

SUMMARY DESCRIPTION OF COVERAGES

INTRODUCTION

This Summary Description is provided to assist you in better understanding property/casualty insurance coverages, completing the Insurance Coverage Inventory Form, evaluating your loss exposures and establishing proper insurance values. It provides a brief description of the principal property/casualty exposures to loss. It does not encompass all available insurance coverages nor all risk exposures.

In reviewing your operations, should you have any questions regarding this Summary or any exposures to loss that are not addressed in this document, please call your Account Executive to discuss your questions in detail.

It is important to remember to contact your Account Executive when any significant change in your operations occurs. Any such change could affect your insurance coverages. Ideally, these changes should be discussed with your account executive *before* they occur so that any necessary changes to coverage can be implemented.

Also, you should contact your account executive or our Claims Department as soon as you become aware of potential claim situations. You have an obligation under your policies to provide this notification to your insurer as soon as practicable after a loss occurs. Failure to do so could jeopardize coverage.

Footnote: We have used the terms "you" and "your" throughout this document to mean the employer/organization.

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SECTION I - LIABILITY

1) WORKERS' COMPENSATION

Coverage

Workers' compensation insurance provides coverage for job-related injuries and illness your employees sustain in the course of their work on behalf of your organization. Statutory benefits are provided for the specified states of operation.

Under the employer's liability section of the policy, you are protected up to the limits of liability afforded should the employee elect not to take the benefits available to them under the applicable workers' compensation law but rather bring a claim against you alleging that it was your negligence that caused the injury.

Rating

The rating basis for workers' compensation is estimated annual payrolls by job classification, by state.

At the beginning of each policy year, you provide your best estimate of exposures for the coming period. Approximately sixty to ninety days after the expiration of each period, either a voluntary or physical audit is performed by the insurer to determine the actual payroll expenditures for that period. An additional or return premium is then generated.

As a result, you always pay based upon the actual exposures incurred. If there is a significant fluctuation in payrolls during the policy year, it is not necessary to perform a midterm adjustment to the policy, although such can be initiated, if you desire, to avoid a large additional premium at the end of the period.

Coverage in states not listed on the policy

If your operations extend into another state that is not currently listed on the policy, or if operations change to involve a new exposure not originally contemplated when the policy was issued, you should contact our office so that the state exposure can be properly classified and endorsed onto the policy.

Under this policy, coverage can be provided for all states, with certain exceptions. There are seven states/commonwealths which are monopolistic fund states. They are: Nevada, North Dakota, Ohio, Puerto Rico, Washington, West Virginia and Wyoming. In these states, coverage is available only through the state-run fund and must be applied for separately. Additionally, because of rate inadequacies or due to other regulatory issues, there are additional states where separate coverage may have to be arranged. These states include: Arkansas, Florida, Louisiana,

Maine, Massachusetts, Minnesota, New Jersey, New Mexico, Rhode Island, Texas, and Wisconsin. If you have operations in these states, you should contact our office and we will provide you with the necessary forms and information to apply for coverage.

Payroll Amounts to Include

The full estimated annual "remuneration" for all employees should be included in your estimates with the exception of payrolls for executive officers of the organization. Following is a listing of the limitations or *maximum* remuneration which should be reported for the officers of your organization.

Maryland	-	\$109,200
Virginia	-	\$ 26,000
D.C.	-	\$109,200

"Remuneration" includes money or substitutes for money and includes: wages or salaries; commissions; bonuses; pay for holidays, vacations or periods of sickness; the rental value of housing provided to employees; and payments for salary reduction, retirement or cafeteria plans which are made through deductions from the employee's gross pay.

"Remuneration" excludes: tips and other gratuities received by employees; expense reimbursement to employees; work uniform allowances; and employer-provided perquisites such as an automobile, incentive vacations and club memberships.

Regarding "**overtime**", the extra pay for overtime is excluded, provided your books and records are maintained to show overtime pay separately by employee and in summary by applicable workers' compensation classification.

2) COMMERCIAL GENERAL LIABILITY

Coverage

This coverage provides protection for claims brought against you by a third party alleging that they incurred bodily injury, personal injury or property damage that arose from your premises, your operations or your products or completed operations, if applicable.

Leases & Equipment Agreements - Additional Insureds

Often, lessors/landlords of premises will require in the lease agreement that the lessee/tenant fulfill and abide by certain insurance requirements. While these can vary substantially from lease to lease, we generally have found that more and more, lessors are requiring the lessee to include them (the lessor) as an additional insured under the lessee's commercial general liability policy. Further, many times, certain minimum limits of liability are required.

You should also note that lessors of equipment such as computers, copiers, phone systems, etc. often require in the equipment lease agreement that they also be included as additional insureds.

We have shown all current additional insureds included on your policy on the Insurance Coverage Inventory Form. We recommend that you review the applicable sections of your lease agreements and let us know of any additions, deletions or corrections required.

Rating Bases

Depending on the operations involved, the rating bases for commercial general liability can be payrolls, sales, cost, units, area or some other pre-determined basis. On the Insurance Coverage Inventory Form enclosed, we have delineated the classifications applicable to your policy and their respective rating bases.

If your policy is on an auditable basis, at the end of the policy year, the insurer will either send you a voluntary audit report or perform a physical audit to verify the exposure bases involved for that period. An additional or return premium will then be generated.

Changes in Operations

If there are any changes to your operations during the policy year -- such as a new location, new product, new service, etc. -- please contact us in advance to discuss the change. Depending on the specifics involved, it may necessitate a modification of coverage or addition of a new rating classification.

Fire Legal Liability

Most commercial general liability policies now contain fire legal liability coverage at a specified limit. This coverage, as well as the exposure it is intended to cover, is one of the most misunderstood liability exposures organizations face.

The exposure arises out of an exclusion found in virtually all commercial general liability policies which is called the "care, custody and control" exclusion. Simply stated, it says the liability policy will not provide coverage for damage to property in your "care, custody or control".

The most common exposure in this area arises from the lease of premises. Under a lease agreement, you contractually agree to lease (and generally occupy) the designated space. This space then comes under your care, custody and control.

Therefore, damage to this space caused by your negligence is not covered under your commercial general liability policy.

The principal exposure you face is a fire, caused by your negligence, which damages or destroys the space. The intent of fire legal liability coverage is to insure this exposure.

For example, assume that you occupy the second floor (10,000 square feet) in a four-story building. Assume that you have negligently overloaded the electrical system with your data processing and printing equipment and a fire occurs that destroys not only your floor but the rest of the building as well.

Most likely, the claims adjuster will determine that the space you occupied (the second floor) was in your care, custody and control and thus not covered under the commercial general liability policy. They will determine that the first, third and fourth floors were not in your care, custody and control and thus the damage to them would be covered under the premises/operations portion of your commercial general liability policy. Coverage for the damaged floor you occupied would be provided under the fire legal liability coverage.

To determine your exposure, you need to calculate the cost per square foot to construct the type of building you occupy and multiply this by the square footage of the space involved. This will approximate your maximum exposure to loss. For example, assuming a construction cost of \$50 per square foot, in the above example, the exposure would be \$500,000 ($\$50 \text{ p/sq.ft} \times 10,000 \text{ sq.ft.}$).

Two final notes on fire legal liability:

First, coverage is relatively inexpensive.

Second, working with your attorneys in the negotiation of your lease agreement with your landlord, you may be able to insert a mutual-waiver-of-subrogation clause whereby both parties (you and the landlord) agree to waive your insurance company's subrogation rights against the other party in the event of a covered loss. In essence, each party agrees that, to the extent they are made whole by their own insurance company for loss or damage to their own property, neither they nor their insurance company will pursue recovery from the other party. Of course, if insurance proceeds are not sufficient to cover the loss, action against the other party is allowed. On this point, we would recommend that you consult with your attorneys for their suggested wording.

Professional Liability Exclusion

Please keep in mind that the commercial general liability policy does not provide any type of professional liability or errors and omissions coverage. Coverage for claims alleging an error or omission on your part or a failure to provide the professional services contracted for must be insured, if desired, under a separate professional liability/errors and omissions policy. (See Page 10 for a discussion of professional liability.)

3) BUSINESS AUTOMOBILE

Owned Vehicles

Any owned vehicles currently scheduled under this policy are shown on the attached Vehicle Schedule together with applicable coverages afforded to each. Please carefully review this schedule, paying particular attention to the place of "garaging" and vehicle "use" - both of which have a significant impact on rating.

Owned Vehicle Physical Damage Coverage

Depending on the age of your vehicles, their actual cash value and the cost of coverage, you may desire to carry physical damage coverage on these vehicles.

The two basic coverages provided are "comprehensive" and "collision".

"Comprehensive" provides coverage for loss or damage to a covered vehicle except for loss due to collision with another object or the vehicle's overturn. Additionally, there are exclusions pertaining to: wear and tear, mechanical or electrical breakdown; blowouts, punctures or other road damage to tires.

"Collision" provides coverage for loss or damages to a covered vehicle caused by the vehicle's collision with another object or its overturn.

In the event of a loss, the insurer will pay subject to applicable deductibles, the lesser of:

- the actual cash value of the damaged or stolen property as of the time of the loss; or
- the cost of repairing or replacing the damaged or stolen property with other property of like kind and quality.

Additional Insureds & Loss Payees

If any of these vehicles are leased or financed and there is not a corresponding "additional insured" or "loss payee" shown on the Mortgagees, Additional Insureds & Loss Payees Schedule, then we would recommend that you review your lease agreements and/or loan records to determine what requirements may be set forth regarding your responsibility for including the lessor as additional insured and/or loss payee under the business automobile policy, or including the financing organization as a loss payee. Should any requirements exist, please provide us with a copy of that section of the document so that we can endorse the policy to bring you into compliance with the agreements.

Non-Owned & Hired Car Liability

If the insurance coverage inventory indicates "non-owned and hired car liability" as included, this policy responds to provide coverage for claims brought against you arising out of the use of non-owned and hired vehicles. Coverage is excess over any other valid and collectible insurance available.

Non-owned automobile liability claims involve claims brought against your organization arising out of the use of "non-owned" vehicles. A "non-owned" vehicle is just that - one not owned by your organization. Generally, this would involve an employee using their own personal vehicle on company business. This is a non-owned vehicle.

If an employee is on company business and is involved in an at-fault accident, most likely the employee will be sued since he/she was the negligent driver at the time of the accident and you (the employer) may also be sued - since at the time of the accident the employee was on company business and representing you and therefore it is alleged that you were responsible for his/her actions.

Keep in mind that this coverage protects the organization - not the employee. Employees would have to rely on their own personal auto insurance to protect them and to repair any damage to their vehicles.

To the extent that your employees do use their vehicles on company business, it is prudent to communicate with them, before an accident occurs, the fact that you are not responsible for damage to the employee's vehicle nor for protecting them from liability claims brought against them arising out of the use of their personal autos. Generally, most employers reimburse employees for mileage incurred when driving on company business. The purpose of this reimbursement is to cover the gas, oil, maintenance, insurance and wear and tear on the employees' vehicles. Keep in mind that an employee who drives 10,000 miles a year on company business and is reimbursed at a rate of \$.25 per mile will be paid \$2,500.

It is prudent to occasionally verify the motor vehicle records (MVR's) of employees, to verify the existence of their personal auto insurance and to recommend that they maintain certain minimum limits of liability.

Why? Assume that there is an "at fault" accident involving an employee who has an MVR that reflects one charge of "driving under the influence" (DUI), one

charge of reckless driving and 2 speeding tickets within the past three years. Assume further that this employee let his/her personal insurance lapse and has no coverage. Last, assume that you didn't know this. Will a jury be sympathetic to you or will they try to find a deep pocket to obtain remedy for the injuries and damages sustained by the plaintiff?

Hired-car liability provides protection, excess over any other valid and collectible insurance, for liability claims brought against the organization arising out of the use of hired vehicles.

This coverage would respond to provide protection for a claim brought against you arising out of an employee's rental of a car while traveling on company business. It does not provide protection for damage to the rental vehicle itself.

Hired Car Physical Damage Coverage

Coverage can be included for "physical damage coverage to hired vehicles". Coverage generally includes comprehensive coverage subject to a \$100 deductible, and collision coverage subject to a \$250 deductible. In selecting coverage, you establish a maximum limit per vehicle. Generally, coverage is written at a maximum limit of \$20,000 or \$30,000 per vehicle, unless the organization usually rents luxury cars.

The premium is determined based upon the estimated number of rental days involved and the cost of hire.

Drive Other Car Coverage

For owned vehicles, your policy provides protection for the "named insured" and anyone using the vehicle with the permission of the "named insured". Under commercial auto policies, the policy coverage follows the vehicle - not the driver. Under a personal auto policy, the insurance provided follows the driver rather than the vehicle.

A potential coverage gap can exist when you have an employee who is provided a company vehicle for business and personal use and that employee is not also covered under a personal auto policy.

In this case, the employee's only car is a company car. Therefore, they do not maintain a personal auto policy. If that employee drives another person's vehicle (i.e. borrows a friend's car, rents a car on vacation, etc.) he/she has no coverage under your business auto policy.

There are two available options to deal with this situation. First, the employee can purchase a personal non-ownership policy which can provide liability and physical damage coverages for non-owned vehicles. Second, you can endorse your business auto policy to provide what is commonly referred to as "drive other car coverage". This endorsement extends your policy to provide liability and physical damage coverage to that employee (and, if desired, their spouse and children) for claims involving the use of "other" vehicles - ones other than those you own.

In any event, the most important thing is to communicate with employees - before an accident occurs - the extent of coverage they have under the business auto policy and then agree on action, if any, that will be taken.

Garagekeepers Liability

If you own parking facilities where others park their vehicles, you have an exposure to garagekeepers liability, especially if a fee is charged and/or you provide parking attendants.

Garagekeepers liability covers physical damage to the vehicles of others while on or in your parking facilities. Coverage can be written on a legal liability basis, a direct primary basis or a direct excess basis.

Coverage is generally written at a limit based upon the maximum probable loss exposure. Deductibles of varying levels are applicable to the comprehensive and collision coverages provided.

4) UMBRELLA LIABILITY

Coverage

An umbrella liability policy provides a limit of liability over and above the liability limits afforded on scheduled underlying policies (generally, these include the employer's liability section of your workers' compensation policy, your commercial general liability policy and your business automobile policy).

Policies are written in incremental limits of \$1,000,000.

Rating Bases

The premium for the umbrella liability policy is determined principally by the exposures and premiums for the underlying policies.

5) EMPLOYEE BENEFIT LIABILITY

Coverage

With the complexity of today's employee benefit plans, errors do occur in the administration of these plans by employers. Errors such as a failure to properly enroll an employee, failure to properly advise employees of conversion privileges when they terminate and improper explanation of benefits are but a few examples of the type of claims that are covered under such a policy.

Rating Bases

This coverage is rated based upon the number of benefit plans you offer and the total number of employees covered by these plans.

6) FIDUCIARY LIABILITY

Coverage

While employee benefit liability provides protection for the organization from claims arising out of an error or omission in the administration of your employee benefit programs, fiduciary liability provides protection to the organization, designated plan fiduciaries and others while acting in a fiduciary capacity for claims brought against them alleging a "wrongful act" in the performance of their duties.

The Employee Retirement Income Security Act of 1974 (ERISA) places specific responsibilities on plan fiduciaries - not to act as a "prudent man" but to act as a "prudent expert". Further, ERISA states that fiduciaries have personal liability to plan participants.

Claims against fiduciaries can include allegations of mismanagement of plan assets, improper plan design, etc., all of which have the effect of causing plan participants to lose money.

Even if the plan is an "insured" plan where an insurance company is handling the administration of the plan and offering participants a host of investment selections that the participants then self-direct, there is a fiduciary liability exposure. Consider the case of the fiduciary who selected Executive Life Insurance Company (a now defunct insurer) as the insurer of choice for the handling of his/her company's retirement plan. Or consider the fiduciary who selected the Bank of New England (now defunct) to handle the administration and investments for his/her company plan. Last, consider the fiduciary who decides to undertake the actual investment decisions on behalf of all plan participants and makes a "bad call".

The examples can go on and on; suffice it to say that a very real exposure does exist. Fiduciary liability is intended to respond, subject to the policy conditions and exclusions, to claims brought against fiduciaries alleging a wrongful act in the performance of their duties.

Rating Bases

The premium for this coverage is determined based upon a host of underwriting factors relating to your welfare and benefit plans. A separate application is required that requests: total number of participants of each of the plans; plan assets (where applicable); types of plans offered; and method(s) of administration.

Civil Penalty Endorsement

The fiduciary liability policy can be amended to include this endorsement, which provides protection for civil penalties incurred resulting from enforcement of Section 501 (1) of the Employee Retirement Income Security Act of 1974 (ERISA).

7) PROFESSIONAL LIABILITY - ERRORS & OMISSIONS

Exposure

Over the years, it has been widely accepted that there is a professional liability or errors and omissions exposure inherent in certain "professions".

When one thinks of a professional liability exposure, one thinks of physicians, attorneys, certified public accountants, architects and engineers.

Our society has expanded the realm of professional liability and now every organization must examine its operations and the scope of its services to determine what professional liability exposure(s) may exist and then decide on the propriety of insuring that exposure.

Professional liability coverage is available for virtually every profession where an exposure exists. By way of example, consider the following partial listing of professions where exposures do exist: management consultants; EDP consultants; consulting engineers; consulting architects; teachers; counselors; ministers; morticians; employment agencies; travel agents; software developers; telephone answering services; public accountants; interior designers; construction managers; health care professionals other than physicians; hotlines; residential shelters; vocational training programs; advertising agencies; public relations firms; and real estate agents/brokers.

Most all commercial general liability policies will contain a "professional liability exclusion" when an exposure does exist. Further, keep in mind that the commercial general liability policy covers bodily injury, personal injury and property damage - not other "damages".

In many professional liability claims, there is no bodily injury, personal injury or property damage. What is being claimed is financial damage due to a failure of the "professional" to provide the services for which he/she was contracted.

For example, assume that you contracted with a consulting engineer to assist you in the design and development of a new process. You have contracted with this person for professional expertise upon which you rely in making decisions. Assume further that the professional advice was in error and, as a result of incorporating it into your process, the process fails and you lose a multi-million dollar contract. There was no bodily injury, personal injury or property damage - however, there certainly were financial damages you sustained.

Coverage

Most professional liability coverage forms are nonstandard - meaning there is no industry standard. Therefore, it is important to carefully review all terms and conditions of the policy to be certain you clearly understand what is covered and what is not.

The coverage form which is generally utilized is the "claims made" policy form.

Under a claims made policy form, the time that a claim is made is what triggers coverage. Coverage is activated by receipt and recording notice of a claim during the policy period by the insurance company. Coverage is provided for claims first made during the policy period, or consecutive policy periods, for incidents which occur after the retroactive date and prior to the termination of coverage.

The retroactive date is that date on which coverage begins. The retroactive date may be shown as:

- 1) the same date coverage was first placed in effect under a claims made policy form:
- 2) some other interim or mid-term date; or
- 3) the retroactive date may be shown as "NONE".

If "NONE" is shown, the policy would respond, subject to its terms and conditions, to claims made during the policy period - regardless of when the incident took place - as long as there is no prior knowledge of the incident/claim by the "Insured".

Most claims made policies provide for what is commonly referred to as an extended reporting period or tail coverage. This may be available only under certain terms and conditions.

The extended reporting period provides an additional period of time during which the insurance carrier will continue to accept claims. This extended reporting period is expressed as a finite period of time during which the insurance company will accept a claim made as having been made during the period for which coverage was in place, as long as the incident that gives rise to that claim occurred after the policy's retroactive date and prior to the date the policy was canceled/terminated. Generally, coverage provided by this extended reporting period endorsement must be requested in writing by you within thirty (30) days following cancellation/termination of the policy and you must also pay the premium within that same time period.

Rating

The rating for professional liability coverage can be rather complex and usually requires a rather lengthy application with specific details about qualifications, education, prior experience and the services provided. Often the application becomes part of the policy and the "insuring agreement" is often taken right from the description of operations you provide. Therefore, it is very important to be extremely thorough and detailed in responding to the questions asked.

8) DIRECTORS & OFFICERS LIABILITY

Directors and officers of corporations (both for-profit and not-for-profit) are exposed to claims brought against them by third parties alleging "damages" as a result of a "wrongful act" committed by the directors and officers in the performance of their duties on behalf of the corporation.

As with professional liability, most often the "damages" claimed are financial in nature - not bodily injury or property damage. These types of claims are not covered by the commercial general liability policy.

Most corporate bylaws provide for the ability, and sometimes the duty, of the corporation to indemnify their directors and officers for claims brought against them while they are acting in good faith on behalf of the corporation. The extent of the indemnification provided and provisions relating to "acting in good faith" can vary widely from corporation to corporation. You should first review your corporate bylaws with counsel to determine the extent of the indemnification provided.

The directors and officers liability policy serves two principal purposes. First, in those instances where the bylaws permit indemnification of the directors and officers by the corporation, the policy serves as a funding mechanism to reimburse the corporation for monies expended in accordance with the bylaws. Thus, the

policy provides assurance to the directors and officers that the corporation's financial wherewithal to fulfill the indemnification obligation is backed by an insurance policy.

Second, there may be instances where either the bylaws do not allow or provide for indemnification of the directors and officers, or the court with jurisdiction has disallowed indemnification by the corporation, ruling that it would be against public interest to allow it. In these situations, the policy will respond directly to the directors and officers.

Coverage

Coverage forms are nonstandard and must be carefully reviewed. Most all policies are issued on a claims made basis (see discussion of claims made policies under the professional liability section on page 11).

Rating

Policies are rated based upon a review of the corporate bylaws, financial statements and a short application. Publicly traded companies are deemed to have a much higher degree of exposure and visibility due to the number of stockholders generally involved. Not-for-profit organizations are underwritten differently; i.e., it is recognized by the underwriters that they are not in business to make profit but to provide services. Therefore, their financial statements are reviewed in a different manner.

SECTION II - PROPERTY

1) GENERAL INFORMATION

Before discussing coverages and exposures relating to your property, it is important to review and understand a few of the basic provisions of all property insurance policies.

Valuation Methods

Generally, property insurance policies contain one of two methods of valuation -- replacement cost or actual cash value. The Insurance Coverage Inventory Form reflects the valuation applicable to your property coverages. It is important to understand the basis for valuation in order to accurately establish your insurable values.

Replacement Cost Valuation

Predicated on the assumption that it would be the intent to repair or replace damaged property with "new" property of like kind and quality, most insureds elect replacement cost valuation.

Replacement cost is generally defined as:

"The cost to replace the lost or damaged property with other property: (1) of comparable material and quality, and (2) used for the same purpose."

You will note that under this method of valuation, there is no deduction for the physical depreciation of the property involved. This method of valuation provides "new for old" in the event of a loss.

Note that in order to receive replacement cost valuation in the event of a loss, the damaged property actually must be replaced. If it is not, valuation will revert to an actual cash value basis.

Actual Cash Value Valuation

The definition of "actual cash value" is the same as replacement cost with one exception. That is, the words "less depreciation" are added to the actual cash value definition.

Depreciation in this context has no relationship to your accounting depreciation methods. Rather, it deals with "physical or useful life depreciation".

For example, under insurance depreciation schedules, buildings generally "depreciate" at the rate of 1 - 2% per year, but rarely are depreciated more than 50%.

Certain business personal property, such as a desk chair, may be depreciated over a 7-year period. Therefore, for insurance valuation purposes, a 7-year-old chair that has a replacement cost of \$400 today may have an actual cash value of only a nominal amount - such as \$10 to \$25 dollars.

Coinsurance

Many property insurance policies contain a coinsurance requirement. The coinsurance percentage specified is usually 80%, 90% or 100%.

The coinsurance clause states that in order to obtain a reduced rate for carrying "insurance to value", you agree with the insurance company to carry a limit of insurance that accurately reflects at least the specified percentage of the value of the property involved. If you fail to do so, in the event of a partial loss, you could sustain a "coinsurance penalty" and recover less than the full amount of your loss.

For example, assume that you have property with a 100% replacement cost of \$100,000. Assume further that your policy contains an 80% coinsurance requirement and valuation under that policy is on a replacement-cost basis.

Under the terms of the coinsurance clause, you are required to carry an insurance limit equal to at least 80% of this amount, or \$80,000. Assume that you actually carried a \$40,000 coverage limit. The formula used to determine loss payments is the amount of insurance actually carried divided by the amount of insurance required by the coinsurance clause multiplied by the amount of the loss.

In the event of a \$50,000 loss, you would receive $\$40,000/\$80,000 \times \$50,000$ or $.5 \times \$50,000 = \$25,000$.

From this example, it is plain to see the importance of carrying "insurance to value".

Agreed-Amount Endorsement

If an agreed-amount endorsement is attached to your policy, the insurance company has "agreed" with you that the values you have presented accurately reflect the exposures involved and they have agreed to suspend the operation of the applicable coinsurance clause for the term of the policy.

Annually, you are required to complete a "statement of values" form where you enumerate the exposures involved and their associated values and attest to their accuracy - "to the best of your knowledge and belief". Failure to file required statements of values with the insurer generally results in elimination of the agreed-amount endorsement and activation of the coinsurance requirement.

How to establish building values

The best method of establishing your building value is to enlist the services of a certified property appraiser to perform a specific valuation for insurance purposes. Once this appraisal is completed, it can be updated annually based upon local inflationary cost indexes.

A second method is to use the square footage formula whereby, based upon the location of your building, its construction and total area, a rate per square foot is applied to estimate an insurance value. Some insurance companies publish valuation "guides" to assist in this effort. Also, construction firms can be used to obtain this valuation estimate.

How to establish business personal property values

As with buildings, the best method to establish an accurate value is a certified appraisal.

In lieu of an appraisal, the best method is to begin with your capitalization schedule, which reflects the purchase price, date, and description of all capitalized property. From this, you can update all values to current levels for insurance purposes by individually checking current market cost.

For property that has a value under your capitalization level, an educated guess as to the amount of business personal property per employee or per 100 square feet can be used to capture an adequate value.

Your duty to prove your loss

Keep in mind that, in the event of a loss, the burden of proof is on you - the insured. While we will assist you in the event of a loss to "prove" your claim to the insurance company, this can be a very difficult task at times, particularly when there is no detailed inventory available.

Maintaining "off premises" a detailed inventory of property to assist in the establishment of values in the event of a loss is of immeasurable help. Photos, videotapes, architect drawings - anything that will help establish the existence of damaged property and its value.

Coverage

There are three principal forms utilized today for property coverages.

The first and most commonly used form is called the "**special**" form. It states that the policy will insure against all risks of direct physical loss, except those specifically excluded. In other words, if it isn't excluded, it's covered.

"**Broad form**" is the second most often used form. Rather than insuring against "all risks", the form provides a listing of perils that are covered, subject to the other policy terms and conditions.

Last, "**named perils**" coverage is available. The basic named perils form insures only against damage to or destruction of real and personal property caused by one of the following perils: fire, lightning, explosion, riot, damage caused by vehicles, smoke, hail, damage caused by aircraft, windstorm, vandalism and malicious mischief.

In addition to these three principal coverage forms, there is a specialized property coverage available called "**Difference in Conditions**" insurance or **DIC**. Before

the advent of today's broadly written "broad form" and "special" coverage, DIC policies were the preferred methods of broadening the standard fire insurance policy to cover more risks of loss. Today, DIC policies are principally used to cover perils such as flood and other specified water damage, earthquake and other defined perils. DIC policies generally contain large deductibles and are meant to provide catastrophic protection.

1A) BUILDINGS (REAL PROPERTY)

What is a building? A building, for insurance purposes, is defined as the building or structure itself plus any completed additions and includes permanently installed fixtures, machinery and equipment.

For insurance purposes, "building" does not include the cost of land, foundations, footings, excavation, grading, backfilling or underground pipes, flues or drains. The theory is that in the event of damage to the building, these items would not be damaged or destroyed and would be able to be used for reconstruction purposes.

1B) BUILDING LAWS

In addition to direct damage to your building, you may also sustain a loss due to contingent liability from the operation of building laws, demolition costs you incur and the increased cost of construction due to building codes.

All of these are insurable under buildings laws coverage.

Contingent liability from the operation of building laws reimburses you for the cost of replacing the **undamaged** portions of the building to comply with building, zoning or land use laws. For example, assume your building is 60% destroyed by fire and that the local ordinances state that any structure damaged more than 50% cannot be repaired but must be rebuilt. In this case, the undamaged portion of the building must be demolished and then the entire building rebuilt. Your standard property policy will not pay to rebuild the undamaged portion of the structure because it was not damaged by the fire. This contingent liability coverage insures that exposure.

Demolition cost coverage pays for the cost of demolishing the undamaged portion of the building, including debris removal, as required by the enforcement of any building, zoning or land use law. To carry forward the above example, it would pay for the demolition and debris removal cost of the 40% undamaged portion of the building. The standard property insurance policy would not.

Increased cost of construction coverage reimburses you for the increased cost of construction required by the enforcement of any building, zoning or land-use law. For example, assume your current building is not sprinklered, not fully handicapped-accessible and does not contain an elevator. Assume further that current building codes require "like" buildings being constructed today to be fully sprinklered, handicapped-accessible and contain an elevator. All of these would be "increased costs of construction".

1C) CONTENTS (BUSINESS PERSONAL PROPERTY)

Contents means your business personal property while located in or on the building or in the open or in a vehicle within 100 feet of the premises.

It includes: your furniture and fixtures; machinery and equipment (not permanently installed in the building); stock; all other business personal property owned by you and used in your business; your use interest as a tenant in improvements and betterments; leased personal property that you have a contractual responsibility to insure; and business personal property of others for which you are responsible, but only for your financial interest in that property.

2) BUSINESS INTERRUPTION

Business interruption coverage can be written under a number of different coverage forms. Its purpose is to provide coverage for the loss of earnings and/or extra expenses incurred by a business following damage to or destruction of its building or personal property.

For most retail and wholesale businesses, one of the principal exposures is the potential loss of earnings should their premises be damaged or destroyed. These businesses generally rely heavily on their physical plant and equipment to derive income and can not easily set up temporary operation at another location until their damaged premises are rebuilt. This is particularly true if the time period for construction/repair is limited - e.g., 3 to 6 months.

Business income, for insurance purposes, is generally defined as:

"net income (net profit or loss before income tax) that would have been earned or incurred and continuing normal expenses incurred, including payroll."

For service businesses or those who do not heavily rely on fixed physical plant and equipment, the principal exposure tends to be extra expense. Extra expense is defined as:

"the necessary expenses you incur during the 'period of restoration' that you would not have incurred if there had been no direct physical loss or damage to the property."

Extra expenses include the cost differential to rent/lease temporary facilities, overtime cost to employees, rental of furniture, fixtures and equipment, rental of temporary phone service, increased communication costs, etc.

Some business interruption policies are written subject to a coinsurance requirement (see Page: 14). Some provide coverage, with no dollar limit stated but rather provide coverage on an "actual loss sustained" basis for twelve (12) calendar months following the date of the loss. At times, extra expense coverage

may be subject to either a monthly percentage or dollar amount recovery limitation.

Your insurance coverage inventory will reflect the type of coverage afforded and its principal terms and conditions.

As a final note, for organizations that hold annual conventions or meetings, another type of business interruption exposure may be involved. If these conventions or meetings represent a major source of income, then consideration should be given to "convention cancellation insurance". This non-standard coverage can be written to cover potential loss of income resulting from the cancellation of the convention or meeting due to damage or destruction of the premises where the convention or meeting was to take place; due to adverse weather conditions or other conditions such as "Legionnaire's disease".

Contingent Business Interruption

If your operations are heavily reliant on those of another, then you may be facing a potential contingent business interruption loss.

For example, assume that you obtain a "product" from another company to use in your operations. Assume further that this company is the sole source for this product and that they only have one location capable of fulfilling your needs. Should their facility be damaged or destroyed, your inability to obtain their "product" would have an adverse effect on your operations and could cause you to lose income, incur extra expenses or both. This is a contingent business interruption exposure which can be insured.

"Product" does not necessarily mean a specific product or part. It can also mean a service to you or a source of revenue for you.

Assume that you provide cleaning services to a large manufacturing plant. If that plant is destroyed by a fire, most likely your contract would be terminated until such time as the facility was rebuilt. In this case, you would suffer a loss of income.

All of your operations should be reviewed to determine any dependencies that exist. They should be evaluated in terms of the severity of adverse impact on your operations.

3) ELECTRONIC DATA PROCESSING (EDP)

While your computer equipment can be included with your other business personal property for insurance purposes, it is generally recommended that separate EDP coverage be secured to address the unique exposures the equipment presents.

Valuation under an EDP policy for "hardware," which consists of the "computers" and peripheral equipment, is most often on a replacement cost basis. Unlike other business personal property, the "replacement cost" of EDP equipment actually has been decreasing rather than increasing due to technological advances and functional obsolescence of some older equipment. Therefore, it is very important that you carefully review the values of your equipment to be certain you are not carrying a higher value than necessary.

For example, a PC that cost \$5,000 seven years ago can probably be replaced with new equipment providing the same functions for under \$1,500 today. Without carefully reviewing values on an annual basis, it would be very easy to "over-insure" if one uses unadjusted purchase prices as a cost basis.

Under the EDP policy, a separate limit is included for EDP "software". Software means data processing media made up of all forms of converted readable data, programs and instruction materials, including the material on which the data is recorded, such as tapes and disks.

We strongly recommend that for **ALL** EDP equipment, you establish a regular procedure for backup of software and removal of the duplicate copies from the premises. This is truly a case where the best "insurance" is a complete, recent backup - not an insurance policy.

4) VALUABLE PAPERS & RECORDS

This provides coverage for the cost of reconstructing your valuable papers and records. Generally, this cost involves your employees' man-hours expended to duplicate or replace destroyed records.

Valuable papers and records can include, but are not limited to: accounting records, personnel records, contracts, agreements, drawings, abstracts, books, workpapers, business files, customer records, etc.

The standard property policy covers only the blank cost of the file and the paper in the file. It does not pay for the cost associated with reconstructing the damaged file. Valuable papers and records insurance does.

In order to minimize this loss exposure, we recommend that duplicate copies of critical business records be made and kept off premises. Consideration should also be given to microfilm, microfiche or scanning documents into a computer and maintaining a current backup library off premises.

5) PROPERTY FLOATERS

As the name implies, a property floater is designed to cover business personal property/equipment that "floats" - that is, it does not remain at one location on a permanent basis.

Examples of types of property contemplated under various types of floaters include: medical equipment, tools, repair equipment, fine arts, laptop computers, audiovisual equipment, mobile equipment and camera equipment.

6) ACCOUNTS RECEIVABLE

This coverage provides reimbursement for receivables you are unable to collect because of damage to or destruction of your accounts-receivable records. The presumption is that if your records are destroyed, you will be unable to substantiate monies due you, customers will not pay, and you will sustain a loss.

Due to the high degree of automation employed by most organizations for accounts-receivable purposes, this exposure can be minimized substantially by performing regular backups of accounts-receivable records and maintaining this duplicate copy off premises.

To the extent duplication of records is not possible or practical, accounts-receivable coverage may be indicated.

7) TRANSIT - OFF PREMISES PROPERTY

If you have goods and materials which are transported either to or from your premises, you may have a transit exposure that should be specifically addressed. Likewise, if you have property that may be at premises other than those scheduled on your property insurance policy, you may have an off-premises exposure.

Transit Coverage

Do you ship any good or materials? Are they shipped on your vehicles, common carriers, overnight services, chartered or commercial air? Are they shipped F.O.B. (free-on-board) point of origin or point of destination? Do employees have company property they take away from the premises? What is the maximum exposure to loss you face from a transit loss? For any property being shipped/transported, are you clear on who is responsible for it in the event of a loss?

These questions and more are the type asked to determine the extent of your transit exposure and to determine both an adequate limit and a proper rating basis for the policy premium.

Off-Premises Coverage

Do you maintain any property away from your premises? Do employees ever attend conventions or seminars and take company property with them? Do you have display booths? Do you have a supply of brochures, stationary or envelopes at your printer's office? Do you have property in storage anywhere?

If any of the answers to the above questions are "yes", then the next question is: "Do you know who is responsible for the property and who will pay for any damage it sustains?"

Off-premises coverage extends your other property coverage to cover such an exposure.

8) BOILER AND MACHINERY - EQUIPMENT

The term "boiler and machinery" is really a carryover in terminology from prior years when boilers were the primary heating source for buildings. This coverage should be called a building equipment and machinery policy.

All buildings have some type of heating system. This may be a boiler, a heat pump or some other type of heating unit. Likewise, most buildings have air conditioning systems that range from the heat pump type to large commercial units. Most have hot water heaters, electric switchboards, electric panels, etc. Depending on the nature of the business, various types of electric motors, pneumatic drives, pressure vessels, etc. may also be involved.

Building insurance policies cover all of these items which are "attached to and a permanent part of the realty" for the perils insured under those policies. However, they generally exclude damage caused by explosion, unless fire ensues, and then they will cover only the amount of the fire damage - not the explosion damage.

Further, building insurance policies do not cover damage to the equipment itself caused by mechanical failure or breakdown of the equipment. A boiler and machinery policy will.

Coverage can be written to cover only specific equipment or virtually all major equipment. For larger exposures, the insurance company provides inspection service on major equipment items and can often spot conditions that are likely to cause damage before it occurs. This can be an invaluable service.

SECTION III - CRIME

1) COMMERCIAL BLANKET BOND - EMPLOYEE DISHONESTY

Coverage

The commercial blanket bond is the most common bond form used to provide protection for the insured (employer) for losses it sustains due to the dishonest acts of employees. It covers loss of money, securities or other property. The loss must be attributable to the dishonest or fraudulent acts of an employee acting alone or employees acting in collusion with one another.

Rating

Coverage is rated based upon answers to questions regarding financial controls that are in effect for the organization. Such questions include:

- Is an independent CPA employed to prepare financial statements?
- Are all premises audited?
- Is inventory audited?
- Is countersignature of checks required?
 - Are bank accounts reconciled by someone not authorized to deposit or withdraw therefrom?
 - How many employees, as a regular part of their duties, handle or have custody of money or securities?

ERISA Rider

The Employee Retirement Income Security Act of 1974 (ERISA) requires that fiduciaries of pension, profit-sharing and retirement plans be bonded in an amount equal to at least 10% of the asset value of the plan (up to a maximum required bond limit of \$500,000). The ERISA rider amends the definition of "employee" under the bond to include anyone acting in a fiduciary capacity with respect to covered plans.

Computer Fraud Endorsement

This endorsement extends coverage under the bond to include losses due to computer fraud, other than by your employees. "Computer fraud" means "theft" of property following and directly relating to the use of any computer to fraudulently cause a transfer of that property from inside the "premises" or "banking premises" to a person outside those premises or to a place outside those premises.

More and more, businesses are effecting transfers from computers in their offices. The degree of control on such transfers can, at times, be much less than that involved with hard document transfers.

Wire transfers have become so common that banks routinely accept transfers with very limited security measures - thus, control is very difficult.

The underwriting of this coverage delves into the volume of transfers made on an annual basis and the controls in place.

2) MONEY & SECURITIES

Coverage

Most property insurance policies place severe limits on recovery of loss of money and securities.

If your organization has a significant exposure in this area, separate money and securities coverage may be indicated.

Coverage can be afforded for loss of money and securities due to burglary, robbery or theft. Two separate limits are provided, one for loss of money and securities occurring "inside the premises" and another for loss occurring "outside the premises" while in the custody of a "messenger" or armored car company. "Messenger" includes employees who often are the ones carrying money for bank deposit purposes.

Rating Bases

The premium for coverage is dependent on the exposures involved (i.e., the maximum amount of money and securities on hand at any one time) and the control in place (i.e., safes, alarms systems, use of armored car companies, etc.).

3) DEPOSITOR'S FORGERY

This coverage is usually provided as an endorsement to the Commercial Blanket Bond.

It provides protection for losses you sustain due to the forgery of checks and other instruments issued by your organization due to the acts of third parties (non-employees).

While it is generally true that banks are responsible for accepting forged instruments, due to the low cost of this coverage, many times it is included with the commercial blanket bond so as to allow you (the insured) to file any claim with your insurer, receive reimbursement of your loss from them, and then allow them to pursue recovery from the bank(s) involved.

PARTIAL LIST OF OTHER RISK EXPOSURES

The following list represents exposures to loss that may be faced by your organization and for which no coverage or only limited coverage is currently in effect. For some of the risk exposures listed, coverage may not be available in the

marketplace. If you would like to discuss any of these in more detail, please contact your account executive.

Liability Exposures

- Aircraft Liability (Owned)
- Aircraft Liability (Non-Owned)
- Assault
- Blasting
- Certain Contractually Assumed Liability
- Collapse
- Coverage Outside the United States, Its Territories and Possessions, or Canada
- Damage to Underground Structures or Utilities Caused by Mechanical Digging
- Discrimination and Other Employment Related Claims
- Environmental Impairment Liability (Pollution)
- Explosion
- Injunctive Relief
- Liability of Employees When Using Their Personal Vehicle on Company Business
- Liquor Liability
- Mental Anguish/Injury
- Nuclear Energy Liability
- Pollution Liability
- Products Guarantee
- Products Recall
- Property of Others in Your Care, Custody and Control
- Publisher's Liability
- Punitive Damages
- Volunteers as Additional Insureds
- Watercraft Liability (Owned)
- Watercraft Liability (Non-Owned) Over 51 Ft.

Property Exposures

- Bailee's Coverage
- Certain Water Damages
- Collapse
- Consequential Damages or Loss
- Earthquake

- Fine Arts
- Flood
- Installation Floater
- Mobile Transmitting and Receiving Equipment
- Nuclear Radiation
- Plate Glass (Specific)
- Pollution Damage
- Sign
- Transportation
- Unexplained or Mysterious Disappearance

Miscellaneous Exposures

- Credit Insurance
- Extended Period of Indemnity -- Business Interruption
- Kidnap/Ransom
- Lease Default Insurance
- Leasehold Interest -- Favorable Lease
- Leasehold Interest -- Improvements and Betterments
- Power Failure
- Products Extortion
- Unauthorized Computer Access
- War Risk