Work with a carrier willing to separate the cost on a per line basis so coverage can be customized to meet the specific need of the enterprise.

In the end buy more then you truly feel you need as it is never enough if recovery takes longer than expected due to environmental, regulatory or civil restrictions.

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