

Risk Monitor



Four Questions Any Business Owner Should Answer to Determine Insurance Needs

Owning and operating a business is a risky endeavor. Not only do business owners face general risks such as theft and fire, but also specific risks that are inherent to the operations of each individual business. For these reasons, it's vital that you have the right type and amount of insurance for your business.

To help you get the coverage you need, the Insurance Information Institute (I.I.I.) has developed the following list of questions every business owner should consider when determining their insurance needs:

1. Do I have enough insurance to rebuild my business property and replace all of my merchandise and possessions?

A Building and Personal Property Coverage (BPP) policy covers any combination of the following three categories: the building, your business personal property and the personal property of others. The covered building can be owned by the insured, or it can be leased.

Your business personal property coverage includes:

1. Furniture and fixtures
2. Machinery and equipment
3. Stock
4. All other personal property you own that is used in your business
5. Labor, materials or services furnished or arranged by you on the personal property of others
6. Improvements you have made while a tenant
7. Leased personal property that you are contractually obligated to insure

2. Do I have enough insurance to protect the personal property of my employees?

Adding Personal Effects and Property of Others coverage to your policy will extend up to \$2,500 worth of its business personal property coverage to your personal effects, as well as that of your partners, staff, and others in your care, custody or control. The personal effects coverage does not include theft, even if theft is a covered cause of loss.

3. Do I have enough insurance to keep my business open?

Closing a business down completely while needed repairs are being made could spell financial ruin. That's why you should have business interruption insurance.

The following types of business interruption insurance can be purchased individually, or in any combination that meets the needs of your business:

- **Business Income Coverage** – If your company has to vacate the premises because of disaster-related damage that is covered under your property insurance, Business Income Insurance will compensate you for the profits you would have earned, based on your financial records, had the damage not occurred. The policy also covers expenses that continue even though business operations are temporarily stopped.
- **Extra Income Coverage** – Provides reimbursement for a reasonable sum of money spent over and above normal operating expenses to avoid closing during repairs.

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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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Vacancy: Know the Risks

One very visible result of the economic downturn is an increase in commercial vacancies across virtually all categories—and that could be leaving owners far more exposed than they realize.

How bad is it? By the second quarter of 2009, the vacancy rate for office space increased to 15.5 percent, according to recent analysis from CBRE Econometric Advisors (CBRE). Downtown office vacancies increased to 11.7 percent, while suburban rates to 17.6 percent. Vacancy rates among retail and industrial commercial properties are also rising. According to CBRE, the national industrial vacancy rate rose to 13 percent in the second quarter of 2009—its highest level since 2003. Rates among the nation's retailers rose to 12 percent.

And the worst of it may be still to come. At least one property research organization, Reis, predicts that the overall vacancy rate for U.S. office properties could rise to 17.6 percent, the highest since 1992.

From an insurance perspective, vacancy is considerable concern. Vacant buildings are more susceptible to certain types of damage, and for this reason, most commercial property insurance policies include a vacancy condition that significantly limits or, in some cases, eliminates coverage if the building is damaged.

For example, most policies eliminate coverage if the property loss to the vacant building is caused by vandalism, sprinkler leakage, building glass breakage, water damage, theft or attempted theft. If something else causes damage to the vacant building, such as fire or windstorm, most policies automatically reduce the loss payment by 15 percent. This reduction is in addition to the policy deductible; further increasing the owner's out-of-pocket expense.

A major concern with the vacancy condition in most commercial property policies is exacerbated by the fact that a majority of building owners do not understand how the policy defines vacancy. In most policies, building owners are at risk of the vacancy condition and its potentially devastating limitations if

less than 31 percent of the building's square footage is rented or used to conduct customary operations and/or used by the building owner to conduct customary operations. (It's important to note that buildings under construction are not considered vacant.)

As an illustration, consider a four-story office building. Each floor is a separate suite and each has identical square footage. ABC Company occupies the bottom floor. Due to declining economic conditions, three of the building's four tenants move out, leaving ABC as the building's sole tenant. Even though ABC is still there, they only occupy 25 percent of the building. Most commercial property policies now consider this building vacant due to the fact that total occupancy has fallen below 31 percent.

The vacancy condition in the policy is not effective immediately. Rather, the building owner typically has an allotment of time, usually 60 days, for occupancy to increase to greater than 31 percent. If after 60 days tenancy is still below 31 percent the vacancy condition is applied to subsequent losses and will be so until tenancy increases. Further, the building owner's commercial property insurance policy may be non-renewed upon expiration and the owner may have to purchase a special policy designed for vacant buildings. Such a policy is typically harder to obtain, more restrictive in terms of coverage and may be more expensive than a standard commercial property insurance policy.

With gloomy predictions looming, do solutions exist that can help building owners protect their asset by mitigating the risk associated with damage to a vacant building?

Fortunately, yes. Talk with Elliot Whittier, your Trusted Choice® agent about the options available for your vacant buildings properties. We may be able to amend your existing insurance policy to lower the threat of the vacancy condition by decreasing the occupancy requirement to a more achievable number (such as 10 percent). This option could help building owners weather turbulent economic times without the increased risk of significant financial detriment resulting from an uncovered or limited property claim. In uncertain economic conditions, why leave one of your biggest assets at risk?

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- **Contingent Business Interruption Insurance** – Protects your earnings if your suppliers or customers suffer physical loss or damage to their property.

4. Do I have enough insurance to protect my assets in the event of a lawsuit?

A Commercial General Liability (CGL) policy cover claims in four categories of business liability:

- Bodily injury
- Property damage
- Personal injury (including slander or libel)
- Advertising injury

Commercial General Liability policies also cover the cost to defend or settle claims.

Review Your Business Interruption Coverage So You Can Stay in Business

Business interruption insurance is like disability insurance for a business. Disability insurance covers some of a person's lost income when she is sick and unable to work. Business interruption insurance covers a business's lost income when a fire, explosion, or some other peril causes it to shut down temporarily. A shutdown after a disaster may have more severe consequences for a business than the damage to the property itself. Therefore, it is vital that business owners know whether they need to update their coverage.

There are two reasons why reviewing business interruption coverage regularly is important:

- Economic conditions can change. When the economy is down, it is likely that a business's sales will either drop or flatten. Continuing expenses, such as utilities, mortgage payments, and payments on other loans, may not necessarily decrease; in fact, some may increase, particularly if there is a spike in energy prices. Conversely, a rapidly growing economy or one with high inflation may quickly drive anticipated sales much higher than what the owners expected when they bought the insurance.
- Regardless of the overall economy, businesses change. They introduce new products or services, expand into new markets, acquire new properties or other businesses, and invest in technologies that increase their productivity. All of these changes affect expected income and may change a business's coverage needs.

When a business owner reviews her business interruption coverage, there are several factors to consider:

- Is the market for the business's services expanding or shrinking? Cell phones, at one time seen as a luxury, over time came to be seen as a virtual necessity; millions of buyers entered the market. This increased sales for retailers and service providers.
- Has the business launched new products or services? In the year 2000, Apple, Inc. was solely a computer manufacturer. The next year, it introduced the iPod; later in the decade, it introduced the iPhone. These two products now account for a large share of the company's sales.
- If the business has coverage for income from dependent properties, how have those properties changed? For example, the business may depend on one major supplier for parts. If that supplier used to have two warehouses but has closed one of them, a fire that shuts down the remaining warehouse will have a significant impact on the business's income.
- Are competitors entering or leaving the market? A business that has increased competition will be under pressure to resume operations as quickly as possible to discourage customers from permanently going elsewhere. The business will want to pay whatever is necessary to minimize the shut down.
- Has the business's peak season changed? Suppose a company that provides payroll and benefits administration services decides to start offering tax preparation services to its clients.

Much of the tax work and its associated revenue occur during the first quarter of the year. A loss that shuts down the business in March will have a much larger impact than it would have before the firm got into the tax business.

- Have building codes changed in the business's location? State and local governments are increasingly adopting "green" building codes that require environmentally-friendly construction materials and practices. Meeting these standards may lengthen the rebuilding period and lead to a longer suspension of business.
- What is happening to the business's costs? If labor or material costs are rising and the business must raise prices to cover the increases, sales volume may decrease and affect the amount of business interruption coverage needed.

Taking the time to review coverage and the firm's financial statements with a professional insurance agent will pay dividends after a loss. Proper business interruption coverage may make the difference between a business re-opening or closing forever after disaster strikes.

Kristin Quinn Co-Chairs American Cancer Society's Relay for Life

Kristin Quinn, CISR and Personal Lines Customer Service Representative for Elliot Whittier Insurance Co-Chaired the American Cancer Society's 2010 Relay for Life held overnight on June 18th, 2010 at Santori Stadium in East Boston. The event raised approximately \$58,000 to support the fight against cancer. Shown on the right is Kristin's friend and Co-Chair Tiffany LaCascia. Elliot Whittier is proud to encourage and support employees who give back to the community. Great job & Thank you Kristin & Tiffany!



Important Information if you Heat your House with Oil

Each year, hundreds of MA families experience some kind of fuel leak. What many people don't know is that most home insurance policies will not cover your property damage from a spill or leak from your fuel oil tank or lines.

Fuel leaks or spills that happen in your home can be costly and disruptive to you, the homeowner, but also cause major problems for the environment. A leak may result in exposure to petroleum vapors in your home. If the oil leak reaches the soil or the ground-water beneath your house, you must clean and restore that environment to MA State Standards. Leaks that affect a neighboring property or drinking water supplies can get quite complicated.

Effective July 1st, 2010, homeowners with 1 – 4 family homes using oil heat must upgrade their home heating system equipment to prevent leaks from tanks and pipes that connect to your furnace.

You can find all the information on this new law, The Homeowner Oil Heating System Upgrade and Insurance Law at <http://mass.gov/dep/cleanup/laws/hhsl.htm>

The new law has two major provisions that require:

- The installation of either an oil safety valve or and oil supply line with protective sleeve on systems that do not currently have these devices; and
- Insurance companies that write homeowner policies to offer coverage for leaks from heating systems that use oil heat.

Here at Elliot Whittier Insurance, we are working with our Homeowner's Insurance Companies to make sure that we have access to the endorsements you will need to protect yourself and your home from this peril. If you have any questions please visit mass.gov or call us at 800-696-3947.

Elliot Whittier Sponsors Free Car-Seat Inspections

On Saturday, May 15th free Car Seat Inspections were held at the Elliot Whittier Insurance Winthrop location at 12 Revere Street.

"The inspections was performed by Police Officer Steven Acone, who has undergone 40 hours of intensive instruction in order to receive the proper certification. This will be the third year that Officer Acone has performed this service at our loca-

tion, and it's been very well received. It gives parents and caregivers a level of comfort when they know their children are safe. We are very grateful for the cooperation of the Winthrop Police Department as well." said Elliot Whittier CEO, Steve Roy.

The next free car seat event will be held in the fall of this year. Check our website for updates!



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