



“Coulda, Woulda, Shoulda” What Business Owners Need to Know About Insurance

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Businesses Need to be Disaster Ready

■ Natural disasters produce enormous business losses.

- ◆ Superstorm Sandy in 2012: \$18.8 billion in non-flood insured losses. Businesses accounted for 46.7 percent of the losses.
- ◆ Average commercial claim: \$44,500, compared to \$6,500 for homeowners.
- ◆ Only 35 percent of small businesses had business interruption coverage in 2007*.

Source: National Foundation of Independent Businesses.

Basics of a Business Owner's Policy

■ What is Covered

◆ **Property insurance for buildings and contents.**

- There are 2 forms, Standard and Special, and the Special Form provides more comprehensive coverage.
- Coverage includes debris removal, pollutant cleanup, fire department charges, mechanical breakdown, etc.

◆ **Business Interruption Insurance.**

- Covers loss of income from fire or other perils that disrupt the operation of the business. It can also include the extra expense of operating out of a temporary site.

◆ **Liability protection.**

- Covers your company's legal responsibility for harm caused to others.

Basics of a Business Owner's Policy

■ What is NOT Covered under a Business Owner's Policy

- ◆ Professional Liability.
- ◆ Auto Insurance.
- ◆ Worker's Compensation.
- ◆ Health or Disability Insurance.
- ◆ Flood insurance

AND, you can get coverage for these with separate insurance policies.

About Commercial Flood Insurance

- **According to the National Flood Insurance Program, at least 25% of businesses that close after an event like a flood never reopen.**
- **From 2010-2014 the average commercial flood claim amounted to nearly \$89,000.**
- **A flood policy from the NFIP covers up to \$500,000 in building coverage and \$500,000 for contents.**
 - ◆ **Cost for above ground property:**
 - **\$2,938 building + contents/\$965 contents only**

Replacement Cost vs Actual Cash Value

Replacement Cost: This coverage pays the cost of replacing your property without deducting for depreciation.

Actual Cash Value (ACV): Insurance pays the cost of damaged property after deducting for depreciation.

EXAMPLE: You paid \$2,000 for a computer five years ago. ACV would pay only its current value, maybe about \$500.

Commercial Auto Insurance

■ What It Protects Against:

- ◆ Liability.
- ◆ No-fault Medical Payments.
- ◆ Uninsured/Underinsured Motorists.
- ◆ Collision.
- ◆ Comprehensive Physical Damage.

Almost every business needs it, even companies that don't own autos --- because you may want this protection on non-owned vehicles for liability coverage.

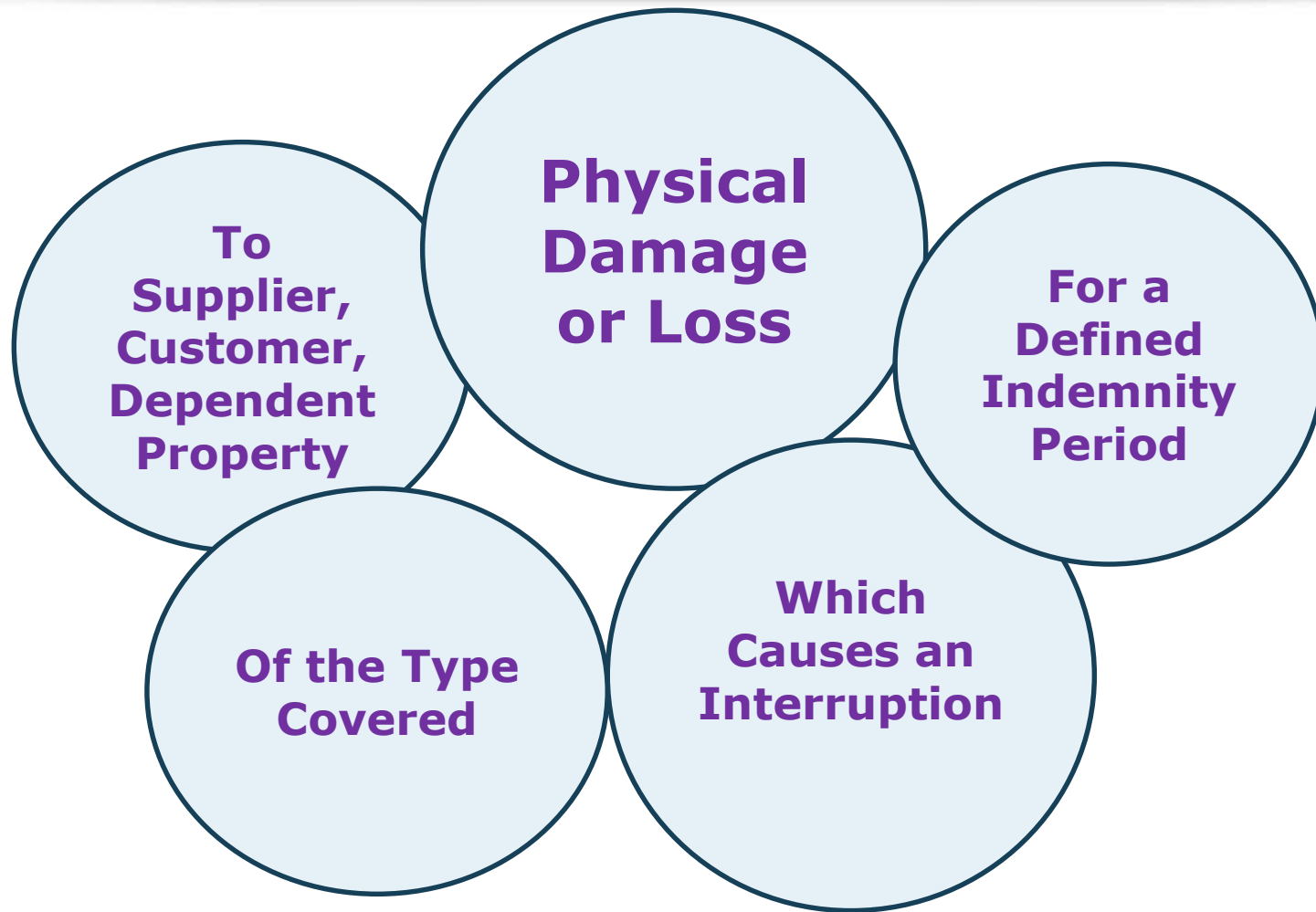
REMINDER: Insurance pays for legal defense costs.

Business Interruption Coverage

- **Covers operating expenses and compensates for lost income after a temporary closure due to a covered loss.**
- It typically requires **direct physical damage** to the property.
 - ◆ Contingent Business Interruption Coverage:

Compensates for certain losses you may have if a main customer or supplier was impacted.

Contingent Business Interruption Chain Rule



Insured Loss

Liability Insurance: Professional & Product

- **General Liability:** Offers basic protection against accidents and injuries; also protects against product liability.
- **Product Liability:** Protects against costs of judgements, settlements and legal fees arising from damages or alleged damages caused by a faulty or defective product.
 - ◆ Manufacturer, seller and even the wholesaler may need it.
- **Professional Liability:** Protects against the financial effects of professions such as engineers, lawyers, accountants, financial advisers, etc.

- **Life and disability coverage on key individuals.**
- **Amount of coverage depends on the individual's worth to the business or organization.**
 - ◆ **A review of the employee's responsibilities can help determine the amount.**
- **Costs are based on the same factors that apply to anyone seeking such coverage, i.e., age, height/weight, medical history.**
- **The business owns the policy, pays the premiums and is the beneficiary.**

Supply Chain Risk Management



The longer the supply chain the greater likelihood of a weak link.

- **Over 50% of Fortune 500 profit now comes from overseas.**
- **Supply chains have become more complex, extending to multiple levels.**
- **Demographic change has placed more business in harm's way.**
- **Catastrophe events are having deeper, widespread impact.**

How to Manage Supply Chain Disruptions

■ Identification of Risk

- ◆ Conduct thorough supply chain mapping exercise.
- ◆ Look at processes as they come together to create final products.
- ◆ Look in reverse: starting with where profits are generated and work backwards to identify greatest financial threats.

■ Avoidance

- ◆ Remove the threat of exposure to the supply chain.

■ Mitigation

- ◆ Reduce the threat associated with exposures.

■ Manage

- ◆ Includes transfer of risk through insurance.

- **The majority of property loss is preventable, even in supply chains.**

- ***“Nearly 90 percent of firms do not conduct a risk assessment when outsourcing production.”***

“Supply Chain Risk: It’s Time to Measure It”
Harvard Business Review Blog, Feb. 5, 2010

Avoid or Mitigate the Interruption

- **Understand your supply chain at every tier.**
 - ◆ Identify weaknesses. Map business operations and overlay it with financial mapping and a business impact analysis.
- **Harden facilities, owned or otherwise.**
- **Define acceptable risk.**
- **Create contingency and disaster plans.**
- **Insurance professional are part of the team of trusted risk advisers.**

- Insurance is **part** of the solution.
- Insurance products evolve, so keep in tune.
 - ◆ Traditionally, coverage is for physical damage, business interruption and contingent coverage.
- Business interruption has two levels:
 - ◆ Gross earnings (Production-based).
 - ◆ Gross profits (Sales-based).

The Challenge: Risk

- You can outsource operations, but that doesn't mean you are outsourcing risk.





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and your attention!*

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