

## INSURANCE LIMITS



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Don't refinance your business to cover the top end of your insurance claim – only pay your deductible

### **BY GERRY CORRIGAL, FCIP, CIM, CCIB**

Your insurance limits are the most important item on your business insurance policy. There isn't anything I run into more as an insurance broker is undervaluation of insurance limits and particular business interruption.

I want to pass on some information and provide you with some points regarding your insurance limits.

**1.** For those of you that own your buildings, make sure you have a replacement cost building evaluation completed. Construction costs have escalated over the last few years. It would be best if you had a qualified appraiser do a report, however, your insurance broker can do reconstruction guide through Marshall Swift and give you an idea of what limit you may need to carry. This is not an appraisal, only a cost guide.

Also, keep in mind that in the event of a major loss, such as a fire, you may be faced with by law issues and debris removal and you need to make sure your current commercial insurance policies and limits will cover those exposures.

**2.** Equipment and stock values should be reviewed to ensure that the limits chosen are adequate to replace the fixtures and equipment at today's costs, and repurchase your inventory in the event a major loss should occur. If you are a tenant, make sure you check your lease to determine if tenant's improvements need to be included in your policy limits.

**3.** One of the most key areas of your insurance is your business interruption coverage form and limit. In my 30 years or so as a broker, this is the area that I see the most danger in the event of a total loss. The first thing you should have is a profits form as this will ensure that your insurance continues to pay even after you have reopened. If you have been closed for 6 months, your customers have had to go somewhere else, while you were down. The profits form will cover you until your sales are back to normal. The danger with this form is that insurer's put 100% insurance to value clause or what we call in the industry --- the coinsurance clause. It is sometimes extremely difficult to predict 2 years ahead what your business numbers might be. You may have a plan and goals and an idea, but not easy to be accurate. If you are not accurate at the time of loss and you are only 80% insured, the insurer will only pay 80 cents on the dollar of business interruption loss. This can be extremely expensive if the proper limit is not purchased. Statistics have shown that there have been a number of businesses over the years that have had major fires and have been unable to reopen. The number one reason is underinsured limits. To combat this problem, when I designed an insurance program with our carriers, I made sure that they included all property on a blanket basis and went up to the next half a million increment to make sure we had a buffer for inflationary figures. For example if the building, stock and equipment were valued at 1.1 million, we would charge for that limit, but raise the total limit on all property to 1,5 million. With regard to business interruptions, we take the limit off and protect our clients on their actual loss at the time, therefore no insurance to value clause or coinsurance. The last thing I want is a business client having to refinance the top end of their insurance claim after a total loss. The deductible or self insured retention is what you expect to pay and that should be your only cost. For further information, or a complete analysis of your insurance, please do not hesitate to contact my office.