

WELCOME!

WELCOME.

Whether you're a seasoned producer or just beginning your insurance career, welcome aboard. We developed some customized training videos that will help you as you begin working with your team and your clients. We feature **13 core videos critical to your onboarding process**. There are also several videos that are optional viewing as you begin to place more business income and workers compensation coverage.

The videos last between eight minutes and 30 minutes and provide insight into placing that type of coverage. Because agents professional liability errors and omissions (E&O) is such a widespread problem for today's insurance professionals, we want to ensure you view the videos to help avoid an E&O situation. The critical knowledge from our Big "I" expert will also help you gain technical coverage knowledge you will use throughout your insurance career.

Again, welcome aboard. We know that in any new position, you will feel a bit overwhelmed with competing priorities. We suggest you talk with your supervisor to set a reasonable timetable to complete these videos.

LET'S BEGIN WITH A LOOK AT WHAT AN E&O CLAIM IS



20 MINUTES



**DOWNLOAD
HANDOUT**



KEY TAKEAWAYS

- ▶ Defines what an error and omissions claim is: An error, a deviation, not including or disregarding something required. We face an E&O claim when we did something wrong, made the wrong decision. An omission is a passive term, we omit something we should have offered or considered.
- ▶ If you receive an E&O claim, don't overreact. The best agencies face errors and omissions claims, and even the most highly experienced agents make mistakes.
- ▶ Do not alter the client's file as it relates to the allegations. Resist any temptation to clarify the situation in the file. Do not change or add anything. Always document files in real-time, not after something goes wrong.
- ▶ Never discuss the E&O claim with anyone other than your staff and your insurer's claims team. Furnish documents only with approval from your E&O claims team.
- ▶ Do not make any admission or apologize to anyone. Do not offer to make any payments. Even if you feel badly, let your claims team handle the matter once you receive notice of the claim.
- ▶ Once you receive notice of the claim, stay professional. If you face a deposition, your claims team will prepare you for deposition. Opposing counsel will attempt to ruffle you. Strive to stay calm and professional.
- ▶ Do not try to manage the claim on your own! If you believe an E&O claim is imminent, report the claim to your E&O carrier. They can help you through the process. They are objective and experienced. Do cooperate with your E&O carrier after PROMPT notification of any claim. Do not do an internal investigation first; immediately report the claim, then complete any internal review as directed by your carrier.
- ▶ Gather and organize all pertinent information. Don't alter them, just send them in original form. Each team member should separately record all they can remember about the incident. This factual narrative can help your claims person. You want to avoid any appearance your team got together and created a story line.
- ▶ Avoid opinions and speculation. Do not offer emotions or feelings. Stick to the facts.
- ▶ Comply with all E&O policy conditions and requirements.

NOW LET'S REVIEW SOME FREQUENT ERRORS AGENTS MAKE THAT OFTEN RESULT IN AN E&O CLAIM



17 MINUTES



DOWNLOAD
HANDOUT



KEY TAKEAWAYS

► There are three key areas of danger for insurance agents.

1. Answering the question "How much coverage do I need?"
2. How being too helpful to your clients can be bad for you
3. Should we remind clients of overdue payments?

- **If your insured asks about coverage limits, it's up to your client to decide.** You can ask your client if s/he can sleep soundly because of an umbrella policy or higher limits. That is a great answer. Develop some scenarios with your client and provide options. If your presentation offers specific limits, this can be a problem if their limits prove insufficient.
- **Have the client initial and sign a form that you told them higher limits were available.** Always let your clients know if there are higher limits available.
- **No matter how good your relationship is with your insured, clients often sue agents if something goes wrong.** If your clients ask you to review contracts, interpret their homeowners' association documents, or ask if they should form a limited liability company, it's outside your licensure. Avoid being too helpful. It can open you and your agency to liability. Don't provide answers to legal or quasi-legal questions; refer your client to his or her attorney, accountant, or the appropriate regulatory agency.
- While late-paying clients appreciate a call if they miss a premium payment, you create an expectation that you do this with all your lapsed or late-paying clients. **Never get in the habit of notifying clients if their payments are late.** If you have been reminding them in the past, you must now inform them in writing that you can no longer do so. Provide a date – immediately or beginning on a specific date. Even if the customer is a relative, do not make exceptions!

NOW LET'S TALK ABOUT THE IMPORTANCE OF CERTIFICATES OF INSURANCE. THIS IS AN IMPORTANT ONE!



 **18 MINUTES**

 **DOWNLOAD HANDOUT** 

KEY TAKEAWAYS

- ▶ Certificates of insurance (COIs), the Acord 25, certifies to a third party that the named insured has liability coverage provided by a specific carrier. The COI provides information only.
- ▶ Never generalize coverage, simply attach a copy of any additional insured endorsement, and attach a listing of all commercial general liability forms and endorsements. Let the certificate holder request additional information.
- ▶ You cannot attest to anything that you don't know is covered in the policy.
- ▶ A certificate does not create coverage that does not already exist. Certificate holders can request clarification; however, it's not your responsibility to offer explanations without them requesting it. All you owe is responsiveness and truthfulness and an attempt to answer reasonable questions.
- ▶ The safest wording is "coverage is provided as is stated in the policy." A COI gives no specifics about coverage because it's only intended to show a policy exists. The agent has no contractual relationship with the outside party, the COI requestor.
- ▶ Do not attest to any specific contractual requests; just furnish the COI. Only the carrier can change the contractual language of the policy.
- ▶ **Does the COI affect coverage?** Technically, no; practically, perhaps. If the description of operations is too broad, it could be problematic. In one case, an agent wrote a specific description of operations about who was given additional insured status. The policy did not include this additional insured. Given this error, the court allowed coverage. Be careful in what you write and who you name as an additional insured.
- ▶ **Before you issue a COI**
 1. Confirm the policy is in effect and has not lapsed
 2. Confirm correct current coverage amounts
 3. Confirm all policy coverages indicated are in the policy
 4. Confirm any entity you list as an additional insured (A/I) is an A/I
 5. Attach the A/I endorsement to the COI

A COI is for information only and should only show what the policy language covers. COIs have a huge E&O potential.

LET'S REVIEW SOME OF THE HIDDEN SURPRISES OF BUILDING OWNERSHIP AND HOW THESE "AHA" MOMENTS CAN IMPACT COVERAGE



21 MINUTES



DOWNLOAD
HANDOUT



KEY TAKEAWAYS

- ▶ For most small and closely held corporations such as limited liability companies (LLCs), we cannot assume that the LLC or corporation owns the building listed as the insured's address. Never assume that a business occupies an owned building. In most insureds' minds, there is no separation between the business and where it is housed. However, very often, more than one person or entity owns the building.
- ▶ Drill down to ensure the policy protects each separate person and legal persons.
- ▶ Property policies will not respond to a claim if there is no insurable interest in the property. If the policy does not name the person with insurable interest, there is no coverage for that person.
- ▶ Insurable interest in real and personal property is created in one of three ways:
 1. Ownership
 2. Legal liability
 3. Contractually, for example, a lease agreement
- ▶ Very often in smaller organizations, there may be no lease agreement; the occupancy is more of a relationship/handshake relationship. (Or the owner may work out of a privately owned home.)
- ▶ **Here are some solutions to avoid problems with building ownership.**

Owners generally want the building insured on the same policy as the operation. Two methods can accomplish this; however, only one works.

1. Name the building owner as a named insured.
Many carriers are unwilling to do this because of the breadth of the owner's operations. Do not use this option!
2. The building owner should lease the building to the business, making them (the business owner) responsible for insuring the building. Endorse the policy one of two ways.
CP12 19 Additional Insured – Building Owner (Property)
CP20 11 Additional Insured – Managers or Lessors of Premises
#2 is the better method for covering the building owner's exposure.

- ▶ **Never assume ownership. Confirm by asking: "Who owns the building?"** You can also search county tax records. It's much simpler to ask, but the county site may provide many details about the building that can help you prepare before you meet with your insured.

NEXT, WE'LL LOOK AT THE IMPORTANCE OF CORRECTLY NAMING ADDITIONAL INSURED



17 MINUTES



DOWNLOAD
HANDOUT



KEY TAKEAWAYS

- ▶ A person requests additional insured status to gain some level of protection under another party's commercial general liability (CGL) policy. They are trying to protect themselves against liability arising out of the relationship between the parties.
- ▶ Contractors often ask for contractual risk transfer (CRT) to place responsibility on the other party. The upper-tier contractor (often referred to as the prime contractor) will ask the subcontractor to list the prime as an additional insured.
- ▶ These two methods are often required but are not the same thing. One is insurance; CRT may have other obligations for the subcontractor.
- ▶ There are many effects of adding an additional insured.
 1. The per occurrence limits may not be impacted, but the aggregate limits may be.
 2. The named insured must be a cause, not the cause of injury or damage in most current policy forms.
 3. The additional insured may find coverage even if the carrier excludes the named insured.
 4. A/I status does not solve the waiver of subrogation importance.
 5. Allows the A/I to find coverage by ISO's Primary and Noncontributory endorsement.
- ▶ If additional insureds may have liability, they may also be involved with their insurer.
- ▶ You should attach a waiver of subrogation endorsement even though they are A/Is. It has a more formal name, CG 24 04, officially called Waiver of Transfer of Rights of Recovery Against Others to Us.

When you attach a waiver, it disallows recovery against the named party. There is no policy coverage provided, it prevents the lower tier from trying to recover from the upper-tier contractor.
- ▶ Who should you add as an A/I?
 1. There should be privity of contract – the carrier should cover only the party named on the policy as A/I. The contract may list other entities/people.
 2. Only those who have an ongoing business relationship with the named insured.
 3. Only those whom the named insured could harm by their actions, resulting in a bodily injury, property damage, or personal or advertising injury.
- ▶ Two primary methods to extend A/I status:
 1. Listing via the CG 20 10 (premise operations) or the CG 20 37 (completed operations).
 2. Automatic status using the CG 20 33, CG 20 38, CG 20 39, or the CG 20 40. These ISO forms differ.
 - a. CG 20 33 (premises operations) automatic but requires privity of contract.
 - b. CG 20 38 (premises operations) automatic to any party required by the contract is an A/I
Don't let the words "automatic" or "blanket" mislead you.
 - c. CG20 39 (products/completed operations) automatic but requires privity of contract.
 - d. CG20 40 (products/completed operations) automatic to any party required by the contract is an A/I

NEXT, LET'S REVIEW HOW TO PROPERLY NAME YOUR INSURED ON THEIR POLICY



23 MINUTES



**DOWNLOAD
HANDOUT**



KEY TAKEAWAYS

- ▶ If the policy lists an incorrect name or the incorrect entity type, for example a sole proprietor versus an LLC, there may be no coverage.
- ▶ Status as an insured must exist before anything else.
- ▶ The first question when evaluating coverage is "Is the person or entity suffering damage or causing loss, injury, or damage an insured?" If you don't name the insured correctly, or the type of entity, they will not have coverage after a loss.
- ▶ The insured or the employer is always a natural person or a legal person.
- ▶ The chart below found in the video of how to list the named insured at 7:38 which you can print out for reference.
- ▶ If dealing with a legal entity, check with the secretary of state in the state of domicile to determine the legal name. Name them exactly how your insureds filed them with the secretary of state.
- ▶ Assumed names such as trade names is how the entity is known in the community. If your client filed the assumed name with a licensing entity, use the DBA. Coverage applies to the legal entity, not how it is known in the community (its DBA).
- ▶ If the assumed named hasn't been filed with any licensing entity, use "trading as."
- ▶ Don't try to accomplish anything when you name the insured. Do not use terms such as "as their interests may appear," or "any and all past entities."
- ▶ Do not limit coverage to a specific location.
- ▶ Don't limit coverage with words like, "Only with respect to _____ operations." Use endorsements if you need to do that.
- ▶ The policy is a legal contract, and you cannot limit or broaden coverage by altering the named insureds on the contract. You can only do that by endorsement.
- ▶ Three keys to getting the named insured correct.
 1. The insured is always a person, either a natural or legal person.
 2. The entity type affects how you name the insured.
 3. Understand how to apply correct named insured terminology.

Listing the Named Insured

If the Insured is a(n)...	...the name on the declarations should read:
Individual	The full legal name of the individual.
Partnership	The answer depends on the existence of and information in the partnership agreement: <ol style="list-style-type: none"> 1) If a partnership name is found in the partnership agreement, that is the named insured; but 2) If there is no name provided in the agreement or there is no agreement, the named insured is the last names of the individuals making up the partnership.
Joint Venture (JV)	The name of the JV as found in the written agreement.
Limited Liability Company	The name filed with the regulatory authority.
Other Organizations	Exactly as listed by the Secretary of State or other regulatory authority.
Trust	The name found on the declaration of trust.

NEXT, WE'LL LOOK AT REPLACEMENT COST COVERAGE AND HOW TO EXPLAIN IT TO YOUR CLIENTS



KEY TAKEAWAYS



20 MINUTES



**DOWNLOAD
HANDOUT**



- ▶ Indemnification – The contractual obligation of one party (the insurance carrier) to return another party (the insured) to essentially the same financial condition enjoyed before the loss without improvement or betterment.
- ▶ How insurers indemnify by paying “the lesser of”
 1. The “value” of the lost or damaged property
 2. The cost of repairing or replacing the lost or damaged property
 3. The agreed or appraised value
 4. The cost to rebuild or repair with other property of like kind and quality
- ▶ Agents may explain replacement cost, an optional valuation method in the commercial property coverage. In the personal homeowner’s policy, it is the primary valuation method for Coverages A and B.
- ▶ Replacement cost is not “new for old” items. There are situations where replacement cost is not available, but we don’t explain it to our insureds.
 - ▶ The insured only has replacement costs all the time in some circumstances.
- ▶ Replacement cost does not violate the principle of indemnification, even though the insured may be in a better position post loss because they received newer property for their old property.
 - ▶ The insured pays premium for the replacement cost amount of coverage. It is the truest form of identification.
- ▶ There are some barriers to replacement cost. Actual repair or replacement only after the insured has repaired or replaced the property. Certain property is ineligible, or you must endorse coverage onto the policy, e.g., artwork, stock, etc. Governmental problems or ordinance and law can create barriers to rebuilding. Building codes in certain jurisdictions may turn a partial loss which suffers “major damage” into a total loss; however, the insurer will only pay for the damaged portion on an unendorsed commercial property policy.
- Jurisdictional – Authority of the prevailing building code can decide if the building/roof requires total replacement.
- Percentage – damaged beyond a certain percentage, varies by state.
- Coinurance – If the insured is not insured to value, the carrier will not pay replacement cost
- ▶ The ordinance and law endorsement can help cure these potential coverage shortfalls
- When offering replacement cost, explain to your insured some of the problems he or she can encounter even in a partial loss to a building.
- ▶ Coinurance – Encourages the insured to insure to value compared to the statistical risk of a total loss. Coinurance applies only to partial losses.
- ▶ The insurer bases coinurance of the building at the time of the loss, not the value at policy inception.
 1. It’s best to insure property at 100% total insured value, but never use 100% coinurance. Don’t let the lower rate draw you in. Property values can change, as we’ve seen in the past few years. As the coinurance percentage increases, the rate decreases.
 2. The term “coinurance” means the insured, if underinsured, becomes a “co-insurer,” hence the term “coinurance.”

NOW LET'S LOOK AT BUSINESS AUTO SYMBOLS UNDER THE BUSINESS AUTO POLICY



KEY TAKEAWAYS



25 MINUTES



DOWNLOAD
HANDOUT



- ▶ **Symbol 1** – Any auto, it's in the name, hired, borrowed, etc. It's generally used, though, only for liability coverage, not physical damage.
- ▶ **Symbol 2** – Can be used for UM, physical damage, owned by the named insured. If used for liability, it includes non-owned trailers attached to owned autos.
- ▶ **Symbol 3** – Owned private passenger "autos" only. Extends protection to newly acquired autos, trucks not "used in business" and vans.
- ▶ **Symbol 4** – Owned autos other than private passenger autos.
Combining symbols 3 and 4 equals symbol 2
- ▶ **Symbol 7** – Specifically described and listed vehicles. Generally, this is a schedule of vehicles of what the carrier considers not private passenger autos. Use this carefully, because especially with contractors, vehicles can change without notice.
 1. This may be the carrier's way to extend liability, but usually used for physical damage coverage.
 2. Coverage gaps can occur on newly acquired autos. Policy reads "An auto you acquire will be a covered auto for that coverage only if:
 - ▶ We already cover all autos that you own for that coverage, or it replaces an auto you previously owned that had that coverage; and
 - ▶ You tell us within 30 days after you acquire it that you want us to cover it for that coverage.
 3. The gap in coverage can occur if the carrier wants you to write one vehicle on a separate policy.
- ▶ **Symbol 5** – Owned autos subject to no-fault. Reserved for use only when statute requires specific coverage such as PIP or compulsory UM/UIM.
- ▶ **Symbol 6** – Owned autos subject to compulsory UM laws. If the insured owns a vehicle licensed or principally garaged in a compulsory UM state. If the insured has vehicles in both states, they can choose symbol 2 and 6.
- ▶ **Symbol 8** – Hired auto only, rarely used alone. Leased, hired, borrowed by the named insured, no one else. Generally used with other symbols.
- ▶ **Symbols 9** – Non-owned autos only, for hired and non-owned and generally used with other symbols. Rarely used alone. Vehicles must be used in connection with the named insured's business.
- ▶ **Symbol 19** – Mobile equipment subject to compulsory or financial responsibility or other motor vehicle insurance law. Because subject to laws, must be insured and become defined as autos.
- ▶ **Difference between 8 and 9.** See chart at 11:00.
Key questions to ask:
 - Who owns the auto?
 - Who leases, hires, rents, or borrows the auto?
 - Who can drive/is driving the auto?
 - Allowable purpose
 - Who is covered?
 - Primary or excess coverage?
- ▶ If an employee is driving his/her personal vehicle on business use and has an accident, the BAP covers the employer on an excess basis. The employee's PAP is primary. The unendorsed BAP it will only provide insurance for the employer, not the employee. Attach the CA 99 33 "employees as insureds." This extends coverage to the employee. If the liability goes into the excess, the employer's business auto policy can subrogate back against the employee.
- ▶ **Is symbol 19 necessary?** The policy is worded "any other land vehicle," so mobile equipment is included. However, most agents use Symbol 19, as well, for businesses with that exposure. If you use Symbol 1 and/or 2, they don't need Symbol 19. Various symbols can apply coverage due to the definition of auto.
 1. If 1, 2, or 4 are used for liability, you don't need Symbol 19. If you use Symbol 7 and the underwriter doesn't want to schedule it, you will need Symbol 19.
 2. If the insured is unsure about registration laws, Symbol 19 is a good option. The advantage is it's equivalent to Symbol 1 for mobile equipment.
 3. If they have mobile equipment, you should add 19.
- ▶ Symbols 2 + 8 + 9 do NOT equal Symbol 1. Close, but not exactly like Symbol 1.

NOW LET'S DISCOVER SOME KEY POINTS OF ORDINANCE AND LAW COVERAGE



KEY TAKEAWAYS



23 MINUTES



DOWNLOAD
HANDOUT



- ▶ After business income, ordinance or law is undersold and needed often after a loss. Local statutes can turn a partial loss into a total loss. If an insured suffers “major damage,” the unendorsed commercial property policy (CPP) will pay replacement cost on the damaged portion but will not cover results of enforcement of any building codes.
- ▶ If a building is more than four or five years, it is out of code in some way. It can be a small cost or a large cost.
- ▶ **Major damage defined** – “The amount of damage necessary to cause the local jurisdiction to require the entire building be brought into compliance with the current building codes.” Or “The point at which grandfathered status is removed.”
- ▶ **Two possible rules can apply to damage**
 1. **The percentage rule**
Could be a percentage of values or square footage (as described by the jurisdiction).
Most states apply a percentage of value.
 2. **The jurisdictional authority rule**
Very subjective and can be up to the building code official and can vary from county to county
- ▶ Enforcement is local, but the federal government, local jurisdictions, and historical societies, which can have pseudo-regulatory authority, can impact the loss. Although the code may be federal, the local jurisdiction interprets and oversees the ordinances.
- ▶ Before ordinance and law coverage responds, there must be a direct property loss caused by a covered peril and must reach the major damage threshold and the structure is lacking in some aspect of local building code.
- ▶ Coverage limitations – It will only comply with codes that existed on date of loss. After a loss in some cases, new codes will apply quickly, for example after major fires. Coverage will not extend to code changes applicable after the date of loss.
ISO 9/17 version of the CPP will cover up to the time of issuance of building permit; previous forms will not.
- ▶ **Two key forms**
 1. **Ordinance or Law Coverage – CP 04 05**
On the property side
Has three coverage parts, Coverage A, B, and C
A – Coverage for loss to the undamaged portion of the building
B – Demolition cost coverage
C – Increased cost of construction
 2. **Ordinance or Law – Increased Period of Restoration – CP 15 31**
On the business income form

NOW LET'S TALK ABOUT COINSURANCE ISSUES IN PROPERTY POLICIES



13 MINUTES



**DOWNLOAD
HANDOUT**



KEY TAKEAWAYS

- ▶ Coinsurance exists to ensure the insurer obtains adequate premium for the risk.
- ▶ Insurance to Value (TIV) is used on the homeowners; coinsurance usually refers to coinsurance, but it's often used interchangeably.
- ▶ Coinsurance requires the insured to purchase and maintain some percentage of the structure's total insurable value (TIV) at the time of the loss.
- ▶ Formula for coinsurance = $\frac{\text{Did}}{\text{Should}} \times \text{Loss} - \text{Deductible} = \text{Loss payment}$
Should is TIV x Coinsurance Percentage
- ▶ Total insurable value is at time of the loss, not when you write the policy.
This is the "should."
- ▶ There are various ways to calculate TIV. It is not an exact science.
- ▶ See chart at 7:00 to review coinsurance differences
- ▶ Coinsurance conditions and ideas
 - ▶ Encourages insureds to carry higher limits of insurance compared to the statistical probability of a total loss.
 - ▶ Coinsurance applies only to partial losses.
 - ▶ Coinsurance based on value at time of loss, not at policy inception.
 - ▶ As coinsurance percentage increases, rates decrease.
 - ▶ It's best to insure property at 100 TIV but never use 100% coinsurance.
- ▶ Just ensuring adequate coinsurance is insufficient. Make sure the insured chooses an amount that covers the TIV adequately.

NOW LET'S REVIEW SOME CHALLENGES WHEN PLACING PERSONALLY OWNED VEHICLES ON THE BUSINESS AUTO POLICY



KEY TAKEAWAYS



22 MINUTES



**DOWNLOAD
HANDOUT**



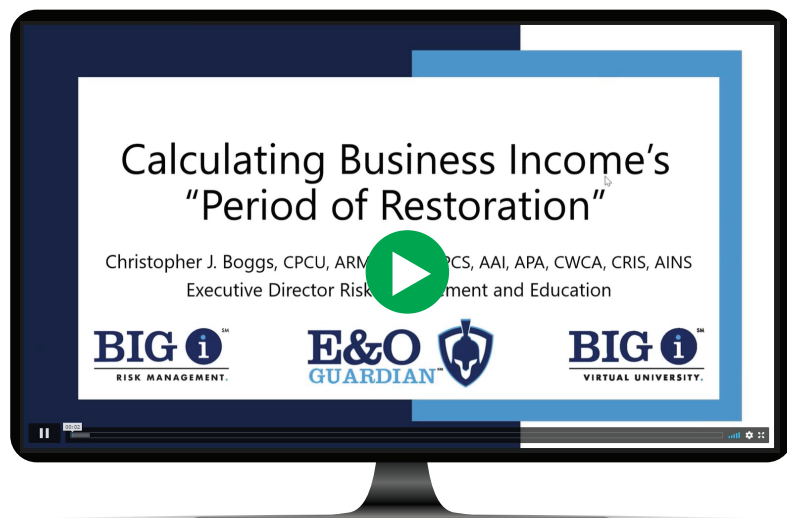
- ▶ Confirm ownership of every vehicle; never assume
- ▶ Review any formal lease agreement
- ▶ When a personal auto is leased back to the BAP, add CA 99 47
- ▶ Never add a vehicle to the BAP just because they ask
- ▶ When asked to add a personally owned auto to the business auto policy, ask key exposure questions.
 1. Who owns the vehicle?
 2. Why would the insured want to add a personally owned vehicle to the policy?
 - ▶ What is the employment relationship?

This can happen when banks won't allow the vehicle to be solely in the business name. Account for both individuals on the policy, or lease the auto in the corporation's name using the CA 9947
 - ▶ Desire to let the business pay for the premium. This happens frequently when young family members begin to drive, so they add it to the business auto side.

This is not legitimate and an improper use of the BAP.
- ▶ Ask these questions to ensure it's a legitimate request.
 - ▶ Is the vehicle owned by an employee? If most of the driving is personal use, that may not be legitimate (a super-majority of the use).
 - ▶ Is the vehicle owner the listed vehicle's only driver? The carrier should underwrite multiple drivers.
 - ▶ What are the employee's duties?
 - ▶ What is the percentage of business versus commercial use?
 - ▶ Is the employee closely related to any owner or executive officer?

This can be problematic with children of executives.
- ▶ Review the legitimacy of the request based on the facts of the situation.
- ▶ Review any formal lease agreement.
 1. CA 99 47
 2. Part A eliminates a claim denial related to ownership or title of the vehicle
 3. Part B states the employee who leases the scheduled auto to the named insured is included as a specific (not named) insured within the Who is An Insured definition on the policy.
 4. The lease should state who can and cannot use the vehicle.
 5. Without the attached CA 99 47, there's an employee-owned gap in the BAP. See IIA.1.B(2). The employee's personal auto policy would be primary.
 6. This applies to partnerships and LLCs.
- ▶ If leased from a traditional leasing entity, attach CA 20 01
- ▶ If owned/leased by someone other than the employee, attach the CA 99 16.

NOW LET'S DISCUSS CALCULATING BUSINESS INCOME COVERAGE'S PERIOD OF RESTORATION



KEY TAKEAWAYS



14 MINUTES



DOWNLOAD
HANDOUT



► Four period of restoration objectives

1. Time to rebuild or find and move into an alternative permanent location.
2. Find, purchase, install and have operation new/replacement machinery or equipment.
3. Replace and/or replenish stock (not finished stock time in a manufacturing operation).
4. Return as quickly as possible to the same level of "operational capability" existing just prior to the loss.

► Ten factors that can affect the period of restoration.

1. Time to adjust the direct loss.
2. The development and approval of building plans
3. The insured must find a contractor.
4. The insured must apply for building permits, which can take time to issue.
5. The contractor must arrange for the site preparation and clear the site of damaged property.
6. Time required to rebuild.
7. Time to restock.
8. Rehiring and hiring new employees.
9. Replacement of machinery and equipment.
10. Various ordinances and government officials may slow down the loss process.

► See visual timeline at 10:00; it's not always a linear process.

► Business income is time element coverage. Almost every aspect of BI income revolves around time.

NOW LET'S REVIEW TWO KEY CONCEPTS IN BUSINESS INCOME COVERAGE



KEY TAKEAWAYS



16 MINUTES



DOWNLOAD
HANDOUT



1. Business Income

- ▶ Net income (net profit or loss before income taxes) that would have been earned or incurred AND continuing normal operating expenses incurred, including payroll.
- ▶ The businessowners policy limits ordinary payroll to 60 days
- ▶ Looks at trend before the loss and what likely normal income would have been post loss.
- ▶ Insured may have increased expenses such as overtime. The insured decides who is necessary, not the insurer.
- ▶ What is net income?
 1. Net profit or loss before income taxes
 2. If the risk is a manufacturing risk, this amount includes the sales value of production (potential income of available goods not sold).
 3. Accountants will fill out the form differently because they define net income differently.

Continuing normal operating expenses

1. Normal operating expenditures that continue in whole or in part during the time operations are discontinued due to a direct covered property loss.

- ▶ Includes payroll unless altered/reduced by endorsement CP 15 10.
- ▶ Non-continuing operating expenses are not included within the definition of business income.
- ▶ You do not need to know which operating expenses will continue when developing the business income limit.
- ▶ Insured won't usually know which expenses will or will not continue, e.g., rent, mortgage, etc.

2. Period of Restoration

Time period beginning after direct physical loss or damage and ending on the earlier of

1. The date the property should be repaired, rebuilt, or replaced with reasonable speed and similar quality; or
 2. The date the insured resumes business at a new permanent location.
- ▶ Time period can be a claim sticking point when insured doesn't cooperate, or a loss could include fraud.)
 - ▶ CP 1556 can eliminate or reduce the time deductible of 72 hours to 24 hours or eliminate the hours.
 - ▶ The expiration of the policy does not end the period of restoration.
 - ▶ **Three key period of restoration requirements**
 1. Direct physical loss/damage to property at the insured's premises. An adjacent loss can cause a suspension of business operations by a covered cause of loss;
 2. Loss causes suspension of business operations; and
 3. Damage must arise from a covered cause of loss based on attached cause of loss form.
 - ▶ **Objectives of the period of restoration**
 1. Repair/rebuild insured structure or find an alternative permanent location.
 2. Locate, purchase, install and have operational machinery and stock.
 3. Replace or replenish stock.
 4. Return as quickly as possible to the same level of operational capability existing just prior to the loss.

ADDITIONAL BUSINESS INCOME LEARNING OPPORTUNITIES

If you'd like to dive deeper into business income policy concepts and learn more tips for selling and avoiding errors and omissions claims arising out of BI coverage, watch the following webinars.



🕒 14 MINUTES

📄 DOWNLOAD HANDOUT



Calculating Business Income Coinsurance and Coverage Limits

🕒 18 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 2 of 6

🕒 8 MINUTES

📄 DOWNLOAD HANDOUT



Two Key Non-Policy Business Income Concepts

🕒 8 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 3 of 6

🕒 25 MINUTES

📄 DOWNLOAD HANDOUT



Understanding Extended Business Income

🕒 9 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 4 of 6

🕒 15 MINUTES

📄 DOWNLOAD HANDOUT



Understanding Extra Expense Coverage

🕒 12 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 5 of 6

🕒 15 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 1 of 6

🕒 17 MINUTES

📄 DOWNLOAD HANDOUT



Conquering the Business Income Worksheet Session 6 of 6



We hope these videos will assist you in your transition into your new position. The Big "I" is always happy to help you in your educational efforts, as well as provide targeted support in your efforts to avoid errors and omissions claims.

Learn more about agency risk management at www.independentagent.com/EOGuardian.