

Insurance Buyers' News



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Risk Management

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Are You Covered for Terrorism Risks?

The recent tragedy at the Boston Marathon reminds us that terrorism events can occur anywhere, at any time. Here's what you need to know about terrorism exposures.

Terrorism Coverage

Before September 11, 2001, most commercial insurance policies included coverage for terrorism-related losses. That changed after 9/11. Insurers paid out more than \$32.5 billion (more than \$40 billion in today's dollars) in insured claims for events related to 9/11, making it the second most costly insured event in U.S. history. Insurers paid billions in property claims, along with disability and workers' compensation losses on a scale not seen before in the U.S. commercial insurance market. This



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This Just In

The updated ISO commercial general liability policy (CGL) might provide broader coverage for host liquor liability. Many (but not all) insurers use ISO standard forms.

"Commercial general liability policies typically provide 'host liquor liability' coverage for policyholders who periodically host or sponsor events where alcohol is served — as long as the policyholder is not in the business of serving, selling, or furnishing alcoholic beverages," explained Beth Fitzgerald, senior vice president of ISO's Insurance Programs and Analytic Services division. "If the policyholder is in such a business, liquor liability exclusion usually applies. Stand-alone liquor liability policies specifically

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made 9/11 a wake-up call to insurers and risk managers on the difficulty of insuring terrorism exposures.

To operate as an effective risk-transfer mechanism, insurers should be able to spread risk of loss over a large number of similar organizations or individuals. To allow proper pricing, these losses must be accidental, quantifiable and fairly predictable; they should not be geographically concentrated or catastrophic. On all these counts, terrorism events fail as “insurable events,” and after 9/11, insurers began excluding coverage for terrorism, or pricing it so high that policyholders opted to go without.

That prompted a lending crisis. Mortgage lenders require borrowers to carry insurance, including terrorism coverage, on mortgaged property. With no coverage, businesses were unable to get loans and clamored for a solution. The lack of available coverage prompted Congress to write the Terrorism Risk Insurance Act of 2002 (TRIA).

TRIA provides the insurance industry with a federal financial backstop for claims from “certified” terrorist attacks. Although terrorism coverage remains insured by the private market, the federal government will subsidize claim payments when losses for a certified terrorism event exceed \$100 million.

To qualify for certification, the U.S. Secretary of State and Attorney General must find a terrorist act to be:

- ✱ violent, or dangerous to life, property or infrastructure;

- ✱ resulting in damage within the U.S., or to a U.S. air carrier or U.S. flagged vessel, or on the premises of a U.S. mission; and
- ✱ committed by an individual or individuals as part of an effort to coerce the civilian population of the U.S. or to influence the policy or affect the conduct of the U.S. government. Before changes enacted in 2007, only “foreign” acts of terrorism (those committed by or on behalf of foreign interests) were eligible for certification.

In return for this financial protection, TRIA requires every U. S. property and casualty insurance company offer terrorism insurance to its commercial policyholders. TRIA specifically included excess insurance, workers’ compensation insurance and surety insurance in its definition of “property and casualty insurance.”

Thanks to TRIA, terrorism risk insurance capacity has increased. However, a 2010 report by the President’s Working Group on Financial Markets found restrained capacity in some markets (e.g., high-risk geographic locations and properties), and that some commercial insurance policyholders in high-risk urban areas had difficulty obtaining coverage with sufficient limits. For several years, the “take-up” rate for terrorism insurance has remained at about 60 percent, but events in Boston may make more organizations think twice about terrorism coverage.

Unless reauthorized, TRIA will sunset on December 31, 2014. Earlier this year, Rep.

This Just In

cover the liquor liability exposure of those policyholders.”

The revised exclusions now consider insureds that simply allow someone to bring and consume their own alcohol on their premises as not in the business of serving, selling, or furnishing alcohol for purposes of the liquor liability exclusion. This means the exclusion would not apply. However, some insurers might prefer to cover BYO exposure through a separate liquor liability policy. In this case, a BYO establishment insured under the 2013 ISO CGL would need to buy a policy endorsement to obtain liquor liability coverage.

For an analysis of your host liability exposures, please contact us.

Michael Grimm (R-NY) and nine co-sponsors introduced H.R. 508, which would extend the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) for five years. Some consumer organizations and politicians have spoken against reauthorization, saying TRIA forces taxpayers to subsidize businesses. However, most business and real estate groups support reauthorization.

How much danger does your organization face due to terrorism? As mentioned before, terrorism exposures are difficult to predict or quantify. However, you can take some practical action steps to minimize your exposures.

1 Assess your risk. Conventional wisdom

says that businesses in certain locations (high-rise buildings, major metropolitan areas, in or near landmark properties) or in certain industries (utilities, high technology, chemicals) face a higher risk of terrorist attack than others. Also at risk are businesses located on or near major transportation corridors.

2 Protect employees and visitors.

Workers' compensation payments for deaths and injuries accounted for much of the loss at the World Trade Center in 2001. Having emergency evacuation plans, disaster preparedness supplies, survival supplies and first aid supplies readily available can minimize loss of life and injury. Review and update your plans as necessary, and rotate emergency supplies on a regular basis to keep them fresh. A good rule of thumb is to have three days' worth of water and food available per person, in case a widespread disaster makes leaving the premises difficult.

3 Assess building security.

Companies that manufacture, sell or store potentially hazardous substances should pay particular attention to sensitive areas. Is access to your premises controlled, or can anyone enter during business hours? Identification-based entry systems or security guards can help limit access to authorized persons.

4 Protect information systems. Reliable backup systems, cloud computing and a disaster continuity plan can minimize data losses and help your business recover processing capabilities quickly in the event of a disaster.

5 Assess building design. Companies renovating or building facilities might consider incorporating "defensive architecture" features into their buildings. Defensive architecture uses design features to minimize losses from terrorist attacks, as well as from disasters such as fire, smoke or chemical spill.

6 Evaluate your insurance coverage needs. Mortgage lenders typically require commercial property owners to carry terrorism coverage. Insurers make coverage available as add-ons to property and liability policies, and as stand-alone policies. Note that although TRIA and its successor acts require insurers to cover attacks involving conventional weapons, they can exclude property coverage for attacks with nuclear, biological, chemical or radiological (NBCR) weapons.

We can help you evaluate your coverage needs and solutions available. For more information, please contact us. ■

Five Tips for Buying Business Insurance

Use these tips to assess what types of insurance are best for your business and how to get the best combination of protection and price.

1 Assess Your Risks and Costs. Insurance companies determine the level of risk they'll accept when issuing policies. Through a process called underwriting, the insurance company reviews your application and determines whether it will provide all or a portion of the coverage you request. Underwriters also determine what premium you will pay.

Premiums vary widely among insurance companies, and depend on a number of risk factors, including your business location, building type, local fire protection services, the deductible amount you select and the amount of insurance you purchase. A deductible is the amount of money you agree to pay when making a claim. Generally, the higher the deductible, the lower your premium. However, when you agree to take on a high deductible, you are tak-

ing some financial risk. It's important to assess your risk tolerance and cash flow before buying coverage.

- 2 Shop Around. The extent and costs of coverage vary from company to company. Further, some carriers specialize in certain types of risk exposures, offering coverages you might not find elsewhere. An independent broker represents many insurance carriers and can shop around for the best combination of coverage, service and price for you.
- 3 Consider a Business Owner's Policy. Business owners can buy the insurance coverages they need separately or in a package called a business owner's policy (BOP). Purchasing separate policies from different insurers can result in higher total premiums. A BOP combines typical coverage options into a standard package, which the insurer offers at a lower premium



than you can find if buying each type of coverage separately. Typically, BOPs cover property, general liability, business interruption and other types of risk exposures common to most types of businesses.

BOPs simplify the insurance-buying process and save you money. They can also help eliminate any coverage gaps that might exist when you have separate policies renewing at different times. However, make sure you understand the extent of coverage in any BOP you are considering. Not every type of insurance is included in a BOP. If your business has unique risks, you may require additional coverage.

- 4 Find an Experienced Agent. Commercial insurance brokers can help you find policies that match your business needs. Make sure your broker understands all the risks associated with your business.

Finding a good insurance agent is as important as finding a good lawyer or accountant. State governments regulate the insurance industry and license insurance brokers. Many states provide a directory of licensed agents.

- 5 Assess Your Insurance Coverage on an Annual Basis. As your business grows, so do your liabilities. You don't want to be caught underinsured should disaster strike. If you have purchased or replaced equipment or expanded operations, you should contact your insurance broker to discuss changes in your business and how they affect your coverage. ■

Adapted from an article from the U.S. Small Business Administration, www.sba.gov.

Fire Prevention

Summer brings the start of wildfire season in many parts of the country, but a damaging fire can occur anywhere, at any time. The following pointers can help you protect your property and employees.

Fires need tinder, or easily combustible materials, and oxygen to start. If a spark, electrical short, excess heat or other ignition source contacts tinder where oxygen is present, a fire will likely start. Whether it spreads depends on the amount of oxygen and fuel available. Preventing fires therefore requires ensuring that combustible materials do not come into contact with ignition sources. And to contain or slow the spread of fires, you need to minimize their contact with additional fuel sources and oxygen.

A fire can start inside or outside your structures. To begin a fire prevention program, check the perimeter of the building for the following:

- ❑ Flammable debris, such as paper, rags, wood, trash. If you must store these items near your structures, store them in solid containers, the more airtight the better.
- ❑ Flammable liquids. Make sure any flammable liquids stored outside your structures, including propane and other fuel tanks, are well-labeled and securely

closed. In certain areas, you might need to store these in a fenced, locked area.

- ❑ Landscaping — well-maintained landscaping can help prevent the spread of fires. Mature shrubbery is somewhat fire-resistant. Weeds, on the other hand, grow and burn quickly. If your property has overgrown areas, consider planting (and maintaining) these areas, or clearing them and replacing planted areas with hardscaping.

Fires can start inside a building as well. Potential fire starters you can find in your building include:

- ❑ “Ordinary” combustibles, such as paper, wood, cloth, rubber, building materials. Storing these materials in appropriate containers can minimize their potential to become fuel in a fire. Packing them tightly so air cannot circulate will also help retard the spread of flames.
- ❑ Flammable liquids, such as fuel oil, gasoline, cooking oils, solvents. Again, storing these liquids in properly sealed containers can prevent problems.
- ❑ Electrical equipment, such as wiring, fuse boxes, motors. Minimize your fire risk by having only qualified contractors install or repair wiring. Keep motorized equipment well-maintained and clear of any combustible debris. Use only extension cords appro-

priately rated for the appliance or fixture attached.

To contain a fire once it begins requires the proper equipment. Every business, no matter how small, needs at least one fire extinguisher per floor. One fire extinguisher will not work on all types of fires. For best results, match the type of extinguisher to the type of combustibles in the area:

- ❑ Class “A” — Ordinary combustibles (wood, paper, cloth, rubber, etc.)
- ❑ Class “B” — Flammable liquids (fuel oil, gasoline, cooking grease, solvents, etc.)
- ❑ Class “C” — Energized electrical equipment (wiring, fuse box, electric motors, etc.)

- ❑ Class “D” — Combustible metals (magnesium, sodium, zirconium, etc.)

Appoint someone to check smoke detectors and fire extinguishers regularly, at least twice a year. Sprinkler systems also need periodic professional inspections; check with your installer for information.

Learn how to use a fire extinguisher properly. Pull the pin, aim at the base of the fire, squeeze the handle and spray from side to side at the base of the fire. For safety, the operator should stand between the fire and the exit to allow a quick escape if the fire does not go out.

The standard business property policy or business owners policy (BOP) includes coverage for fire. Check your policy’s limits to

ensure you have enough coverage to rebuild after a total loss—although your policy might have been adequate when written, the replacement cost of your building and/or its contents have likely increased if you’ve had the policy more than a couple of years. You will also want to ensure you have coverage for debris removal and lost income if a fire or other insured loss causes a business closure or slowdown. For more information on managing the risk of loss due to fire or other catastrophe, please call us. ■



Preventing Privacy Breaches

Think about all the information you store on employees alone: Social Security numbers, addresses, names of spouses and dependents, and possibly even medical information. Then there are customers—do you have names, addresses, credit card numbers and expiration dates? If any of this information falls into the wrong hands, whether through error or theft, you have a liability exposure.

The following quiz can help you identify security gaps. Correct answers are in parentheses.

- * If you keep paper files, are they in locked cabinets? Are cabinets in an office with a locking door, inaccessible to unauthorized persons? (yes)
- * Do you keep the file cabinet key in the top desk drawer? (no)
- * Do you shred documents containing personal information before discarding? (yes)
- * Do you use Social Security numbers as employee ID numbers? Do you print Social Security numbers on paychecks? (no)
- * Do you train human resource, payroll and benefits staff not to disclose personal information about other employees? Do you include this requirement in job descriptions for employees who handle personal information? (yes)
- * Do you train customer service, IT and other staff who have access to customers' personal information (particularly credit card numbers) not to disclose this information? Do you make this a condition of employment? (yes)
- * Do you do background checks on any employee who will have access to others' personal information? (yes)
- * Do you have appropriate firewalls, antivirus and malware detection software installed on your servers and networked computers? (yes)
- * Do you regularly scan your computers and networks, and keep your protection services updated?
- * Is your network password-protected? (yes) Do you require employees to change their passwords regularly? (yes)
- * Do you encrypt sensitive data? (yes)
- * Do you require employees to report the theft or loss of any mobile device that might contain sensitive files immediately? (yes)
- * Does your insurance cover your organization for security breach liability? (yes) If you are not sure, please contact us for a policy review. ■

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