Commercial Insurance Update

Topics Affecting Buyers of Commercial Insurance

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Inland Marine Insurance

By Jeffrey W. Cavignac, CPCU, RPLU

What Is "Inland Marine" Insurance, and What Do You Need to Know About It?

In the beginning (about 400 years ago) there was fire insurance. Fire insurance was usually written by mutual societies who pooled their monies to rebuild a structure if one of the members suffered a fire. The first fire insurance cooperative in the United States was set up by Benjamin Franklin.

As the concept of insurance began to spread, some English gentlemen (at a coffee house called "Lloyd's") came up with the idea of insuring goods that were crossing the ocean as well as the ships that were carrying them. This came to be known as "marine insurance" and, later, "ocean marine" insurance.

As years went by, the concept of insurance continued to expand. A number of underwriters began writing insurance on property that was being transported over inland waterways and overland by railway or by truck. This was not "ocean marine" insurance, and the underwriters of ocean marine coverage didn't have the expertise to effectively underwrite the new types of exposures. It wasn't insurance for property at a fixed site, either.

As underwriters started to provide coverage for the expanded exposures, they had to come up with a name for the product. It didn't logically fit into the fixed-site type fire insurance mold, nor was it ocean marine insurance. Since the product was designed to cover property for loss exposures that could move from place to place, it seemed more like "marine" insurance than standard property insurance, and thus they chose the name "inland marine."

Of course, politics being what they are, there was some disagreement as to just what constituted inland marine insurance. This required fire insurance underwriters and marine insurance underwriters to get together to define what inland marine insurance actually covered. The original definition was adopted in 1933, and was subsequently revised in 1953 and 1976.

There are many different types of inland marine insurance and relatively few standard forms. In this article, I'll review the major lines of inland marine insurance and discuss the coverage in general terms; I won't specifically refer to any specific company's policy form.

Transportation or "Transit" Insurance

Transit insurance is designed to cover goods in transit. Goods may be transported using a firm's

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own vehicle(s), by a private carrier, or on a public or "common" carrier.

The key to appropriately insuring goods in transit is first to decide who is responsible for those goods. This is usually spelled out in the "bill of lading." The bill of lading will also determine at which point in time the goods become the responsibility of the buyer as well as the obligations of the transport firm.

In general, a transit policy covers goods from warehouse to warehouse. In other words, coverage starts in the shipper's warehouse, extends through the actual transit (and any stops in-between), and terminates when the goods are delivered to the buyer's warehouse. Each policy should be reviewed carefully to make certain that appropriate coverage is provided.

You must also make certain that the goods in transit are valued appropriately. Most private carriers or common carriers provide limited coverage – 60¢ per pound is not uncommon, and $12 for a 20 pound computer isn't much. Make certain the goods you're responsible for are valued accordingly. Whether it's your cost or selling cost, make sure you obtain the right amount of coverage.

Also be aware that most domestic transit policies only provide coverage in the continental United States. If your goods will be going overseas, you'll probably need an ocean cargo policy. Make certain that there are no sublimitations as far as mode of transit (barges, aircraft, etc.).

You may also have a contingent liability exposure. For example, you may be relying on the shipper to provide coverage for goods in transit to your warehouse. However, if the shipment is lost and the shipper had no insurance, you would suffer a loss. Contingent liability insurance would cover that loss.

Transit policies can generally be arranged on an annual basis or, in certain instances, on a per trip basis. The key is to identify the exposure, determine who is responsible, and then quantify it so you can accurately insure it.

Electronic Data Processing Insurance

As the name implies, electronic data processing insurance covers your computer hardware as well as software and data. It is becoming more common to include this type of exposure under standard business personal property programs, but in many cases it is still written separately.

Computer Hardware

It is imperative that you make certain you have adequate limits to replace your computer network. Note that this isn't just the cost of the computers themselves, but includes the costs of cabling and installation (computer consultants can be expensive). Remember that in some cases the cost of computers has decreased.

Coverage is written on a replacement cost basis, not on a cost-new basis, and most policies will only provide you with replacement cost coverage if you replace the entire network. If you elect not to replace your system, the policy would pay you on an actual cash value basis, which is essentially replacement cost less depreciation.

Computer Software

In many instances, computer software is a company's largest resource other than its employees. If a firm were to lose its computer system, it would essentially be out of business. ***The key here is not***

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to rely on insurance. This is an exposure you need to manage.

There is no substitute for regular backups of your computer programs and data stored offsite on a regular basis (preferably daily). These backups should be tested, and you should have a disaster plan in place that outlines where you will reinstall your data so that you can be up and running as soon as possible.

Computer software insurance will pay you for costs you incur to reproduce data once it is damaged or destroyed by a covered peril. However, if you can't reproduce the data, there is no insurance recovery.

Valuable Papers Insurance

In the old days before computers, many firms had documents which, if destroyed, would have had to be replaced. The appropriate coverage for this exposure was "valuable papers" insurance. Valuable papers coverage covers the cost to repair or replace hard-copy documents that are damaged or destroyed by a covered peril. They key is to either scan your valuable documents and take them offsite, or alternatively have offsite duplicates. It is becoming more common to combine computer software and valuable papers coverage into one coverage.

Accounts Receivable Insurance

Accounts receivable coverage was also much more of a concern prior to the advent of computers. If your receivable records were damaged or destroyed by a covered peril, you basically had two exposures: first, the cost to replace the accounts receivable records, and second, a loss of receivables in the event that you couldn't replace the records. Once again, if you have this information on your computer and you're making regular backups stored offsite, the exposure has been minimized.

Fine Arts Insurance

Although most "fine art" is typically at a fixed site, it can be moved around, especially if it's on exhibit. The real benefit of a fine arts insurance policy is the valuation provision. Coverage is generally written on an "agreed amount" basis. In other words, the insured and the underwriter agree in advance on the valuation of the property. In the event that the property is damaged or destroyed, the policy pays the agreed, or face amount of coverage, and eliminates arguments over the value of the objects.

Cameras and other collections are also commonly written on what is known as a "valued articles" policy.

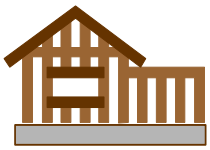
Builders Risk (aka "Course of Construction" Insurance) and Installation Floaters

Both builders risk and installation floater coverage focus on the construction of real property.

➢ Builders Risk

A builders risk or "course of construction" (COC) policy typically insures a building owner's exposure during the course of construction. In the event that the structure is damaged or destroyed, the insurance pays the cost to replace it. At the time the building is completed, builders risk coverage terminates and should be replaced with a standard property policy.

Builders risk policies can actually be rather broad. They can cover not only the owner of a project, but also the contractors on the project. In the event that coverage is extended to everyone on the project who has an insurable interest, an installation floater is not necessary. Unfortunately, this is not always possible. In those circumstances, contractors working on a project would need an installation floater to cover property they own located on the construction site prior to installation in the building.



➢ Installation Floater

An installation floater covers a contractor's goods at the job site prior to the time they're installed. (Once the goods are installed, they become part of the realty, and would be covered by the builders risk policy.)

For example, plumbing fixtures to be installed by a plumbing contractor are delivered to the construction site, but before they can be installed they are stolen. The plumbing contractor who owns the

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fixtures is responsible for them until they are installed in the building. The contractor would need to purchase an installation floater to cover the fixtures from the time they arrive at the site until after installation.

Once again, the key is effectively identifying the risks so that they can be insured by the appropriate party.

Contractors Equipment Coverage

Contractors equipment is usually insured under what is known as an "equipment floater." An equipment floater covers a contractor's equipment wherever it may go. The key is to make certain that the schedule of equipment is up to date, and that values are current.

In general, contractors equipment is treated like business automobile coverage. If the equipment is damaged or destroyed, you would receive an actual cash value settlement. For instance, if a five-year old backhoe were stolen, you wouldn't receive a brand new one; you'd receive the value of a five-year old backhoe.

It's imperative that when you review your equipment schedule, you make certain that the values shown are in alignment with the valuation provision in your policy. In other words, you wouldn't want to show the cost new on the five-year old backhoe if you're only going to be indemnified up to a maximum of the actual cash value at the time of a loss.

For example, if the cost new were $25,000, but after depreciation the item would be worth only $10,000 (actual cash value), you would pay premium on $25,000, but only be indemnified for $10,000.

Other considerations include the following:

1. **Employees Tools** – Do employees use their own tools on your projects? If so, do you want to insure them?
2. **Equipment Leased, Borrowed or Rented from Others** – Most contractors will occasionally rent equipment. Who is responsible for insuring it? (Your rental agreement will spell that out, and generally the renter is responsible.)
3. **Equipment Rented or Leased to Others** – Will you be renting or leasing equipment to others? Most equipment floaters specifically ***exclude*** your equipment under these circumstances.
4. **Miscellaneous Equipment** – Do you own miscellaneous equipment, such as small hand tools? If so, you should have specific coverage for these "unscheduled tools." Make certain that the maximum limit for any one loss and the per tool limit are adequate.
5. **New Equipment** – What if you acquire a new piece of equipment and forget to tell the underwriter. How much coverage do you have for it, and for how long?

The definition of inland marine encompasses a number of different exposures to loss, and goes beyond those mentioned in this article. Regardless, with your assistance, an experienced inland marine broker should be able to identify your exposures to loss and tailor appropriate coverage.

Jeff Cavignac, President and Principal of Cavignac & Associates, heads the Agency's Professional Liability Department.

Disclaimer: *This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.*

Cavignac & Associates' Loss Control Services

Cavignac & Associates offers a variety of loss control services to our clients. Stuart Nakutin, PHR, AIC, WCCP, CDMC, our Director of Claims, Loss Control and Human Resources, is an expert in safety and loss prevention. The following are just samples of the programs and services we can provide:

- **Safety** — Formal OSHA-approved Safety Programs; New Employee Safety Orientation Programs; Safety Team development; Supervisor safety training; complete audit of your Injury & Illness Prevention Programs (IIPP)
- **Workers Compensation** — WC Accident Identification and Prevention Program; Claim Frequency Reduction Program; Employee Safety Training to lower your experience modification; how to set up and monitor an Early Return to Work Program
- **Human Resources** — Formal hiring practices, steps, tests and forms; new employee orientation; How to Become Lawsuit Free Program; performance management audit

Reduce Your Total Cost of Risk

by James P. Schabarum II, CPCU, AFSB

Regardless of the condition of the insurance marketplace, you can significantly reduce your "Total Cost of Risk" by implementing an effective Risk Reduction Plan™ (RRP) and developing relationships with your insurance partners. Having a well-developed RRP will result in long-term risk reduction and a favorable loss history. This will make your firm more attractive to insurance underwriters and enable you to obtain appropriate coverage at the lowest realistic price.

In order to make a cultural change from purchasing insurance to focusing on your total cost of risk, a comprehensive RRP will need to include:

1. Relationship Audits

Regular evaluations of your inside and outside teams' expertise, services and capabilities should be performed. In order to achieve excellent results, you need excellent players in key positions. Key positions include the company's risk manager or consultant, the safety manager, retail broker, excess and surplus lines broker or managing general agent, and underwriter.

2. Industry-Specific Risk Surveys

Continuous surveys should be performed to identify self-insured gaps in coverage, risk-related problems, and opportunities to reduce cost of risk. After analyzing the survey information, strategies should be developed and implemented to further reduce the cost of risk.

3. Loss Control and Claims Management Protocols and Service Agreements

Allocating resources to improve your loss control and claims management will have a significant effect on reducing your cost of risk.

Simple measures, such as updating all your contractual, insurance and indemnity requirements to reduce or transfer risk, implementing tight first aid and return to work programs, utilizing designated medical providers, pre-employment screening, and frequent review of open claims can result in substantial reduction of risk.

4. Insurance Marketing

A proactive, formalized marketing plan should be developed six months before your insurance renewal date. Consideration of alternative markets (captives, risk retention groups or capital market funds) along with assuming part of your risk (larger deductibles as well as tailored limits and coverages) can be evaluated in an organized manner.

Conclusion

It's important to build strong relationships with your inside and outside teams. When possible, face-to-face meetings with your underwriter will allow you to focus on the hot, key areas to improve your firm's attractiveness to specific markets. Having strong leadership, good communication and a proactive risk management consultant and insurance broker among your team members will result in a lower total cost of risk.

Jim Schabarum, Executive Vice President and Principal of Cavignac & Associates, heads the Agency's Construction and Surety Department.