

## **IS YOUR BUSINESS ADEQUATELY PROTECTED?**

by Linda Carter

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Insurance coverage considerations usually get the most attention after there is a loss. This is when retailers who thought they were covered find out they aren't or that the coverage they have is inadequate. "Must Have" insurance coverages for retailers are briefly described below. These insurance coverages should help keep you from "going-out-of-business" should disaster strike. If you are missing any of these vital coverages, call your insurance agent immediately.

### **PROPERTY INSURANCE - BUILDING & CONTENTS**

Building coverage applies to described structures and all permanent fixtures belonging to and constituting a part of the building. Air-conditioning systems and boilers constituting permanent parts of the building are also covered. You must also cover any improvements put in place by the landlord if you are responsible for replacing them.

Contents coverage applies to all contents and personal property of every description belonging to the insured and located in the described building. It also covers property sold but not yet delivered and property of others held by the insured, provided the insured is legally liable. Inventory should always be covered at replacement cost. Be certain that burglary coverage is also provided. Furniture, fixture, equipment and leasehold improvements should be covered at actual cash value, which is replacement cost less applicable depreciation.

Policies may provide fixed limits which you may set to cover some percentage of contents value. This is called co-insurance. An 80% co-insurance clause is the most common. This means, for example, that if your property is valued at \$200,000 and there is an 80% co-insurance clause, you must carry at least \$160,000 of insurance to fully recover a loss. Another type of policy is the reporting policy. Under this type of policy you must insure your stock for 100% of value but you pay premiums only on the actual end-of-month values. This amount is reported to the insurance company monthly and they simply apply the rate to the average values you report. This permits the retailer to select limits which are adequate to cover the highest level of inventory while paying premiums based on average inventory. Also look at seasonal peak coverage. Coverage is for a set amount. Seasonal peak is 20-25% above this amount. Be certain that the maximum coverage needed does not exceed the face amount of the policy plus the seasonal peak % and further that the period during which the seasonal peak coverage is necessary does not exceed the policy time limit.

### **BUSINESS INTERRUPTION**

Statistics show that more than 50% of the businesses hit by disaster severe enough to close them for any length of time never open again. Even though they had adequate property insurance, they simply didn't have the cash needed to cover the gap between disaster and doing business again. The answer to this problem is Business Interruption Insurance. The function of this type of coverage is to replace the gross earnings of a business during the period when damage to property or other insured hazards prevents this income from being earned. With this insurance the company will be able to continue all its fixed expenses, such as payroll. The insurance company will not indemnify costs which are abated, such as advertising or expenses which cease, such as utilities; but will add to the settlement those extra costs which were caused by the loss, such as an extra buying trip to purchase merchandise for re-opening. There are many options available on this insurance so it should be custom tailored to your individual needs.

## COMPREHENSIVE GENERAL LIABILITY

Retail stores are exposed to the threat of third party claims more continuously than any other business classification. The danger exists as long as there is a customer on the premises. Comprehensive General Liability insures against all declared hazards, plus unknown hazards arising out of retail store's building, premises and business operations. The limits of coverage must be the same as the underlying requirements on the Umbrella coverage so the best combination of limits should be chosen to provide the best cost value.

It is advisable to have this and any business automobile policy written by the same company to avoid duplication of coverage. Also, your lease should be reviewed to determine any liability limit requirements.

## UMBRELLA EXCESS LIABILITY

This coverage provides excess general liability limits and also protects the insured from the exclusions and gaps of the primary liability policy or policies. An Umbrella Liability policy comes into play when the limits of the primary insurance have been exhausted or when a claim develops that is not covered by the primary insurance. The coverage needed is usually \$1 or \$2 million and relates to the company's Net Worth.

The company owner should have a personal umbrella policy in addition to personal liability coverage. If possible (depends on state regulations) include owners personal umbrella on the company policy since it will be cheaper.

## AUTOMOBILE

If there are any company owned vehicles, auto coverage must be provided. The liability limits should be the same or nearly the same as provided in the Comprehensive General Liability policy. Be sure to cover uninsured motorists, hired and non-owned vehicles. Coverage must dovetail with the underlying limits of the Umbrella policy.

## GENERAL INSURANCE CONSIDERATIONS

A proper insurance plan should consider many things. Certainly the agency and company selected are important considerations. We strongly encourage retailers to seek assistance in their insurance program development from an independent risk management consultant rather than relying on an insurance agent.

The purpose of insurance is to provide indemnification for all or part of those risks to which the insured is unwilling to be exposed. Therefore, we advocate self-insuring all risks the maximum dollar amount of which can be reasonably determined and afforded.

As a final note, we recommend that insurance specifications be developed and sent to two or three agents for bid every 3 years so you can be assured of getting the most for your premium dollars. You wouldn't build a new store using the only bid you receive. Why should you buy insurance other than by competitive bid? Provide every bidder with exactly the same basic information and identical specifications so each bid will be for the same coverage on the same exposure. Make the final award on the basis of coverage, price and service. Service is equally as important as price. Buying insurance from agents based solely on their value as a store customer is a mistake. Spreading the insurance premium dollars over several agents is also a mistake.

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