“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.
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.
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.
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

- Physical Damage or Loss
- For a Defined Indemnity Period
- To Supplier, Customer, Dependent Property
- Of the Type Covered
- Which Causes an Interruption

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.
Key Person Insurance

- 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.
Global, Intertwined Economy

- 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, wide-spread 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.
Managing Risk

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.”

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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