

# WHAT'S ENOUGH *got to do with it?*

Year after year, business-owners pay out for premiums to protect their businesses from what they hope will never happen

By Jon Pfeiffer

**W**ould your company survive if the same happened to you? Could you afford the moving expense and costs associated with setting up temporary facilities while repairs were being made to your plant? Could your company withstand several weeks or months of limited operation, or worse, out-right closure?

Who needs insurance anyway? For some, paying premiums seems like throwing money down a hole. Year in and year out, we pay ever-rising premiums and never make a claim. Given today's economic climate, cutting coverage to save costs of premiums is seemingly attractive.

True, a drastic scaling back of insurance coverage may provide a welcome reduction in expenses. This short-term savings, however, may lead to long-term disaster. For most companies, survival in the face of catastrophe is directly linked to adequate insurance. Without it, companies are unable to continue business.

## How Much Coverage Is Enough?

Just being insured isn't enough — your company's insurance must be adequate. And obtaining adequate insurance is more complex than instructing your agent or broker to buy you a business policy. This simplistic approach has left more than one company in the undesirable position of being over-insured for some losses and under-insured, or even uninsured, for others.

An analysis of whether your business has adequate insurance is a two step process: 1) Ask whether you have sufficient limits of policy protection. And 2) Ask whether the type and scope of coverage is appropriate? Unless the answer to both questions is "yes," your insurance coverage is inadequate.

Many companies unwittingly over-insure their property. It serves no legitimate purpose to insure a \$5 million plant for \$10 million. Assuming a complete loss, you will only be indemnified for the plant's worth — and no more than that. Amounts beyond the value of the property won't be paid out.

To remedy this and save on premiums in the process, determine the real value of your company's buildings, equipment, vehicles and anything else necessary to do business. Insure only that amount. A word of warning — be careful to consider the effects of inflation. Look into a policy that indemnifies you for replacement costs at today's prices instead of the value of the property and equipment on the date the policy was obtained.

Next, explore business interruption coverage. It should be sufficient to enable your company to survive without jeopardizing its operations. Sufficient business interruption coverage is measured in terms of the monetary policy limits and the maximum period for which an interruption exists. Elwood Manufacturing, for example, will be shut down for three to four months. If Elwood's policy only provides coverage of business interruption for a few weeks, its coverage is clearly inadequate. A company should estimate what amount of time it will take to set up temporary facilities from scratch when considering what amount of business interruption coverage to obtain.

The policy limit on liability coverage is more problematic. Jury awards are at best unpredictable. Coverage of \$1 million for a small business is considered an absolute minimum. Large companies sometimes carry up to hundreds of millions of dollars of liability coverage. The key is to determine the extent of loss under a worst case scenario, and then determine just how likely it is that such a loss will occur. If it's anything but a remote possibility, the conservative course of action is to carry that amount of coverage.

*A fire broke out early Tuesday morning at the Elwood Manufacturing plant, gutting the west wing of the building. Fire threatened the Smithfield building next door, although it did not significantly damage that facility.*

*Paramedics report that a Smithfield security guard was seriously injured by flying glass. Fire officials refuse to discuss the cause of the fire, but witnesses report hearing an explosion shortly after 2 a.m.*

*Elwood Manufacturing was recently investigated for an alleged leak of toxic chemicals into the soil. The head of the local Environmental Protection Agency said today that evidence suggests the toxic leak may have begun as many as 10 years ago. He had no comment regarding the impact of the fire on that investigation.*

*The plant is expected to be shut down for three to four months for repairs due to fire damage. A company spokesperson says the company will establish temporary headquarters in a nearby warehouse, but the company declined comment regarding claims of toxic waste damage.*