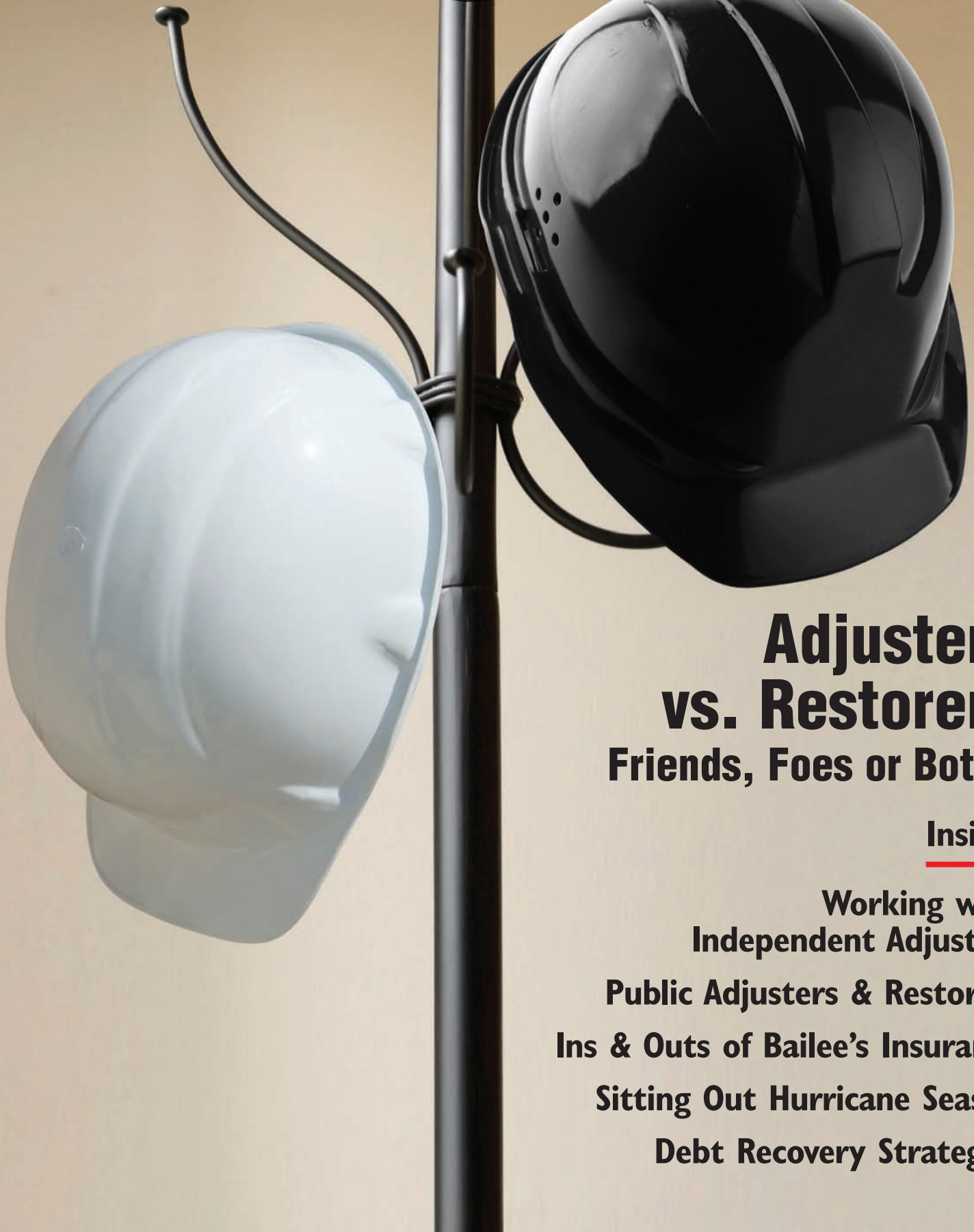


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Common Mistakes on Commercial Property and Inland Marine Insurance

By Ross Driscoll, CR

It is probably safe to say that most insurance brokers do not understand exactly what restorers really do for a living. This can be seen daily in the property policies issued by incumbent agents and brokers.

There are several large property exposures for restoration professionals that are routinely unaddressed by the average main street agency.

The first and simplest exposure is building coverage if the restorer owns a building. Does the company own the building or is it owned by another entity such as a separate LLC. If so, are both entities named on the same policy? Does the insured want separate policies with separate limits for accounting and risk management purposes? Is the building adequately insured? Are there enough limits? Is there a co-insurance clause in the policy? Does the insured understand what a co-insurance clause is?

Co-insurance means an insured must be insured to an agreed to value or share and share alike in the loss. For example, a policy may contain an 80 percent, 90 percent or 100 percent co-insurance clause. If the policy has a 90 percent clause, the insured must carry coverage for at least 90 percent of the total value at the time of loss. If the insured had a building or contents valued at \$200,000, he must carry coverage for at least \$180,000 at the time of loss. Coverage for less than \$180,000 would mean share and share alike in the loss minus the deductible.

Assume a person has \$200,000 worth of property and only carries \$100,000 of coverage. He has a loss for \$50,000 and assumes he is covered for at least the whole \$100,000 if he has a partial loss. That would be untrue under the set of facts above. He is only 50 percent insured to value with the \$100,000 of coverage. He would have a 50 percent penalty on the \$50,000 loss, less his deductible. His \$50,000 claim would be settled for \$25,000, less his deductible.

This happens time and time again, especially when it comes to business personal property (contents). For example, someone may only have \$10,000 of coverage for \$250,000 of business personal property. It is not uncommon to find contractors grossly underinsured on their business personal property.

Bailees Coverage

Restorers must understand that business personal property does not provide coverage for the personal property of others. Restorers often think they are covered for customer goods packed out in their warehouse by their own business personal property coverage. Frequently, a local agent or broker may tell an insured he has coverage for other customer personal property or he has bailees insurance, only to read the policy and discover that there is no coverage. A company is not covered properly unless it carries "true" bailees for its customers goods in its care, custody and control.

Bailees coverage is a form of inland marine insurance and it may be added to most property policies. The restorer has created a bailment when he puts customer property into a pod at a job site or transports customer goods to his plant for restoration and storage. He also has an exposure when he takes the keys to someone's house and they have left personal items behind.

The restorer also has exposure when he calls a moving company to take the possessions to its warehouse. The moving company has P.U.C. filings and is covered by a per pound limit, which is usually much less than the value of the property being transported. The restorer called the mover and is still in the liability loop. The restorer may also have excess customer goods located at separate storage facilities as well if his warehouse is full. Bailees coverage is required for customer goods in all of these situations.

It's a good idea for an agent to ask clients if they use pods and how much they may have in any one pod and at any one location. It is also good for an agent to know how much a client might have in a vehicle in transit to cover fire, theft or upset of the vehicle containing customer goods. Other questions include:

- How many vaults if any do you have?
- How many households of inventory and what is the average value per household?
- What protection safeguards are in place such as alarms, smoke detectors and sprinklers?
- Does the insured operate in flood-or-earthquake-prone areas.

Inland Marine Insurance

Another common mistake by restorers is the belief that they have coverage for all of their own equipment when away from the shop, located on trucks and on the premises of their customers. This is not covered by business personal property. With most policies, if the items are more than 1000 feet from the premises, there is no coverage. It is covered properly by writing contractors' equipment, which is a form of inland marine insurance, and adding it to the property policy as a rider.

The first question an insurer may ask applies to the value of all contractor equipment that is off the premises daily. Typically this involves a list of the most expensive items to replace, including thermal imaging cameras, negative air machines, dehumidifiers, etc. An insurer may wish to schedule those items on the policy. Next it may look for a list of items over \$5,000 in value to schedule. This may be followed by the average value of the air movers and dehumidifiers left on any one job and the average value of equipment on any one truck.

Insurers will want to know the average number of trucks needed to handle the largest jobs in an area, and may consider insuring the amount of unscheduled items on any one job instead of itemizing all the items on all of the jobs. It is highly

unlikely that theft, fire or other covered peril would occur to a contractor's equipment on multiple jobs at one time. It is a cost containing approach to risk management of contractor property. The only down side to this solution is if the contractor has all of his equipment from every job site and truck located in his warehouse when a loss occurs. The contractor would not have enough insurance at that point.

The vast majority of property policies produced by their incumbents do not have coverage for business interruptions or extra expenses. Nearly every loss incurred by a homeowner has additional living expenses provided. These are the most expensive part of most claims. The same holds true for business insurance except to a much higher degree. It is absolutely wrong for a business not to have coverage for business loss of income and extra expense, although it happens almost daily.

Business interruptions can kill most businesses. At a minimum it can cover ongoing expenses, salaries and profit. If the restorer has a fire himself, he may have direct physical damage or smoke damage to everything inside the four walls. The bailees will be triggered for customer goods. The business interruption coverage and extra expense will be the money needed to make up for the lack of income from the loss. The limits should be high enough to cover the period of adjustment, restoration and getting up to full speed after the loss.

There may also be delays in the adjustment and restoration period as well. The restorer is a contractor who may still have work coming in from jobs at other locations, unlike a retailer, wholesaler or manufacturer. He will have a very difficult time since the companies will need an alternate location to work from immediately. This includes new phones, computers, offices, and a location for packed out inventory being held for re-restoration. If the company has a call center, the capacity for call volume will immediately be impacted. Then there are also the expenses of moving from the temporary location back to the permanent location.

Protecting data and accounts receivable in the event of a loss is another area to consider. More sophisticated clients often have services that regularly back up the data on their servers off premises in the event of a disaster. Some clients could be in business the very next day with no loss of data at all. At the very least, all computers should be backed up daily with copies kept off premises. It does no good to have the backups in the office if the company suffers a loss. Accounts receivable coverage may be purchased to pay for the cost of remanufacturing receivables in the event of a loss.

The bottom line is that a company should select an agency that is knowledgeable about the cleaning and restoration industry, knows which questions to ask, and can offer solid recommendations for appropriate coverage to reduce the insured's risk. ■

Ross Driscoll, CR, is the president of Driscoll & Driscoll Insurance Agency. He can be reached at ross@driscollanddriscoll.com.