

# Risk Monitor



## What Protection Do You Have Against Employee Theft?

Most business owners have heard that employee theft is on the rise, but the actual statistics are far more alarming than most realize. The U.S. Chamber of Commerce says that \$50 billion dollars are lost annually due to employee theft and fraud, and that 20% of all businesses fail due to internal theft and fraud. In an Ernst & Young report entitled "White Collar Crime: Loss Prevention through Internal Control," researchers said that a company could lose 1% to 2% of its sales because of crimes committed in collusion with employees.

Why are employees increasingly biting the hand that feeds them? One reason may be that many employees find themselves overwhelmed with credit card debt with no foreseeable way to pay it. As a result of the recent decision by the Office of the Comptroller of the Currency to get tough on consumer debt, many credit-card issuers have increased required minimum monthly payments. The aim is to help people pay bills faster and decrease the interest on outstanding balances. But the new policy has hit consumers hard, especially because it came on the heels of higher energy prices and rising interest rates. This has made many Americans anxious about their debt and vulnerable to trying any scheme to pay it off, even stealing from their employer.

Some employees also bear grudges against their employers because of increases in premiums they contribute for group health insurance. They may be upset if their company is freezing pension plans for all current employees. Add to this a feeling of not being paid what you are worth, and you have an employee who is all too willing to consider stealing.

You may believe your commercial property policy protects your business from all types of employee theft, but that isn't the case. In general, commercial property policies that are written on an all-risks basis cover most types of employee theft, including the stealing of inventory and contents. However, cash and securities aren't considered property in this context, so they're

not covered. That's why it's a good idea to purchase an employee theft policy to cover the theft of money and securities inside and outside the physical premises.

Employee benefit plans can also be covered under this type of policy. The Employee Retirement Income Security Act (ERISA) requires employers to carry insurance equal to 10% of the funds administered. The minimum amount of coverage ERISA requires is \$1,000 and the maximum is \$500,000. An employee theft policy can be written to include 401(K) plans, profit sharing plans, pension plans, and medical, dental, vision, life, and disability insurance plans. ERISA also requires that those who administer employee welfare or benefit plans be bonded. An employee theft policy can be used to satisfy this requirement. Each of the plans must be added to the name insured on the policy in order to activate the coverage.

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## Welcome to the Elliot Whittier Insurance Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent risk management topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us should you have any questions or needs.



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# Know Your Commercial General Liability Insurance Limits

A commercial general liability policy (CGL) lists six different limits on the policy's declarations page. While the limits may be listed separately, it's important to understand that they are all interrelated. That means that payment of damages for one limit will affect another limit.

To illustrate how these limits interact, it is necessary to examine each one in detail:

- **The General Aggregate Limit** - The maximum amount the insurer will pay during the policy period for all damages including bodily injury, property damage, personal and advertising injury except for any amount paid as damages because of bodily injury or property damage included within the products-completed operations hazard. The definition of the products-completed operations hazard is outlined in the policy and a separate aggregate limit applies to this type of claim. Also included within the general aggregate are damages paid for medical payments.
- **Products-Completed Operations Aggregate Limit** – The maximum amount the insurer will pay for damages because of bodily injury or property damage included within the products-completed operations hazard. The specified hazards are those described within the definition of the products-completed operations hazard and are limited to bodily injury or property damage that:
  1. Occurs away from the insured's premises.
  2. Caused by the insured's products that are no longer in the insured's possession or an insured's work that has been completed.
- **Personal and Advertising Injury Limit** – The maximum amount the insurer will pay if legally obligated to pay damages due to personal and advertising injury offenses. The personal and advertising injury limit applies separately to each person or organization that sustains damages because of a covered offense. However, regardless of the number of persons or organizations claiming damages, or the number of offenses claimed during the policy period, the insurer is only obligated to pay up to the general aggregate limit.
- **Each Occurrence Limit** - The maximum the insurer will pay for the sum of all damages due to bodily injury, property damage and medical payments. Keep in mind that there is an aggregate limit for bodily injury and property damage claims that arise from the products-completed operations hazard and a separate limit for all other bodily injury and property damages. However, the each occurrence limit does apply to all sums paid for medical payments.
- **Damage to Premises Rented to You Limit** – This coverage is actually an exception to certain exclusions found in the bodily injury and property damage coverage. The first exception provides coverage for property damage to a premises and



its contents, rented to the insured for 7 or fewer consecutive days if an insured is legally obligated to pay for such damage due to any cause except fire.

The second exception provides coverage for damage to the premises only if an insured is legally obligated to pay for property damage due to fire. However, if an insured is held liable solely due to an agreement to be responsible for the property or for damage to the property, there is no coverage. Liability has to be imposed on the insured as the result of a lawsuit in order for coverage to apply.

The Damage to Premises Rented to You limit applies to any one premises. Any property damage paid under this limit will reduce the each occurrence limit for that same occurrence and will also reduce the general aggregate limit.

- **Medical Expense Limit** – The medical expenses coverage is a separate insuring agreement that obligates the insurer to pay reasonable medical expenses for bodily injury, caused by an accident, without regard to fault. Medical payments are subject to the medical expense limit. The medical expense limit applies separately to each person. However, medical payments will reduce the each occurrence limit for that same occurrence and will also reduce the general aggregate limit.

# Umbrellas Are Not Just for Rainy Days Anymore

One of the most important insurance policies you can buy is the personal umbrella policy, but many people are unaware they need one. Consider that lawsuits happen every day and if you were sued, would you have enough money to cover your attorney's fees and possible judgments? Most homeowner's and automobile policies offer certain protections to cover legal liability, but is it enough? If you are concerned about your ability to cover all the possible expenses of a lawsuit, you should consider purchasing an umbrella policy. This insurance policy will cover you if you cause bodily injury, property damage or personal injury to another party.

Umbrella policies also offer protections that traditional homeowner's or auto policies do not cover, including false arrest; libel or slander; invasion of privacy; wrongful entry; eviction and more. While an umbrella policy offers additional protection, there are still claims that are not covered. For example, if you own a business, only a business insurance policy will cover general liability claims. Most umbrella policies do not cover punitive damages. Additionally, some umbrella policies are only available to policyholders who carry both their homeowner's and auto insurance policies through the same insurance carrier.

Since umbrella policies are tapped only after the liability limits from your homeowner's or automobile policies are exceeded; they are usually quite inexpensive. A policy with a million dollar limit can usually be obtained for \$200-300 dollars per year.

## Three Questions to Determine Whether Your Home Is Properly Insured

Homeowners are always being advised to update their property insurance annually because any home alteration or lifestyle change, such as marriage or divorce, can affect the amount of coverage needed. While it is important to complete that yearly review, it is equally important to know what questions you should ask your agent to ensure you have the right coverage for your circumstances.

According to the Insurance Information Institute (I.I.I.), there are three key questions you should always ask:

1. Do I have enough insurance to rebuild my home? - Buying just enough insurance to meet your mortgage lender's requirements could mean that you are inadequately covered should you need to rebuild your home at current prices. To have real protection, you need to consider the following types of coverage:
  - Replacement Cost Policy - A replacement cost policy pays for the repair or replacement of damaged property with materials of similar kind and quality.
  - Extended Replacement Cost Policy - This extends your coverage another 20 percent or more above your stated policy limits. This additional insurance can be extremely important if your home is one of many damaged in a disaster, because a widespread disaster can result in increased costs for building materials and labor.

Personal umbrella policies are growing in popularity. In the past, only wealthy individuals and families purchased this coverage. Today, middle-income families also may procure this policy for protection in our society's increasingly litigious climate. As the tendency to sue for damages rises and awards granted by the courts grow, the personal umbrella policy is increasingly seen as an insurance necessity rather than a luxury.

In particular, you should consider purchasing a personal umbrella policy if you have certain characteristics or engage in certain activities, including the following:

- Your total assets are greater than your underlying liability limits.
- You are financially responsible for the actions of a young, inexperienced driver.
- You live in an exclusive and affluent neighborhood.
- You have a high profile career or high income.
- You frequently host guests on your property.
- Your residence includes a swimming pool.
- You own waterfront property, a farm, or a ranch.
- You own watercraft, aircraft, or off-road vehicles.
- You own numerous rental properties.
- You engage in extensive international travel for pleasure.

- Inflation Guard - This coverage automatically adjusts the policy limits for rebuilding costs as construction costs rise.
- Ordinance or Law coverage - If your home is badly damaged and requires rebuilding under new building codes, ordinance or law coverage will pay a specific amount toward any additional costs involved in meeting the new code requirements.
- Water Backup - This coverage insures your property for damage from sewer or drain backup.
- Flood Insurance - Standard home insurance policies do not include coverage for flooding. Flood insurance is available through the federal government's National Flood Insurance Program (<http://www.floodsmart.gov>), but can be purchased from the same agent who provides your homeowner's insurance. Make sure to purchase flood insurance for the structure



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of your house, as well as for the contents.

2. Do I have enough insurance to replace my possessions? - Most insurers provide coverage for personal possessions equal to 50 percent to 70 percent of the amount of insurance on the dwelling. The best way to determine if this is enough coverage is to conduct a home inventory. A home inventory is a list of everything you own and the estimated cost to replace these items if they were stolen or destroyed.

You can insure your possessions in one of two ways:

- a. Cash Value Policy - This coverage pays the cost to replace your belongings minus depreciation.
  - b. Replacement Cost Policy - This coverage pays the full cost of replacing your belongings at current prices.
3. Do I have enough insurance to protect my assets? - Homeowner's insurance provides you with basic liability coverage. This protects you against lawsuits for bodily injury or property damage that you, your family, or your pets may cause to other people. Liability insurance pays for the cost of your legal defense and for any damages a court rules you must pay, up to the stated limits of your policy. Most homeowner's insurance policies provide a minimum of \$100,000 worth of liability insurance. If the standard liability coverage isn't sufficient, you may need an excess liability policy, which provides additional coverage over and above what is covered by your homeowner's insurance policy.

### Being in an accident is always a hassle.



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