

ProNetwork News

Risk Management Tools for the Design Professional

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Dan F. Middleton completed his career as Vice President, Construction, of the Ohio office of Willis-Corroon Corporation. He specialized in risk management and insurance for design firms and major construction companies.

Warren Redeker is Executive Vice President of Prosurance/Redeker Group, Ltd., New York, NY, an independent brokerage firm that focuses on insurance products and risk management services for design professionals.



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Insurance 102: Property Coverages

By members of a/e ProNet

We continue our overview of insurance products of interest to design professionals with this review of property coverages that may apply to the needs of your particular practice. As always, we encourage you to ask your broker what insurance is right for you.

BUSINESS PROPERTY INSURANCE Whether you lease or own your office, you need to insure office equipment, furniture, fixtures, computer equipment, phone systems, fax/copiers, valuable papers and fine arts for fire, theft and water damage. Insuring these valuables for "replacement cost" on an "all-risk form" means that your business is most likely to be reimbursed properly for a covered loss. If you lease furniture and equipment, the lessor will require this coverage and will be designated as a "loss payee." Landlords of rented property usually require their tenants to maintain property coverage for the rented space to cover improvements and betterments provided to the leaseholder.

Since most design firms are heavily dependent on computer systems, it is important to properly inventory equipment and software.. For example, the cost to reproduce plans and specifications kept on computer files is significant when considering the insured value of valuable papers and records. However, no limit of insurance is a substitute for reliable backup procedures.

Stand-alone IT coverage packages, including security breach, are evolving almost daily. They can cover both first party losses (yours) and third-party losses (those for which you may be liable to others). Ask your broker what products may best apply to your needs.

VALUABLE PAPERS INSURANCE A/E firms have in their possession valuable papers and documents whose destruction would prove very costly. Maps, plans, specifications and books are some examples. All-risk protection is generally available excluding wear and tear, gradual deterioration and vermin. Certain valuable papers may be insured specifically, or "scheduled." More commonly, a blanket limit is established to cover all valuable papers. Articles insured on a blanket basis are covered for their replacement cost. Scheduled items are covered on a valued basis even though it is not possible to replace them with like kind and quality.



ProNetwork News

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BUSINESS INTERRUPTION AND BUSINESS EXPENSE INSURANCE While Business Property Insurance covers the cost of lost property, in many instances the loss caused by the interruption of business can exceed the amount of physical damage. Business Interruption generally consists of two parts: Business Income and Extra Expense.

Business Income will pay the insured for lost earnings during a total or partial suspension of business caused by direct physical damage to the insured's premises. The policy covers "actual loss sustained" by the insured because of the interruption of business during the period that it would take to rebuild or repair the damaged property. Extra Expense reimburses the insured for the extra costs that are necessary to continue business operations during the period of restoration.

Most small design firms can be insured inexpensively for their actual loss sustained up to 12 months with no limit on the amount of insurance. Larger firms may be subject to coinsurance clauses under which the insured agrees to carry a minimum amount of insurance unless an "Agreed Amount Endorsement" is added to the policy. Often misunderstood and neglected, this coverage should be carefully reviewed with your insurance advisor.

BUILDERS RISK INSURANCE This coverage protects against the loss of materials at a construction site. Materials can be defined as supplies and resources that will be part of the completed structure and include foundations and footings. The coverage typically begins once the Materials are delivered to the site and terminates when the builder's interest in the property ceases; ninety days after occupancy of a single family structure' if the property is permanently abandoned with no intention to complete it; when permanent property insurance is in force; or when the property is accepted by the owner or buyer. Builders Risk insurance can be used to insure models homes and remodeling projects as well.

EQUIPMENT FLOATER Mostly purchased by contractors to cover their equipment, surveyors and engineering firms find this coverage worthwhile when expensive equipment is used regularly in the field. Each article listed on the policy is "scheduled" with a value. Coverage is typically on a Named Perils basis insuring for damage caused by fire, lightning, windstorm, hail and collision. Optional coverage for theft, riot and civil commotion is readily available.

BACKUP OF SEWERS AND DRAINS Most property insurance policies do not cover claims resulting from the back up of sewers and drains. Often, the insurance company will offer this coverage by endorsement for an additional premium. Some "Office Package Policies" include this coverage for a small additional cost along with other property enhancements. Each insurance company offers this coverage in various formats so it is important to research and know your options.

F. David Shipley is founder and President of Shipley & Associates, Inc. Mr. Shipley has specialized in risk management and insurance placement for design professionals, land surveyors, landscape architects and environmental consultants for many years.

Earleen R. Thomas, of Cornerstone Specialty Insurance Services, has provided insurance and supportive risk management services to design professionals across the country and also has worked as a specialist broker for finance and accounting firms.

Michael Welbel is founder and President of M.G. Welbel and Associates, Inc. With a background in the resolution of professional liability claims, his business is focused on helping design firms avoid claims, and manage their risk and insurance needs.

ProNetwork News

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EARTHQUAKE COVERAGE Earthquake hazards in the United States are commonly associated with Western States and in particular California, however, significant earthquakes have occurred in other areas. People have become complacent about a reoccurrence of events that may have happened 100 years ago, so a high percentage of real and personal property is not currently insured for this hazard. A further concern is that building structures in mid-state areas are not constructed to resist earthquake damage such as most new construction in California and other western states.

Keep in mind that loss is not limited to the direct damage to property. Severe earthquake may interrupt public transportation, or damage roads and bridges preventing the movement of private vehicles. Many utilities including electricity, water, fuel gas, and sewage may be interrupted for long periods of time. Every firm would be well served to investigate Earthquake Coverage for their building and contents coverage, even though the risk of loss seems remote.

Most Earthquake coverage is written on a "Difference in Conditions" insurance form, attached to standard property policies. This form originally included a multitude of "All Risk" coverages offered with earthquake added as an insured peril. The evolution of this coverage form has changed the focus to coverage from "All Risks of Loss" to focus on earthquake, Sprinkler Leakage, and Flood and does not include landslide, subsidence or soil movement unless it is caused by Earthquake.

Policy deductibles vary by the property conditions such as age, location and the amount of premium the insured is willing to pay.

FLOOD Flood coverage is excluded under all basic property insurance policies but is available to all insureds if your community participates in the National Flood Insurance Program known as "NFIP." The NFIP was created in 1968 to provide flood insurance to individuals and businesses that are located in areas with the greatest risk of flooding, known as Special Flood Hazard Areas.

NFIP defines covered flooding as a general and temporary condition during which the surface of normally dry land is partially or completely inundated. Two properties in the area or two or more acres must be affected. Wind-driven rain is NOT considered flooding. National Flood Insurance only covers damage caused by the general condition of flooding (which is strictly defined), typically caused by storm surge, wave wash, tidal waves or the overflow of any body of water over normally dry land areas.

You can purchase flood insurance coverage at virtually any time, but there is a 30-day waiting period before coverage is effective, after you apply for insurance and paid the premium, with some exceptions. Commercial structures may be insured to a limit of \$500,000, and \$500,000 for business personal property.



ProNetwork News

Risk Management Tools for the Design Professional

Broker's Notes



Moore Insurance Services - www.mooreinsuranceservices.com is a member of a/e ProNet - www.aepronet.org; a national association of insurance agents/brokers that specialize in providing risk management and insurance services to design professionals. These services included risk management publications, contract language review tools, seminar materials and other useful information to help design professionals manage their risks.

Moore Insurance Services offers many professional liability and property & casualty insurance programs. Many of these programs are endorsed or commended by the professional associations and organizations that we support including: The American Institute of Architects (AIA), National Society of Professional Engineers (NSPE), American Council of Engineering Companies (ACEC), Michigan Association of Environmental Professionals (MAEP) and Michigan Society of Professional Surveyors (MSPS).

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