



THE EASE OF BUSINESS
STANDARD UNDERWRITERS
DOING BUSINESS
NETWORK

Specialized Coverage for Child Care Needs



SIU offers specialized insurance protection for **child care target markets**, including family, drop-in, group, latch key, and 24-hour child care centers. Coverage options are **uniquely designed for child care markets**.

Acceptable:

- Must be licensed, if required by state
- Children being cared for must be under age of 13

Target Market:

- Family child care centers
- Drop-in centers
- Group child care centers
- Latch key operations
- 24 hour child care centers

Child Care Specific Guidelines:

- Less than 35,000 square feet in building area
- Less than \$6,000,000 in annual sales
- Limits less than \$2M occurrence and \$4M aggregate
- Less than 1 liability loss in past 3 years
- Must have procedures for:
 - Dispensing medication
 - Handling emergencies/illnesses
 - Discipline & abuse issues

Family Child Care Centers:

- Abuse & molestation and professional coverage unavailable if overnight stays are permitted
- Dogs must be separated from children
- Dogs must be acceptable breed, and/or be a dog without vicious tendencies

Group Child Care Centers:

- No dogs on premises
- If overnight stays are allowed:
 - Building must be locked after 7 pm
 - At least two staff members are required to be awake all night
- Maximum abuse & molestation limit of \$100K/\$200K if:
 - Open for more than 13 hours
 - Overnight stays are allowed

Product Highlights:

- Professional liability coverage
- Admitted product in most states
- Abuse & molestation sub-limits on most risks
- Equipment breakdown coverage
- No liability deductible
- Medical payments coverage included

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How to insure Day Care Centers

This course follows Jeremiah as he prepares to call on Better Than Home Day Care Center. Jeremiah is a friend of the administrator and she asked him to review her insurance program. Jeremiah is interested for two reasons. He would like the business but he also would like to learn more about the center that his son attends.

DAY CARE-CHILDREN

Category: Service

SIC CODE: 8351 Child Day Care Services

NAICS CODE: 624410 Child Day Care Services

Suggested ISO General Liability Codes: 41715, 41716

Suggested Workers Compensation Codes: 8869

Minimum recommended coverage:

Business Personal Property, Employee Dishonesty, Accounts Receivable, Computers, Valuable Papers and Records, General Liability, Employee Benefits Liability, Umbrella Liability, Business Auto Liability and Physical Damage, Hired and Nonownership Auto Liability, Workers Compensation

Other coverages to consider:

Building, Business Income and Extra Expense, Earthquake, Flood, Leasehold Interest, Real Estate Legal Liability, Computer Fraud, Forgery, Money and Securities, Abuse and Molestation Liability, Cyber liability, Employment-related Practices Liability, Stop Gap Liability

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Risk Overview – a description of a particular risk and its potential exposures

Description of operations:

Day care centers provide care to babies and children while their parents are working. Some offer part-time drop-in care while parents are exercising, shopping, or doing other activities. Others offer before-school or after-school care for older children. Services include at least one meal a day, snacks, activities, naps, indoor and outdoor play areas, and various learning opportunities. They may take students on field trips. These facilities are generally open five days a week but do not offer overnight stays. Prescribed medication can be administered, but most day care centers do not have staff nurses. In-home day care providers are usually written on homeowners policies. Operations are generally subject to state licensing, although some states exempt those serving a small number of children or those run by religious institutions. The license issued establishes the number and ages of children who can be cared for, as well as the adult to child ratio.

Property exposures

include an office, kitchen, classrooms, and outdoor play areas. Ignition sources include electrical wiring, stoves for cooking, and heating and air conditioning equipment. All wiring must be well maintained and up to code. Overriding circuit breakers and fuse boxes should not be allowed. The high volume of paper, craft supplies, toys and other items contribute to the spread of fire. Wood and/or plastic furnishings increase the fire load. Most equipment is susceptible to and easily damaged by fire. While food preparation is generally limited to stovetop or microwave cooking, any cooking increases the fire loss potential.

Crime exposures

are primarily from employee dishonesty. Hazards increase without proper background checks. All job duties, such as ordering, billing, and disbursing, should be separate and reconciled on a regular basis. Receipts should be issued for cash payments received from parents. Bank deposits should be made on a timely basis to limit the buildup of cash on the premises. Audits should be performed at least annually.

Inland marine exposure

is from accounts receivables if the center offers credit, computers, and valuable papers and records for students' records. Duplicates of all data should be made and stored off premises.

Premises liability exposures

are extremely high due to the ongoing presence of young children. To prevent slips, trips, or falls, all areas must be well maintained with floor covering in good condition. The number of exits must be sufficient and well-marked, with backup lighting in case of power failure. Parking lots and sidewalks need to be in good repair with snow and ice removed, and generally level and free of exposure to slips and falls. The adult/child ratio should be low enough to permit adequate supervision. Evacuation drills should be conducted regularly. Procedures should be posted that address all emergencies,

with instructors and aides trained in their use. References for all employees and volunteers must be verified, including criminal background checks. Access to the building must be limited during operating hours to prevent kidnapping and to keep children from wandering away. The procedures in place for delivery and pickup or release of children to adults must be followed carefully. Playground equipment must be well maintained to prevent injuries. Children learn by touching and sharing, which increases the spread of communicable diseases to others. Immunizations for each child should be required, along with emergency medical contact information. Written policies must be established that address when a child is too ill to attend and when the facility will contact parents or medical emergency providers in case of illness or an accident.

Abuse and molestation exposures

must be considered when employees supervise children. The abuser is never covered under the center's policy. While there is some coverage for the facility where the abuse takes place, it is very limited. More comprehensive coverage should be purchased from specialized markets. The facility is responsible for taking all possible care to protect students from predatory adults and older students through background checks, monitoring, supervision, and by reporting all allegations of abuse to the proper authorities. The more vulnerable the potential victim, the more vigilant the facility must be.

Automobile liability exposures

are very high if the facility transports children to and from their homes or to off-premises activities. All drivers must have the appropriate license for the type of vehicle used to transport children and have acceptable MVRs. Car seats must be used as required by state law. Appropriate supervision should be provided when multiple children are transported. All vehicles must be properly maintained and maintenance records kept at a central location.

Workers compensation exposures

are high from hernias, back sprains, and strains from lifting, slips and falls, and exposure to communicable diseases. All employees should have up-to-date immunizations to prevent the spread of communicable diseases. Children can become unruly and injure employees by biting, hitting, kicking, and pulling hair or earrings. Employees should be trained in how to deal with these students and have access to emergency numbers in case of problems. Unauthorized visitors can pose a threat to employees as well as children.

QUIZ: RISK OVERVIEW

Lisa Phelps started Better Than Home Day Care Center eight years ago. She started small and initially specialized in caring only for babies. As they grew, so did her business and the center now cares for babies, toddlers and preschoolers. It also provides after school care for older children.

Lisa is the owner and administrator. There are four full-time employees in the baby room and eight part-time aids. There are three full-time employees with the toddlers and six part time aids. The two preschool teachers are assisted by four part-time aids. Two part-time employees direct the before and after school programs.

Lisa plans to expand her program to include an evening meal for all participants. She will add a cook top and grill for broiling in order to serve the older children more interesting food. What will this do to her property exposure?

- a. It will increase the loss potential
- b. It will have no impact
- c. It will decrease the loss potential
- d. It depends on the loss prevention measures she takes

A teacher from another preschool has applied to work at Better Than Home Day Care Center. She is well known in the community and Lisa would like to hire her. What should Lisa do before she hires this teacher?

- a. Call the other preschool and ask for its recommendation
- b. Nothing
- c. Request a criminal background check
- d. Whatever the minimum standards require in order for her to keep her license

If abuse or molestation occurs, what party does insurance never cover?

- a. The injured party
- b. The day care center

- c. The perpetrator
- d. The injured party's parents

Which of the following must be in place in order to protect the children?

- a. Restricted access into the building
- b. Procedures for release of children
- c. Well maintained playground equipment
- d. All of the above

What is a very important preventative measure for the health and safety of all employees?

- a. Required immunizations
- b. Police protection
- c. Employee benefits liability coverage
- d. Water fountains

Now that he has some basic knowledge of the industry, Jeremiah wants to determine the types of questions he should ask during his meeting. He is familiar with ACORD forms but wants something more detailed that applies specifically to day care centers. He selects the questionnaire.

Jeremiah chooses the minimum recommended coverages from the narrative and builds the questionnaire. He reviews each section carefully to be certain he is comfortable with the questions he plans to ask.

GENERAL INFORMATION

Account: _____

Account number: _____

Agency: _____

Agency number: _____

Producer: _____

Producer number: _____

Legal business name(s)

Mailing address:

WHY?

The correct legal business name is needed since policy conditions provide for payment only for the financial interest of the insured shown. If the named insured is incorrect, payment could be denied.

Type of entity:

- Individual Corporation Sub-S Corp. Partnership
- Joint Venture Not-for-profit Limited Liability Company

SIC Code(s): _____

NAICS Code(s): _____

Federal ID Number: _____

When did the applicant start business operations? _____

WHY?

The type of entity is used to determine who is an insured in the various liability coverages. If there are multiple named insureds, there can be multiple types of entities.

When did the present management assume control? _____

How many years' experience does the owner have in this type of business? _____

How many years' experience does the manager have in this type of business? _____

Has the applicant ever been involved in a bankruptcy procedure? ___ Yes ___ No

If yes, explain including the type of bankruptcy, the filing date, and the resolution.

Names of subsidiary companies or joint ventures that are not part of this application:

WHY?

Bankruptcy is a serious concern for an underwriter because of the disruption it brings to an operation and the moral and morale hazards that can accompany it. If an applicant has a prior bankruptcy it is important to provide an explanation of how it occurred and what the applicant is doing differently to prevent another one.

An insurance agent, like a risk manager, must identify potential gaps in coverage. A customer may be making assumptions about coverage for its various joint ventures and/or subsidiaries. Identifying these early could prevent potential gaps in coverage. It may open a dialogue on the topics and allow the customer to decide on whether to purchase coverage for its joint ventures and/or subsidiaries.

Important People

Name	Phone Number
------	--------------

Owner/Principal	
-----------------	--

Other Decision Makers	
-----------------------	--

Plant and Grounds	
-------------------	--

Financial	
-----------	--

Legal	
-------	--

Claims	
--------	--

The applicant's primary operations are:

WHY?

A clear understanding of the customer's view of his or her business is vital for providing risk management services to the customer as well as working with the insurance company on the account.

The applicant's secondary and/or incidental operations are:

The applicant used to be involved in the following operations, but they have been discontinued:

Some day care operations may add activities in order to increase revenue. They may expand the age range of children they accept. They may consider adding adult day care or begin to work with individuals with disabilities. It is important to know what was tried in the past as an indicator of what might be tried in the future.

The hours of operations are: _____

How many days per week is the applicant open? ____

Is this a seasonal operation? ___ Yes ___ No

If yes, what is the season? From: _____ to: _____

WHY?

As the hours of operations grow, so do the exposures to loss. Theft of money and property, workers compensation and liability injuries due to criminal activities increase along with injuries due to darkness. Adequate lighting is a very important loss control factor but other security measures should also be reviewed to reduce the loss potential.

Day care operations that provide third shift options can introduce concerns similar to those of boarding schools. Children must be well supervised in order to prevent inappropriate activities. Strict controls must be in place to insure that adults remain awake and engaged during overnight hours.

Does the applicant have a safety program? ___ Yes ___ No

If yes, answer the following:

Name of safety director: _____

Safety director phone number: _____

Safety director email address: _____

Attach a copy of the safety program.

Does the applicant have a disaster plan? ___ Yes ___ No

If yes, answer the following:

Name of disaster coordinator: _____

Disaster coordinator phone number: _____

Disaster coordinator email address: _____

Attach a copy of the disaster plan.

WHY?

Safety must be a day care's top priority. A formal safety program should be in place, be published, and a copy provided to all parents and staff. Deviations from procedures should not be tolerated. Regular staff safety meetings to reinforce the importance of each procedure should be conducted.

Disaster plans must be in place to establish what should occur in the event of a catastrophe such as a tornado, earthquake, hurricane, fire or cave-in. Planning and training in advance of a disaster can prevent panic and reduce injuries.

Is the day care operation licensed? ____ Yes ____ No

If yes, what entity licenses the day care operation?

____ Federal ____ State ____ County ____ Municipality ____ Other

Describe other.

If no, explain why.

Commercial day care operations must be licensed by the state. A revocation of the license or even a period of probation is a major cause for concern. The license is the starting point for underwriting a day care because it discloses the level of care provided, the maximum number of children, and the minimum number of staff. The license also means that the licensing body will evaluate the operation on a regular basis and respond to parent complaints.

How long has this day care service been provided? _____

What days per week does the day care operate? _____

What are the hours of operation? From _____ to _____

WHY?

Experience specifically related to operating a day care is needed. If the applicant is engaged in more than one operation, it is important to separate the day care operation from any others provided.

The applicant's day care hours of operation may differ from those of its other operations. The exposures increase as the hours and number of days increase because supervisory responsibilities eventually exceed the ability of a single administrator.

How many and what age children are cared for at the same time?

____ 0-1 year ____ 2-4 years ____ 5-7 years ____ 8 years and over

WHY?

This is one of the most important questions asked when evaluating a day care exposure. Younger children are the most vulnerable and must be protected from injuries that the staff or other children may inflict. They must also be protected from injuries that can be caused by the environment around them and their natural curiosity. In all cases, appropriate staffing is vital.

QUIZ: GENERAL INFORMATION

Better Than Home Day Care Center is an expansion of the Baby Boutique Lisa had started fifteen years earlier. Lisa still sells some retail items but 90% of her revenue is now derived from day care operations. The Baby Boutique operates from 10:00 a.m. to 5:00 p.m. Tuesday through Sunday but the day care operates from 6:00 a.m. to 6:00 p.m. Monday through Friday.

What is the most important information Jeremiah needs in order to evaluate the day care exposure?

- The age and number of children
- The size of the building
- The city where the day care operates
- The days and hours of the day care operation

If Lisa offers third-shift day care services, what additional serious issue must be considered?

- Aides must be able to help with homework.
- Television programming must be monitored.
- The evening meal must be monitored for nutritional value.

d. Adults must stay awake through the overnight hours.

What benefit does the underwriter gain from state licensing of day care operations?

- a. Information about the number of children on site
- b. Information about the number of staff on site
- c. Regular inspections by the state
- d. a. and b.

Prior operations have no impact on current operations.

True
 False

Safety must be a top priority for any day care operation.

True
 False

BUSINESS PERSONAL PROPERTY

Is the applicant's business personal property:

Highly flammable: Yes No

Susceptible to severe damage from: Smoke Heat Water Temperature

Do any other occupancies in this building present a significant exposure hazard to the applicant? Examples are explosion, fire or chemical hazards but are not limited to just them. Yes No

If yes, describe.

WHY?

Day care operations must maintain a very clean environment, especially in the infant area, due to the nature of their clients, their health issues, and their parents' demands. This means that cleanup costs following any type of property loss are likely be higher than those for other occupancies or operations.

Other occupants of a building can be the major fire exposure for that location. Understanding the nature of the other occupancies is the first step in the risk management process for your customer. The other occupancies can't be forced to change but the insured has some options, including the option to move to a different location.

Describe what would be damaged and how quickly.

How is the heat, light, or power transmitted to the applicant?

Will alarms sound or will there be other notification if power fails or shuts off? Yes No

Are backup generators available? Yes No

Are detailed records kept of all of the applicant's inventory, machinery, fixtures, or equipment, including their purchase date and price? Yes No

Does the applicant label and assign inventory numbers to all items? Yes No

WHY?

Day care operations cannot function without utility services. If they are disrupted, the business personal property loss may be minimal but extraordinary expenses may be incurred in order for day care services to continue to be provided until normal operations and services resume.

The time to prepare for a loss is before it occurs. If the insured understands the need for records to document their business personal property, underinsurance problems can be reduced and claim settlements can be handled more expeditiously.

Is food prepared on the premises? ___ Yes ___ No

If yes, describe the type of cooking and all protective devices.

How many of each of the following types of fire extinguishers does the applicant have on the premises?

___ Soda Acid ___ CO2 ___ Dry chemical

When were they last serviced and tagged? ___ Month ___ Year

Are the extinguishers mounted and accessible to cooking areas? ___ Yes ___ No

Does the applicant train employees to properly use the extinguishing equipment? ___ Yes ___ No

WHY?

The fire load of the kitchen depends on the type of cooking. Deep fat frying and broiling produce the most grease-laden vapors. Closed oven cooking produces the least.

Fire extinguishers are useful in fighting some small fires but employees must be trained in when and how to use them.

IMPROVEMENTS AND BETTERMENTS

Is the applicant a tenant? ___ Yes ___ No

If yes, answer the following.

Describe all improvements or betterments that have been added by or for the applicant but that will remain with the building when the applicant leaves.

What is the term of the applicant's lease? _____

What is the applicant's lease renewal option term? _____

WHY?

Day care operations must have toilet facilities designed for the children in their programs. In addition, food preparation areas must comply with licensing guidelines. These permanent installations are considered improvements and betterments because they cannot be removed from the building if the applicant leaves. If listed separately, improvements and betterments are rated at the lower building rate and doing so should result in premium savings.

QUIZ: BUSINESS PERSONAL PROPERTY

The Better Than Home Day Care Center occupies three spaces in a commercial strip center. The Baby Boutique is in the space next to it and a restaurant is the fifth tenant. The Day Care prepares breakfast, lunch and two snacks a day for its clients. The food preparation area has a stovetop and oven, microwave and refrigerator. Since the center does not serve fried food, the stovetop is reserved for preparing soups and pasta.

The fact that a restaurant is located close to the day care has no impact on the day care center's fire exposure.

___ True

___ False

What is Lisa's primary concern with respect to utility failure?

- a. Damage to personal property
- b. Damage to the building
- c. Expenses to continue operations
- d. Expenses to restore utilities

Why should Jeremiah specifically schedule improvement and betterments?

- a. To provide coverage
- b. To reduce the premium
- c. To increase the premium
- d. To prevent duplicate coverage

What best describes the day care's cooking exposure?

- a. Heavy
- b. Moderate
- c. Light
- d. None

What area of the day care requires the most attention when cleaning up after a loss?

- a. Kitchen
- b. Infant area
- c. Toddler
- d. After school

INLAND MARINE

INLAND MARINE - ACCOUNTS RECEIVABLE

Premises # _____ Building # _____

Location address:

What is the average monthly amount of receivables over the past 12 months? _____

What is the maximum monthly amount of receivables during the past 12 months? _____

What is the estimated cost to re-create all records of accounts receivable? \$ _____

Describe the present disaster plan to reconstruct/re-create records of accounts receivables.

This coverage is subject to an 80% coinsurance requirement, so an adequate limit is important.

Where are the records of accounts receivables stored?

What percentage of the records of accounts receivable is duplicated and stored separately? _____%

How long are the duplicates kept? _____

Where, and in what type of receptacle(s), are the duplicate records stored?

A critical risk management technique is to maintain a complete copy of company financial records off-premises.

INLAND MARINE - COMPUTERS

Premises # _____ Building # _____

Location address:

Provide values for the following owned and leased items that are used and/or stored primarily at this location:

Description	ACV	RCV
Owned computer hardware	\$ _____	\$ _____
Leased computer hardware	\$ _____	\$ _____
Owned and leased hardware in transit	\$ _____	\$ _____
Proprietary software	\$ _____	\$ _____
Purchased software	\$ _____	\$ _____
Software-related books, forms, documents	\$ _____	\$ _____
Software in transit	\$ _____	\$ _____
Fax machinery	\$ _____	\$ _____
Telephone systems	\$ _____	\$ _____
Photocopiers	\$ _____	\$ _____
Other	\$ _____	\$ _____

Describe other.

WHY?

It is important to list the items and their values that are to be covered under the Computer Policy since all those items can then be removed from the business personal property values. Coverage under the Computer Policy is broader and duplicate coverage does not result in double payment – just double premium!

If a loss occurs, will the applicant significantly change the types of computers, networks, other electronic devices and/or software? ___ Yes ___ No

If yes, describe the anticipated changes and estimate the total cost to do so.

WHY?

If the insured has a plan to replace computers, it should be shared with the insurance company and the policy endorsed accordingly. Advance agreements make loss settlements easier for all parties.

INLAND MARINE - VALUABLE PAPERS

Premises # _____ Building # _____

Location address: _____

Can the valuable papers be replaced? ___ Yes ___ No

What percentage of the valuable papers will need to be replaced? _____

What is the estimated cost to re-create the valuable papers? \$ _____

Describe the applicant's present disaster plan to reconstruct/re-create the valuable papers.

WHY?

The day care center's student records are its most valuable documents. They must be maintained according to licensing requirements and for longer periods because of potential claims of injury as the child ages. In addition, all documents associated with the initial license and maintaining it are considered valuable.

The insured should do an assessment of its valuable papers. A determination is first made as to which documents are valuable. The insured then determines which can be replaced or re-created and which are irreplaceable. Replaceable documents are valued and included as a single limit for coverage and the irreplaceable items are individually valued and scheduled.

The costs to replace or re-create the valuable papers are a part of the loss settlement. The insured should develop a plan for replacing them in order to then determine the proper limit of insurance to purchase.

Where does the applicant store the valuable papers?

What percentage of the valuable papers is duplicated and stored separately? _____%

How long are the duplicates kept? _____

Describe the location and receptacle where the applicant stores the duplicate valuable papers.

WHY?

The valuable papers policy or coverage form stipulates that all valuable papers must be returned to receptacles described on the Declarations when not in use. This means that by listing receptacles on the Declarations, the insured warrants that the receptacle will be used. Better receptacles yield better credits but in return for that credit, items not in the receptacle when a loss occurs are not covered.

QUIZ: INLAND MARINE

Lisa's accounts receivables are fairly limited because she requires payment in advance and does not allow parents to extend credit. She keeps all of her accounting and students records on her computer network and backs it up nightly. Computers are in all classrooms to permit her staff to quickly review certain student information and allow them to research problems and contact parents as needed. Computers for student use are also available, starting in the toddler area.

All hard copy documents are scanned into the network. The actual documents are then stored in a locked fire proof cabinet.

What is the standard accounts receivable coinsurance percentage?

- a. 0%
- b. 80%
- c. 90%
- d. 100%

What should happen to Lisa's business personal property limit of insurance if she purchases a computer policy?

- a. It should decrease
- b. It should increase
- c. It should stay the same

Which of the following are considered Valuable Papers and Records?

- a. Student records
- b. Day care license
- c. Staff records
- d. All of the above

Lisa removes 30 student records from the storage cabinet in order to work on them. She is distracted by another project and leaves them in her office for over 30 days without working on them. Are they covered if a loss should occur?

- Yes
- No

If a covered loss occurs, Lisa will be able to replace all of her records because she maintains duplicates and backs them up regularly. Why does she need coverage for them?

- a. She doesn't.
- b. To cover the expense incurred to recreate or replace them.
- c. Duplication and back up mistakes can happen.
- d. b. and c.

EMPLOYEE DISHONESTY - PRIOR POLICY

Provide the policy number, carrier, limits, and the inception and expiration dates of any policy that provided employee dishonesty coverage for the applicant over the past five years.

Policy number	Carrier	Employee dishonesty limit	Inception date	Expiration date
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

WHY?

Note: This information is needed when a loss is discovered in the current policy year for an occurrence that took place in prior years.

The Employee Dishonesty Policy is unusual since it refers to a previous policy. If a loss occurs, the settlement may depend on information from the previous policy.

EMPLOYEE DISHONESTY - EMPLOYEES

Does the applicant employ any person who has committed a theft or dishonest act? Yes No

Note: These employees are excluded from coverage and should not be included for rating purposes.

Are all potential employees screened prior to employment? Yes No

Are references required and verified? Yes No

WHY?

The insured must be aware that the policy does not cover losses caused by any individual who has previously committed a dishonest act. This coverage gap could be significant and expensive for the insured.

Does the applicant contract with another firm to lease employees? ___ Yes ___ No

Does the applicant lease employees without using an outside agency? ___ Yes ___ No

Does the applicant use volunteers? ___ Yes ___ No

WHY?

Note: Temporary leased employees who substitute for regular employees are covered. Others, including volunteers, are excluded and should not be included for rating purposes.

Insureds must be aware of coverage limitations caused by using leased employees. Identifying these limitations permits a discussion of coverage gaps as well as solutions (i.e. endorsements) for closing them.

Parent volunteers, friends and family can be very useful because they provide assistance without requiring payment. However they are considered volunteers and therefore any theft of property or funds is not covered. This coverage gap should be identified because coverage endorsements are available to address the circumstance. IMPORTANT: The persons most trusted are usually the ones who can steal the most.

EMPLOYEE DISHONESTY - MANAGEMENT CONTROLS

Does a person outside of the applicant's accounts payable unit verify the accuracy of all monthly paid invoices?

___ Yes ___ No

Are invoices marked "paid" at the time payments are made in order to prevent issuing duplicate payments to fictitious entities?

___ Yes ___ No

Does the applicant implement improvements in internal controls that auditors suggest? ___ Yes ___ No

Does the applicant maintain an adequate separation of duties between employees who:

Receive money and those who keep books? ___ Yes ___ No

Disperse money and those who keep books? ___ Yes ___ No

Reconcile bank accounts and those who deposit or withdraw? ___ Yes ___ No

WHY?

Allowing one person to control all of a company's finances is unwise. It creates the potential for an employee to misappropriate funds. Smaller operations may not be able to financially justify more than one employee handling the books, accounts and records. In these situations using a reputable outside accountant or bookkeeping firm may be more cost effective than having one employee performing these functions without supervision.

QUIZ: EMPLOYEE DISHONESTY

Lisa handles all administrative duties. She hires an accounting service to handle payroll and tax-related issues, while she handles all ordering and pays all invoices. As a result, she does not believe she has any employee dishonesty exposure and does not need the coverage.

Lisa receives an invoice from a supplier she has never used. She refuses to pay because she did not place the order but the supplier produces evidence of an order and also a receipt for its delivery. Mavis, who was on staff for only 30 days, placed the order and signed for it. Lisa cannot locate Mavis.

- There is no coverage for Mavis's action because she was not authorized.
- There would be coverage under an employee dishonesty policy.
- Since Mavis was operating under an alias, there is no coverage.
- A money and securities policy covers this loss.

Philadea, the mother of one of the children, offers to help Lisa revamp her computer system. Lisa appreciates the help and lets her do so without monitoring her for the entire day. Lisa is happy with the computer change but is dismayed when she learns that Philadea used information she found on the computer and in Lisa's office to place and pay for several orders.

- The employee dishonesty policy covers the loss because the information used was gained from the computer.

- b. There is no coverage because employee dishonesty covers only loss of money.
- c. There is no coverage under the employee dishonesty policy because Philadea was a volunteer when the embezzlement took place.
- d. There is coverage because her daughter is a student at the day care.

Lisa does background checks on all employees. Patricia looks like a perfect candidate except for one shoplifting conviction. If Lisa hires Patricia, would an employee dishonesty policy cover any loss she caused?

Yes
 No

GENERAL LIABILITY
ON PREMISES EXPOSURES

Describe the applicant's on-premises operations.

Describe how the applicant disposes of waste.

WHY?

The primary purpose of day care centers is to provide care for children brought to the premises. How that care is provided and the activities available vary considerably by facility. It is important to list every operation, service and activity that takes place there in order to fully understand the premises exposure.

Medical waste must be disposed of separately from other waste material. A written contract for the disposal of all medical waste, including needles, should be in place with a licensed biological waste facility.

Does the facility comply with the National Fire Protection Association's (NFPA) Life Safety Code concerning the number, size, and arrangement of exits? Yes No

If no, explain.

Are employees instructed in proper evacuation procedures? Yes No

Does management conduct regular fire drills? Yes No

Are large panes of glass, both inside and outside, properly marked or etched to prevent accidental contact?
 Yes No

Does the applicant own, jointly own, hire, or lease any watercraft or aircraft? Yes No

WHY?

Note: If yes, there is limited or no coverage for these operations under Commercial General Liability policies. Consider completing the appropriate Aircraft Ownership or Ship or Boat Ownership Supplement.

Regardless of the size of an operation, there are concerns on how employees and others can exit the premises during an emergency. Exits must be adequate in number and properly positioned and marked.

Regular fire drills should be coordinated with the local fire department. Safe evacuation of the children should be the main focus of these exercises.

Is food handled on premises? Yes No

If yes, answer the following:

Are food handlers required to use proper hygiene? ___ Yes ___ No

Has the Board of Health cited the establishment? ___ Yes ___ No

If yes, explain:

Does the applicant store cleaning materials in a separate area at a distance from the food storage area?

___ Yes ___ No

WHY?

All day care centers prepare and serve meals and snacks to the children in their care. A restaurant supplement should be completed if food service is more extensive and/or involves meal service for the general public.

How many day care providers are on the premises? ____

Have all day care providers received training? ___ Yes ___ No

If yes, describe the training.

WHY?

All individuals who work with children must be trained to always put the child's safety above all other considerations. Initial training should begin when an employee is first hired and continue as long as he or she is employed.

What is the ratio of day care providers to children? ___ to ___

WHY?

The day care license prescribes the minimum staff to child ratio and is based on the age of the children in the facility. A higher than minimum ratio can mean a number of things. It could mean that the day care is above average and provides excellent care. On the other hand, it could mean that it is below average and parents are taking their children elsewhere. It could also suggest that the day care is staffing up in order to expand service.

Are all employees screened before they are hired? ___ Yes ___ No

If yes, answer the following:

Describe the applicant's screening procedure.

Are references requested, checked, and verified? ___ Yes ___ No

Are all employees checked specifically for prior abuse or molestation conduct? ___ Yes ___ No

WHY?

Background checks must be conducted on every staff member and should not be restricted to only staff members having direct contact with children. The check should focus on abuse and molestation convictions as well as any unexplained dismissals from children's service facilities.

Has any party accused this operation of abuse or molestation of any child? ___ Yes ___ No

If yes, describe completely including the resolution and any changes in internal procedures.

Is a nurse or emergency medical technician on the premises? ___ Yes ___ No

WHY?

Allegations of abuse must be thoroughly investigated. When evaluating the applicant, it is helpful to obtain copies of any unbiased investigative reports to substantiate the applicant's explanation of the situation. If abuse or molestation did occur, the applicant should present evidence that similar abuse will not occur at the center because of safeguards implemented following the event.

Is an outside playground on the premises? ___ Yes ___ No

If yes, answer the following:

Describe the playground.

What is the equipment's age and condition?

Is the play area fenced? ___ Yes ___ No

WHY?

Injuries on the playground can be very serious. The two keys to playground safety are the condition of the equipment and supervision by the staff. A locked fence completely surrounding the playground prevents children from leaving and uninvited parties from entering.

Are all doors except the main entrance kept locked to prevent trespassing? ___ Yes ___ No

Is a sign-in and sign-out procedure in place that applies to all children? ___ Yes ___ No

If yes, answer the following:

Is the list of individuals permitted to sign out each child kept current? ___ Yes ___ No

Is the list reviewed before the child is released? ___ Yes ___ No

Describe the applicant's procedure to release children at pick-up time.

WHY?

The person who leaves a child at a day care expects to pick up that child at the end of the day. Procedures must be in place to prevent anyone except authorized individuals from taking a child from the center. A list of approved individuals must be used and be updated upon request. The list must be reviewed at each pickup time. Each child must be signed in and signed out by authorized individuals without exception. In addition, all exterior doors must be secured at all times.

PARKING LOTS AND SIDEWALKS

Does the applicant own or rent parking facilities that are available for clients, customers, employees, and/or the general public? ___ Yes ___ No

If yes, answer the following:

Does the applicant charge a fee? ___ Yes ___ No

If yes, consider completing the Garagekeepers questionnaire.

Does the applicant hire a towing company to remove vehicles parked on the premises without permission?

___ Yes ___ No

If yes, attach a copy of the contractual agreement, if any, with the towing company.

Does the applicant require a certificate of insurance from any towing company that provides services on the premises?

___ Yes ___ No

Describe the parking facility(ies).

Length (Y/N)	Width	Number of stories	Number of spaces	Attendant
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Has the applicant made arrangements to remove snow and ice from the parking facility(ies) and walkways?

___ Yes ___ No

WHY?

Parking lots are a necessary part of any day care operation. Parents and guardians who use them expect them to be both safe and secure. Slip and fall hazards must be controlled, security must be adequate based on the neighborhood, and adequate and appropriate lighting provided. Traffic flow and vehicular speed should be controlled because children are known to dart into traffic.

CONTRACTUAL EXPOSURES

Does the applicant lease the premises? ___ Yes ___ No

If yes, answer the following:

Does the lease include a written waiver-of-rights provision for damage to property? ___ Yes ___ No

Does the lease include a written waiver of subrogation? ___ Yes ___ No

Does the lease include a written hold harmless agreement? ___ Yes ___ No

Does the lease clearly delineate maintenance responsibilities? ___ Yes ___ No

Indicate under which of the following agreements the applicant has assumed liability of others:

___ Lease agreements for real estate ___ Lease agreements for signs, refrigerators, etc.

___ Sidetrack agreements ___ Contracts for electric power, steam, etc.

___ Easement agreements ___ Elevator maintenance

___ Other contracts such as construction, installation, compliance certificates, etc.

Attach a copy of each contract and/or agreement indicated above.

Is the applicant's insurance policy required to be primary under any of the indicated contracts? ___ Yes ___ No

WHY?

Most businesses use lease agreements. These contracts normally involve an indemnification clause. Since indemnification agreement terms differ, each must be reviewed carefully and gaps in coverage identified.

SUBCONTRACTORS

Does the applicant regularly use subcontractors? ___ Yes ___ No

If yes, answer the following:

Describe the type of work the subcontractors perform.

Describe procedures used to monitor timely receipt of certificates of insurance from subcontractors.

Does the applicant have a written contract with each subcontractor? ___ Yes ___ No

If yes, attach a copy of each contract.

If no, describe the terms and agreements between the applicant and the subcontractor.

What are the subcontractors' required insurance limits? \$ _____

WHY?

A written contract prevents the subcontractor from being considered an insured's employee. Subcontractors are hired for their expertise. The insured and the subcontractor should always have a contract that specifies responsibility and clearly defines the role of the subcontractor. Open-ended contracts, or no contract at all, can substantially complicate a loss.

PERSONAL AND ADVERTISING INJURY EXPOSURES

Does the applicant advertise its products, goods, or services? ___ Yes ___ No

If yes, what media does the applicant use and what is that medium's percentage of the overall advertising budget?

- | | | |
|-----------------|------------------|-------------------|
| ___% Television | ___% Direct mail | ___% Radio |
| ___% Signs | ___% Newspaper | ___% Yellow Pages |
| ___% Magazine | ___% Internet | ___% Other |

Describe other.

Does the applicant have a web page? ___ Yes ___ No

Does the applicant use an advertising firm and/or outside web designer? ___ Yes ___ No

WHY?

Websites are an important part of business identification today. If the material on the website is considered informational only, it is not considered advertising. However, if the website is an advocacy or sales tool, the website is considered advertising. This distinction will affect the coverage.

PRODUCTS

Describe all of the applicant's products or services.

If the product is a component part, describe the items of which it might become a part.

If the product or service is defective or used improperly, describe the possible damage that could occur.

WHY?

Most day care operations do not produce or sell products. However, it is important to determine if any products are sold as an ancillary service and properly evaluate the exposures.

OTHER PROFESSIONAL SERVICES

Is there any exposure for professional services performed by the applicant's own personnel or through the use of subcontractors (i.e., beauty/barber shops, accounting, notary public, druggists, data processing, etc.)?

Yes No

WHY?

Note: If yes, consider completing the Professional Liability Questionnaire.

Day care centers may employ professional staff including, but not limited to, psychologists, emergency medical technicians, nurses and social workers. Independent contractors may provide the services in which case it is important for the day care provider to be protected for any actions that may be brought against it for the professional services provided.

QUIZ: GENERAL LIABILITY

Lisa is the point person when children come into the facility. She greets the parent or guardian, has them sign in, and then has a staff member escort the child to his or her classroom. Lisa reverses the procedure when the children leave, in that she greets the parent or guardian, and has them sign the child out before the staff member retrieves the child. Her playground is immaculate. There are separate toddler and older children's areas in order to prevent inappropriate interaction as well as to keep the toddlers off the larger equipment. Since she hires only staff recommended by other facilities, she does not believe she needs to run background checks.

Is it always beneficial when the staff/ratio is better than the minimum state required?

Yes

No

What should be the most important priority for every day care worker?

- a. The child's safety
- b. Meeting all state-mandated regulations
- c. Appropriate lesson plans
- d. Providing a clean and healthy environment

What may be the playground's most important part?

- a. Swings
- b. Ground cushioning
- c. Fence
- d. Slide

Sheila's aunt arrived to pick her up. Should Lisa release Sheila to her aunt?

- a. No, because children must be released only to their parents.
- b. Yes, but only after verifying that the aunt is on the approved sign-out list.
- c. Yes, because Lisa knows the aunt.
- d. Yes, but only after calling Sheila's mother for permission.

Lisa arranged for specialists to provide services to the children at her day care. What should she do to protect herself from assuming their liability?

- a. Never allow the specialist to be with a child unless an employee of the day care is with the child.
- b. Have contracts with each specialist in place that explains responsibilities and expectations.
- c. Set the hours and times that each specialist operates.
- d. Require each parent to sign a contract with each specialist.

EMPLOYEE BENEFITS LIABILITY

Are all benefits listed above available to all employees? ___ Yes ___ No

If no, identify the employees who do qualify and explain how the applicant advises its employees of their eligibility for benefits.

WHY?

Any employee benefit plan must be clearly written, published and available for all employees to review. Guidelines must be precise as to eligibility and enrollment procedures as well as details concerning termination of plan eligibility.

Who administers the benefit programs?

If an outside party provides services, provide a copy of the contract between that party and the applicant.

WHY?

If an outside firm is used to provide human resource services, a contract must be in place that outlines the exact services provided and the liability that the other firm assumes. A certificate of insurance should be required.

What is the employee turnover rate? _____

Does the applicant's termination procedure require that the terminated employee sign an agreement stating that available benefits have been explained? ___ Yes ___ No

WHY?

Most employee benefits lawsuits come from the termination process. This means that the higher the turnover rates, the greater the likelihood of a mistake in administering the plan that could result in a lawsuit. The insured must have a written step-by-step procedure consistently followed and documented with each termination. The procedure must include complete notification to the employee of his or her rights and responsibilities concerning continuation of benefits. All information should be in writing with important time frames highlighted so that the employee can refer to it at any time.

QUIZ: EMPLOYEE BENEFITS LIABILITY

The Better Than Home Day Care Center has a relatively high turnover rate because of the low pay and the skills needed. Lisa has neither the time nor the patience to handle the necessary paperwork to hire or terminate employees. She contracts with a labor-leasing firm to hire temporary employees who are then transitioned to permanent status after 180 days. The firm provides all employee benefit counseling for hires and also conducts termination and exit interviews.

All employees must be provided with exactly the same benefits.

___ True

___ False

Better Than Home Day Care has a higher than average turnover rate. What impact does this have on the likelihood of an employee benefit mistake?

- a. No impact
- b. Increases
- c. Decreases

When do most employee benefits errors occur?

- a. Hiring
- b. Promotions
- c. Annual Renewals
- d. Termination

UMBRELLA

List all policies that provide liability coverages for the applicant.

Insurance coverage	Primary carrier	Limits of Insurance
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

List countries where the applicant has locations and/or where employees regularly travel.

WHY?

Umbrella coverage is over only the policies that are listed in the underlying coverage section of the Umbrella Policy. No Umbrella coverage applies over an underlying policy that has not been listed.

Umbrella policies have territorial definitions that may differ from those of the underlying policies. Listing the countries helps to identify the possible need for a territorial endorsement.

UNDERLYING GENERAL LIABILITY INFORMATION

List all of the exclusion endorsements attached to the applicant's underlying policy(ies).

List or describe any amendments or endorsements attached to the applicant's underlying policy(ies).

WHY?

The Umbrella is a separate policy and requires similar endorsements to match the underlying policies and their endorsements.

The Umbrella Policy must be modified with special amendments that match those of the underlying primary policies if coverage is to apply at all limits.

Check the coverages that the underlying policy(ies) provide.

Employee Benefits Care Custody and Control Product Recall Expense
 Employment-related Practice Underground Storage Tank Stop Gap

Does the applicant have any owned, hired, or leased watercraft exposures? Yes No

If yes, describe the watercraft including where it is kept and/or used and the duration of exposure.

Does the applicant have any owned, hired, or leased aircraft exposures? Yes No

If yes, describe the aircraft including its hanger location and/or where it is used and the duration of exposure.

What are the applicant's total annual receipts? \$_____

What is the applicant's annual cost for subcontractors? \$_____

WHY?

The Umbrella Policy may not provide coverages for these additional coverages even if they are shown on the Umbrella Policy as underlying coverage. Umbrella policy language and coverages are not standardized and this can lead to a coverage gap that is not discovered until after a loss occurs.

UNDERLYING AUTOMOBILE LIABILITY INFORMATION

List all exclusion endorsements attached to the applicant's underlying policy(ies).

List and/or describe any amendments or endorsements attached to the applicant's underlying policy(ies).

WHY?

The Umbrella Policy is not a following form product so exclusions, extensions and special amendments used on the underlying primary policies must be arranged to apply to the Umbrella as well. If the underlying coverages are unique, purchasing an excess policy may be the most effective way to address coverage gaps.

How many vehicles of the following types does the applicant own or lease?

Private passenger Small trucks Medium trucks Heavy trucks
 Extra heavy Bus Mobile equipment subject to financial responsibility law

Are vehicles ever hired? Yes No

If yes, describe the vehicles hired, the annual cost, and the duration.

Type of vehicle	Annual cost of hire	Estimated time of hire
_____	_____	_____
_____	_____	_____
_____	_____	_____

WHY?

Neither individual vehicles nor classes of vehicles are listed on the Umbrella Policy. Underwriting and rating need to know this information in order to determine exposures and develop premium charges.

UNDERLYING WORKERS COMPENSATION - EMPLOYERS LIABILITY INFORMATION

List all exclusion endorsements attached to the applicant's policy(ies).

List and/or describe amendments and endorsements attached to the applicant's policy(ies).

Provide the number of the applicant's employees by state.

State # of employees State # of employees State # of employees

What is the applicant's total annual payroll? _____

WHY?

This question is not about Workers Compensation coverage. It is about Employers Liability or the Stop Gap Liability coverage on this part of the underlying policy. Umbrella coverage does not apply to Workers Compensation coverage, since the benefits are set by each state. However, there are limits for Employers Liability coverage and, as a result, a need for Umbrella coverage above those limits.

QUIZ: UMBRELLA

Lisa currently has an umbrella policy that lists only the underlying general liability policy on its declarations.

Lisa has workers compensation, automobile liability, general liability, and professional liability policies. Which exposures does her current umbrella policy cover?

- a. All
- b. None
- c. General Liability
- d. All except workers compensation

An umbrella policy automatically includes all amendments and exclusions in the underlying policies.

- True
- False

Does the umbrella policy increase the workers compensation coverage?

- Yes
- No

AUTOMOBILE

DRIVER INFORMATION

List the names of the applicant's drivers who maintain a Commercial Driver's License (CDL).

WHY?

Since driver error is the primary cause of accidents, effective loss prevention begins with the driver. A good starting point is requiring a Motor Vehicle Report (MVR) review prior to hiring new drivers. MVR's should be ordered on a regular basis on all existing drivers. The company should have a formal written policy outlining acceptable parameters for MVRs as well a structured disciplinary program for driving infractions that includes suspension of driving privileges or discharge.

Are any of the applicant's officers, partners, or employees furnished an automobile for their personal use? ___ Yes ___ No

Do individuals with an automobile furnished by the applicant purchase automobile insurance on autos they own personally?

___ Yes ___ No

WHY?

Individuals supplied with a company vehicle but who do not carry Personal Auto insurance coverage could be surprised by gaps in coverage if a loss occurs.

AUTOMOBILE

Are any of the applicant's automobiles equipped with cellular telephones, two-way radios, citizens band radios or similar devices? ___ Yes ___ No

If yes, describe. Attach a separate sheet, if necessary

Vehicle Unit #	Type of device	Actual cash value of device
_____	_____	_____
_____	_____	_____
_____	_____	_____

How many automobiles are parked at each location overnight?

Location address	Number of vehicles at the location	Total value of all vehicles at the location
_____	_____	_____

Describe lot protection at each location.

WHY?

This is a risk management aid. Keeping all vehicles at one place creates the potential for a catastrophic (i.e. tornado or fire) loss. This also affects any recommendations regarding the need for comprehensive coverage and the type and amount of any deductible.

Does the applicant lease or rent vehicles with operators to others? ___ Yes ___ No

Does the applicant lease or rent vehicles without operators to others? ___ Yes ___ No

Does the applicant travel to Canada or Mexico? ___ Yes ___ No

Do the applicant's vehicles have theft alarms? ___ Yes ___ No

WHY?

The Business Auto Policy (BAP) does not provide coverage in Mexico. An endorsement is available for limited coverage but a policy provided by a Mexican company is preferred when there is regular travel in Mexico. Canada

is part of the BAP coverage territory but for regular travel a Canadian policy should be considered due to differences in financial responsibility laws.

Does the applicant use its own vehicles to pick up or drop off children? ___ Yes ___ No

Does the applicant use its own vehicles to transport children to off-site activities? ___ Yes ___ No

If yes, answer the following:

Do all drivers have the required license to transport people? ___ Yes ___ No

What is the maximum number of people that may be transported on one vehicle? _____

Is a helper on the vehicle to provide supervision? ___ Yes ___ No

Is the vehicle equipped for wheelchair transport? ___ Yes ___ No

Is signed parental permission required when minors are transported? ___ Yes ___ No

WHY?

The age and number of children transported determines the amount of supervision needed. Vehicles designed to transport wheelchair clients require maintenance to insure that all devices to secure the wheelchair are kept in repair and that the chair lift works as expected. The driver must be trained in operating the chair lift and the way wheelchairs are secured.

No child should be transported without signed permission from his or her parent or guardian.

NON-OWNED

What is the total number of the applicant's employees at all locations? _____

If the applicant is a partnership, what is the total number of active and inactive partners? _____

What percentage of employees regularly use their personal vehicles in the applicant's business? ___%

Does the applicant want to have employees covered as insureds when they are using their automobiles for the applicant's business? ___ Yes ___ No

Do the applicant's employees use their personal vehicles to provide "on demand" deliveries to homes and/or businesses? ___ Yes ___ No

WHY?

Nonownership coverage protects the business, not the employee. An endorsement can be purchased to extend coverage to include the employee.

QUIZ: AUTOMOBILE

Lisa plans to purchase a van in order to take her before school children to school and pick them up afterward. At the present time she or one of the other staff members transports them in their personal vehicles.

The primary cause of auto accidents is:

- Mechanical failure
- Improperly loaded contents
- Driver error
- Road design

The day care's business auto policy covers Lisa's personal vehicle. She plans to drive to Mexico for her vacation. Is she covered if she has an accident while in Mexico?

- No, because she is using the vehicle for personal reasons
- Yes, because the vehicle is scheduled on the policy
- Yes but only if Lisa is named as an insured on the policy
- No, because the policy territory does not include Mexico

Lisa plans to purchase a vehicle equipped to handle wheelchairs. What is a very important part of wheelchair transport?

- a. A helper must always be present.
- b. The driver must be properly trained.
- c. Ambulatory children cannot ride in such vehicles.
- d. A specialty carrier must provide the coverage.

Mary, an employee of the day care center, transports three children to school using her own vehicle. She hits another vehicle and injures its driver. Does the day care's auto policy cover Mary if the injured driver sues her for damages?

Yes
 No

How many helpers are required when children are transported?

- a. It depends on the age of the children.
- b. One for each three children
- c. One for each two children
- d. One for each four children

WORKERS COMPENSATION

EMPLOYEES

Are any of the applicant's employees considered exempt from workers compensation statutes in the jurisdiction where they work? Yes No

If yes, identify the types of employees and the jurisdiction where they are exempt.

Do any of the applicant's employees telecommute or otherwise work out of their homes? Yes No

If yes, describe the employees' job functions and the applicant's safety procedures for those employees.

WHY?

Workers Compensation coverage is not meant to be a 24-hour disability and health care product for employees who work from their homes. The employer should have rules and guidelines for home working situations so that work-and non-work-related injuries sustained at home can be separated.

MANAGEMENT

Does the applicant obtain work permits as local, state, or federal statutes require? Yes No

Does the applicant have an organizational policy that specifies the maximum number of key employees who may travel together? Yes No

If yes, attach a copy of the organizational policy.

If the applicant employs subcontractors, how does it monitor their certificates of insurance and ensure that it receives them on a timely basis?

WHY?

The potential of losing several key employees in a single accident creates a significant Workers Compensation exposure. Such a loss would also negatively impact the ability of the company to continue operations.

Are all of the applicant's machinery and equipment properly guarded and secured? ___ Yes ___ No

Does the applicant train employees before they operate any machinery and equipment? ___ Yes ___ No

Does the applicant train employees in the proper way to clean machinery and equipment? ___ Yes ___ No

If the answer to the training questions above is yes, attach a copy of the applicant's training manual plus the documentation it uses to ensure that the training is appropriate.

WHY?

Training is the key to effective loss prevention in workers compensation. There should be a training program manual that outlines the proper use of all equipment. Employees should be trained and supervised before they begin working with any equipment.

Are the doors on all walk-in freezers, cold storage boxes, and other automatic locking storage area equipped with a pass-type latch that can be opened from the inside? ___ Yes ___ No

Are first aid kits provided? ___ Yes ___ No

Is at least one employee (on duty) trained in administering first aid? ___ Yes ___ No

Are workers trained in appropriate restraints procedures? ___ Yes ___ No

WHY?

Children can be unpredictable. Children may have to be restrained when their behavior becomes erratic to the point that employees and/or other children are at risk. Employees should be trained in proper restraint techniques that protect the employee while not harming the child.

QUIZ: WORKERS COMPENSATION

Lisa allows Patty, one of the aids, to work from home one day a week. Her duties on those days are to update the website and do data entry.

Patty falls at her home on her day to work at home and files a workers compensation claim. She fell while on a ladder attempting to retrieve her cat from a tree. Is this loss covered?

- a. Yes, because it occurred during her working hours.
- b. No, because she was not performing her assigned duties when it occurred.
- c. Yes, because she found the cat at Better Than Home Day Care Center.
- d. No, because Workers Compensation does not cover falls.

Should Lisa and her three most trusted full-time employees car pool to a training event in the next state?

___ Yes

___ No

Lisa purchased a meat slicer and new juicer to use in the kitchen. All employees will be permitted to use them to prepare food. What should Lisa do?

- a. Tell the employees it is available.
- b. Leave the instructions manual in plain sight.
- c. Have a training session with all employees
- d. All of the above

Should children ever be restrained?

___ Yes

___ No

Jeremiah is now ready to develop a Client/Agent Coverage Agreement to take with him to the client. This will allow him to recommend coverages and allow Lisa to accept or reject the recommendations. Before making recommendation, he selects the Supplement so that he can review the various coverage definitions.

Jeremiah looks over the coverages on the list. A day care center in town recently suffered a significant Employment-Related Practices loss that was not covered. He believes that loss and this coverage could assist in his winning this account. He decides he really needs to know more about the coverage. He selects Employment-Related Practices and reviews the definition.

Liability Coverage - Employment-related Practices

Commercial General Liability Coverage Forms do not insure lawsuits that past, present, and prospective employees or governmental entities bring against the insured employer that allege wrongful discharge, discrimination, or certain types of harassment. A separate coverage form that insures employment-related practices is available. ISO developed its own coverage form but many insurance carriers have their own versions. Using the ISO standard as a starting point to compare coverages can help agents advise their customers on the best coverage form to use for their particular situation.

Service operations should have procedures and processes in place to prevent harassment and discrimination. This coverage is important because allegations can still arise.

ACORD 825 and 827 or 188

Related Article: Employment-related Practices Liability Coverage Form Analysis

Jeremiah can use the definition in introducing the topic but needs to know more in order to actually discuss the recent loss and recommend the coverage. He clicks the link to PF&M so he can learn more about the subject.

PF&M - EMPLOYMENT-RELATED PRACTICES LIABILITY COVERAGE FORM ANALYSIS

Employers of all sizes are exposed to legal actions filed by current or former employees that allege discrimination, harassment, wrongful termination, and other charges. The insurance industry has long provided coverage for this exposure on a non-standard basis, with participating companies relying on proprietary policies. The Insurance Services Office Employment-related Practices Liability (ERPL) program offers a form that may achieve status as a standard policy. A coverage standard provides wording to act as a baseline for comparing policies.

Without a standard form, employers would have difficulty with the following:

Determining (at least until a claim occurs) the quality of a particular company's ERPL coverage

Judging if the pricing offered for such coverage is reasonable

Establishing a coverage benchmark for gathering credible statistics - an insurer cannot determine whether the price it develops is credible without confirmation via actuarial data

Adopting policy wording that has been approved and is in compliance with state regulations

This article is an analysis of the 11 09 edition of EP 00 01-Employment-related Practices Liability Coverage Form. Any changes from the prior edition appear in boldface.

QUIZ - EMPLOYMENT-RELATED PRACTICES LIABILITY COVERAGE FORM ANALYSIS

Lisa is very concerned about an employment-related practices lawsuit because of her high turnover. She does not believe she would ever intentionally discriminate against or injure anyone.

Which of the following factors is included in the definition of discrimination?

- a. Working habits
- b. Weight
- c. Religion
- d. Level of education

Employment-related practice suits brought by which of the following are covered?

- a. Prospective employees
- b. Current employees
- c. Past employees
- d. All of the above

If Lisa commits a criminal action against an employee, does this policy cover it?

___ Yes

___ No

Lisa tells Peggy that she will no longer be allowed to work at the center once she reaches 60 because children relate better to younger people. Which of the following acts covers the lawsuit Peggy plans to file against Lisa?

- a. Title VII of the Civil Rights Act of 1964
- b. The Equal Pay Act
- c. The Age Discrimination in Employment Act
- d. The Family and Medical Leave Act of 1993

Pamela files suit against Better Than Home Day Care Center for actions Jerry caused. Jerry no longer works at the center. Will the current coverage form respond to this suit?

___ Yes

___ No

ANSWERS: RISK OVERVIEW

Lisa Phelps started Better Than Home Day Care Center eight years ago. She started small and initially specialized in caring only for babies. As they grew, so did her business and the center now cares for babies, toddlers and preschoolers. It also provides after school care for older children.

Lisa is the owner and administrator. There are four full-time employees in the baby room and eight part-time aids. There are three full-time employees with the toddlers and six part time aids. The two preschool teachers are assisted by four part-time aids. Two part-time employees direct the before and after school programs.

Lisa plans to expand her program to include an evening meal for all participants. She will add a cook top and grill for broiling in order to serve the older children more interesting food. What will this do to her property exposure?

a. It will increase the loss potential

A teacher from another preschool has applied to work at Better Than Home Day Care Center. She is well known in the community and Lisa would like to hire her. What should Lisa do before she hires this teacher?

c. Request a criminal background check

If abuse or molestation occurs, what party does insurance never cover?

c. The perpetrator

Which of the following must be in place in order to protect the children?

d. All of the above

What is a very important preventative measure for the health and safety of all employees?

a. Required immunizations

ANSWERS: GENERAL INFORMATION

Better Than Home Day Care Center is an expansion of the Baby Boutique Lisa had started fifteen years earlier. Lisa still sells some retail items but 90% of her revenue is now derived from day care operations. The Baby Boutique operates from 10:00 a.m. to 5:00 p.m. Tuesday through Sunday but the day care operates from 6:00 a.m. to 6:00 p.m. Monday through Friday.

What is the most important information Jeremiah needs in order to evaluate the day care exposure?

a. The age and number of children

If Lisa offers third-shift day care services, what additional serious issue must be considered?

d. Adults must stay awake through the overnight hours.

What benefit does the underwriter gain from state licensing of day care operations?

c. Regular inspections by the state

Prior operations have no impact on current operations.

False

Safety must be a top priority for any day care operation.

True

ANSWERS: BUSINESS PERSONAL PROPERTY

The Better Than Home Day Care Center occupies three spaces in a commercial strip center. The Baby Boutique is in the space next to it and a restaurant is the fifth tenant. The Day Care prepares breakfast, lunch and two snacks a day for its clients. The food preparation area has a stovetop and oven, microwave and refrigerator. Since the center does not serve fried food, the stovetop is reserved for preparing soups and pasta.

The fact that a restaurant is located close to the day care has no impact on the day care center's fire exposure.

False

What is Lisa's primary concern with respect to utility failure?

c. Expenses to continue operations

Why should Jeremiah specifically schedule improvement and betterments?

b. To reduce the premium

What best describes the day care's cooking exposure?

c. Light

What area of the day care requires the most attention when cleaning up after a loss?

b. Infant area

ANSWERS: INLAND MARINE

Lisa's accounts receivables are fairly limited because she requires payment in advance and does not allow parents to extend credit. She keeps all of her accounting and students records on her computer network and backs it up nightly. Computers are in all classrooms to permit her staff to quickly review certain student information and allow them to research problems and contact parents as needed. Computers for student use are also available, starting in the toddler area.

All hard copy documents are scanned into the network. The actual documents are then stored in a locked fire proof cabinet.

What is the standard accounts receivable coinsurance percentage?

b. 80%

What should happen to Lisa's business personal property limit of insurance if she purchases a computer policy?

a. It should decrease

Which of the following are considered Valuable Papers and Records?

d. All of the above

Lisa removes 30 student records from the storage cabinet in order to work on them. She is distracted by another project and leaves them in her office for over 30 days without working on them. Are they covered if a loss should occur?

No

If a covered loss occurs, Lisa will be able to replace all of her records because she maintains duplicates and backs them up regularly. Why does she need coverage for them?

d. b. and c.

ANSWERS: EMPLOYEE DISHONESTY

Lisa handles all administrative duties. She hires an accounting service to handle payroll and tax-related issues, while she handles all ordering and pays all invoices. As a result, she does not believe she has any employee dishonesty exposure and does not need the coverage.

Lisa receives an invoice from a supplier she has never used. She refuses to pay because she did not place the order but the supplier produces evidence of an order and also a receipt for its delivery. Mavis, who was on staff for only 30 days, placed the order and signed for it. Lisa cannot locate Mavis.

b. There would be coverage under an employee dishonesty policy.

Philadea, the mother of one of the children, offers to help Lisa revamp her computer system. Lisa appreciates the help and lets her do so without monitoring her for the entire day. Lisa is happy with the computer change but is dismayed when she learns that Philadea used information she found on the computer and in Lisa's office to place and pay for several orders.

c. There is no coverage under the employee dishonesty policy because Philadea was a volunteer when the embezzlement took place.

Lisa does background checks on all employees. Patricia looks like a perfect candidate except for one shoplifting conviction. If Lisa hires Patricia, would an employee dishonesty policy cover any loss she caused?

No

ANSWERS: GENERAL LIABILITY

Lisa is the point person when children come into the facility. She greets the parent or guardian, has them sign in, and then has a staff member escort the child to his or her classroom. Lisa reverses the procedure when the children leave, in that she greets the parent or guardian, and has them sign the child out before the staff member retrieves the child. Her playground is immaculate. There are separate toddler and older children's areas in order to prevent inappropriate interaction as well as to keep the toddlers off the larger equipment. Since she hires only staff recommended by other facilities, she does not believe she needs to run background checks.

Is it always beneficial when the staff/ratio is better than the minimum state required?

No

What should be the most important priority for every day care worker?

a. The child's safety

What may be the playground's most important part?

c. Fence

Sheila's aunt arrived to pick her up. Should Lisa release Sheila to her aunt?

b. Yes, but only after verifying that the aunt is on the approved sign-out list.

Lisa arranged for specialists to provide services to the children at her day care. What should she do to protect herself from assuming their liability?

b. Have contracts with each specialist in place that explains responsibilities and expectations.

ANSWERS: UMBRELLA

Lisa currently has an umbrella policy that lists only the underlying general liability policy on its declarations.

Lisa has workers compensation, automobile liability, general liability, and professional liability policies. Which exposures does her current umbrella policy cover?

c. General Liability

An umbrella policy automatically includes all amendments and exclusions in the underlying policies.

False

Does the umbrella policy increase the workers compensation coverage?

No

ANSWERS: AUTOMOBILE

Lisa plans to purchase a van in order to take her before school children to school and pick them up afterward. At the present time she or one of the other staff members transports them in their personal vehicles.

The primary cause of auto accidents is:

c. Driver error

The day care's business auto policy covers Lisa's personal vehicle. She plans to drive to Mexico for her vacation. Is she covered if she has an accident while in Mexico?

d. No, because the policy territory does not include Mexico

Lisa plans to purchase a vehicle equipped to handle wheelchairs. What is a very important part of wheelchair transport?

b. The driver must be properly trained.

Mary, an employee of the day care center, transports three children to school using her own vehicle. She hits another vehicle and injures its driver. Does the day care's auto policy cover Mary if the injured driver sues her for damages?

___ No

How many helpers are required when children are transported?

a. It depends on the age of the children.

ANSWERS: WORKERS COMPENSATION

Lisa allows Patty, one of the aids, to work from home one day a week. Her duties on those days are to update the website and do data entry.

Patty falls at her home on her day to work at home and files a workers compensation claim. She fell while on a ladder attempting to retrieve her cat from a tree. Is this loss covered?

b. No, because she was not performing her assigned duties when it occurred.

Should Lisa and her three most trusted full-time employees car pool to a training event in the next state?

___ No

Lisa purchased a meat slicer and new juicer to use in the kitchen. All employees will be permitted to use them to prepare food. What should Lisa do?

d. All of the above

Should children ever be restrained?

___ Yes

ANSWERS - EMPLOYMENT-RELATED PRACTICES LIABILITY COVERAGE FORM ANALYSIS

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Lisa tells Peggy that she will no longer be allowed to work at the center once she reaches 60 because children relate better to younger people. Which of the following acts covers the lawsuit Peggy plans to file against Lisa?

c. The Age Discrimination in Employment Act

Pamela files suit against Better Than Home Day Care Center for actions Jerry caused. Jerry no longer works at the center. Will the current coverage form respond to this suit?

___ Yes

Day Care Center Supplement Definitions

PROPERTY COVERAGES

Property coverage insures the insured's tangible assets against a variety of causes of loss. There are many coverage forms and approaches, beginning with the general and moving to the specific. This range of options allows an agent to work with a customer to develop a specific approach that is customized for that customer.

Building and Personal Property Coverage Form

Four types of property are associated with every structure:

- The building or structure itself
- Business personal property inside the building
- Personal property of others in the building
- Improvements and betterments added to a building space for the benefit of a named insured tenant

The Building and Personal Property Coverage Form insures all four types of property. Each can be written with its own specific limit or can be combined in various ways on a blanket basis. A separate causes of loss form must be attached. The causes of loss form selected can vary by type of property.

Most service businesses will use this coverage form unless they are eligible for a Businessowners policy.

Related Article: [CP 00 10–Building and Personal Property Coverage Form Analysis](#)

Building and Business Personal Property Coinsurance

Coinurance is a technique that encourages the named insured to insure to the proper value. The commercial fire rating in the ISO manuals contemplates 80% coinsurance. Higher coinsurance percentages receive a credit. Lower percentages are debited. The insured selects a coinsurance percentage that is entered on the declarations. Failure to carry sufficient limits to satisfy the coinsurance requirement results in a penalty when the loss is settled.

Related Article: [Coinsurance Clause](#)

Building and Business Personal Property Alternatives to Coinsurance:

Agreed value

This approach suspends coinsurance but requires the insured to submit annual signed statements of the 100% value of the property insured. The insured must purchase limits of insurance that equal or exceed 90% of that value.

Related Article: [CP 00 10–Building and Personal Property Coverage Form Analysis](#)

Functional replacement cost

This approach allows the insured to purchase only the limits it needs to rebuild or replace building and/or business personal property based on utilitarian needs. Examples include replacing a three-story building that occupies only the first floor with a one-story building or replacing wood office furniture with cubicles.

Related Article: [Functional Property Valuations](#)

Peak season

This approach allows the insured to increase business personal property limits at peak times while keeping them lower at other times of the year. The insured picks the time period and the increased limit it needs.

Related Article: [Peak Season Coverage](#)

Reporting forms

This approach allows the insured to pay for only the business personal property limit it needs while still maintaining insurance to value. The insured schedules the highest limit it needs for the year and pays deposit premium based on 75% of that limit. The insured reports the actual values at selected periods. At the end of the year, the insurance company calculates the premium based on the reports and issues either a bill or a refund to the insured. The insured has the exact coverage it needs for the time period.

Related Article: [CP 13 10-Value Reporting Form](#)

Optional Property Coverage Forms

The Building and Personal Property Coverage Form is available for all commercial insureds. However, it may not be the best approach in all cases. The following coverage forms should be considered for certain insureds or when a different approach is in order.

Builders Risk

A building under construction does not have any value when the project begins but reaches its full value at the end of the project. This coverage form's rating structure takes that fact into consideration so that pricing is equitable and frequently endorsing the policy to change limits or periodically reporting values at risk is not required. This coverage form also insures materials that await installation. Any of the causes of loss forms may be attached so coverage can be customized to fit the project's specific needs.

Service businesses that are remodeling or adding a building or structure to their premises should consider using this form because of the coverage provided and the pricing methodology.

Related Article: [CP 00 20-Builders Risk Coverage Form Analysis](#)

Commercial or Manufacturers Output Policy

A commercial output policy is a property coverage form originally designed for automobile manufacturers but it is appropriate for any property exposure with large values. The coverage is broader and more flexible than the coverage in standard Property Coverage Forms. There are several built-in coverages but the deductibles also tend to be higher. Most commercial output policies are unique to each company, but both AAIS and ISO have developed their own coverage forms for their members.

Comparing forms is necessary to determine their advantages and disadvantages. Exclusions, property included and excluded, inland marine extensions, property at other locations, and any special limitations must be examined carefully. Rating is unique and a decision on whether the rate can be changed during the year is usually necessary.

Larger, multi-location service businesses should consider this policy because of the location flexibility and the broad coverages.

Related Articles:

[OP 00 01-ISO Capital Assets Program Coverage Form \(Output Policy\) Analysis](#)

[CO1000-AAIS Commercial Output Program Property Coverage Part Analysis](#)

Condominium–Unit-owners coverage

This coverage form insures business personal property of a unit-owner and personal property of others in its care, custody, or control. The coverage provided is similar to the coverage the Building and Personal Property Coverage Form provides except that there is consideration for the unique features of condominium bylaws and coverage requirements. ISO offers this coverage but some insurance companies have developed their own variations of it.

If a service business is a part of a commercial condominium they will need this coverage. Their bylaws should be reviewed carefully to confirm that coverage is adequate.

Related Article: [CP 00 17-Condominium Association Coverage Form Analysis and CP 00 18-Condominium Commercial Unit-Owners Coverage Form Analysis](#)

Equipment Breakdown Coverage Form

This coverage has ten separate parts:

- Property Damage
- Expediting Expense
- Business Income/Extra Expense
- Spoilage Damage
- Utility Interruption
- Newly Acquired Premises
- Ordinance or Law
- Errors and Omissions

- Brands and Labels
- Contingent Business Income/Extra Expense

Coverage applies to equipment under pressure in addition to mechanical or electrical equipment that generates energy. Communication and computer equipment is also covered. All are subject to certain restrictions. The major carriers that write this coverage use their own coverage forms but the structure is similar to ISO's version.

All building owners and tenants responsible for operating the above types of equipment should seriously consider purchasing this coverage because it resolves a significant gap in coverage in standard Commercial Property Coverage forms.

Related Article: [ISO Equipment Breakdown Protection Coverage Form Analysis](#)

Legal Liability Coverage Form

This coverage form insures against direct physical loss or damage including loss of use of property of others in the insured's care, custody, and control for which it is legally liable. Coverage is for the property owner's benefit, not for the insured's benefit. That owner must file the claim for damages. A standard ISO coverage form provides this coverage. The insured chooses basic, broad, or special causes of loss. Determining the causes of loss form to use is based on the wording of the contract or agreement between the property owner and the insured. Because this is legal liability only, the causes of loss actually covered are the ones the contract or agreement requires. As a result, purchasing broader causes of loss than what the contract requires wastes money.

Related Article: [CP 00 40-Legal Liability Coverage Form Analysis](#)

Standard Property Policy

This is a limited option version of the ISO Building and Personal Property Coverage Form. Because the causes of loss and the conditions are written into the policy, only a declarations is required to complete this policy. The significant restrictions in this policy place a heavy burden on the named insured. As a result, its use is usually limited to only risks that cannot be insured under a more conventional coverage form.

This may be the only policy offered for some service businesses. It is highly restrictive and differs from other commercial property policies but it does provide essential coverage.

Related Article: [CP 00 99-Standard Property Policy Analysis](#)

Optional Property Endorsements

There are a number of endorsements available to modify the commercial property coverage forms. Many of the endorsements are appropriate for specific types of insureds. The ones this list includes could apply to almost any insured.

Related Article: [ISO Commercial Property Program Available Endorsements and Their Uses](#)

Additional Debris Removal

Debris is created whenever there is a building or business personal property loss. It must be removed in order for the reconstruction to begin. Payment for debris removal in the ISO Building and Personal Property Coverage Form is limited to 25% of the loss plus an additional \$25,000 if needed.

The \$25,000 may not be sufficient for some insureds so there is an option to purchase a higher limit. Limits are purchased on a per-location basis instead of the standard per-building basis. This allows insureds to consider their entire location and determine potential debris removal considerations.

Unusual construction or places that are difficult to access can contribute to increased debris removal expense.

Related Article: [Debris Removal Concerns](#)

Ordinance or Law Coverage

The ISO Building and Personal Property Coverage Form does not pay for increases in a loss due to local ordinances that require improvements to a building following a loss. This coverage insures three specific situations when ordinances increase rebuilding costs:

- The first deals with laws that require a building to be torn down if more than a certain percentage is destroyed and the building does not meet current codes. There is no coverage for destruction of the undamaged portion of the building. Coverage A pays for this.
- Second, there is no coverage for the costs to demolish undamaged portions of the building and clear the site. Coverage B pays for this.
- Third, there is no coverage to bring a building up to code in order to obtain permits to build. Coverage C pays for this.

Coverage may be purchased under ISO CP 04 05. Some insurance companies offer this coverage slightly differently.

Related Article: [CP 04 05-Ordinance or Law Coverage](#)

Outdoor Trees, Shrubs, and Plants Enhancement

The ISO Building and Personal Property Coverage Form excludes outdoor trees, shrubs, and plants. A coverage extension provides a small amount of coverage but for only limited causes of loss and for small limits. CP 14 30–Outdoor Trees, Shrubs, and Plants provides broader causes of loss and higher limits. There is an option to include or exclude vehicle damage.

Vegetated roofs are not subject to the limitations for trees, shrubs, and plants.

Related Article: [ISO Commercial Property Program Available Endorsements and Their Uses](#)

Replacement Cost Valuation

Actual cash value is the standard valuation on insurance coverage forms and policies. Actual cash value is replacement cost on the date of loss less depreciation. While this valuation basis indemnifies the insured and returns it to the same condition after the loss as before, it creates problems because it is virtually impossible to rebuild old for old. Replacement cost valuation provides new for old coverage and is available in many property and inland marine coverage forms as well as some auto coverage forms. It is an important tool but is only effective if the insured purchases sufficient limits.

Related Article: [CP 00 10–Building and Personal Property Coverage Form Analysis](#)

Spoilage

Spoilage is a consequential loss that the ISO Building and Personal Property Coverage Form excludes. However, CP 04 40 insures against spoilage of perishable stock within the building at the described premises. The insured must own the stock or the stock must be in its care, custody, or control. Spoilage can be caused by power outage and/or breakdown/contamination.

Service operations with perishable stock should seriously consider purchasing this coverage unless they plan on having a backup generator or keep very low stocks of perishables.

Related Article: [ISO Commercial Property Program Available Endorsements and Their Uses](#)

Utility Services–Direct Damage

When covered property is damaged because a utility service supplied by an off-site provider fails, coverage applies only if CP 04 17–Utility Services - Direct Damage is attached to the policy. The failure must be due to the off-premises utility being damaged by a scheduled cause of loss. The only utility services covered are those scheduled in the endorsement and only the covered property described in the endorsement is covered. The covered utility services can be water, communication and/or power as defined in the endorsement.

Related Article: [Utility Services Coverage](#)

TIME ELEMENT COVERAGES

Time Element Coverage Forms cover the intangible economic losses that follow direct damage losses to tangible property. These coverage forms are forward-looking and coverage is based on loss of anticipated future economic benefits.

Business Income With Extra Expense

Business income with extra expense covers the loss of income a business sustains after direct damage to covered property. Coverage also applies to extra expenses that the insured incurs to remain in operation or to resume operations more quickly above and beyond the amount necessary to reduce the business income loss.

This coverage should be mandatory if the service business would be unable to operate following a direct damage loss to the building or business personal property.

Related Article: [ISO Time Element Coverage Forms Analysis](#)

Business Income Without Extra Expense

Business income without extra expense covers the loss of income a business sustains after direct damage to covered property. It covers expenses the insured incurs in order to reduce the business income loss but only up to the amount by which they reduce the business income loss. There is no coverage for extraordinary measures the insured takes to maintain operations without regard to the impact the expenses have on reducing the loss of income. Most service businesses will need coverage for extraordinary expenses but if not, this coverage should be considered.

Related Article: [ISO Time Element Coverage Forms Analysis](#)

Extra Expense Coverage Form

This coverage provides a way to pay for funds the insured must spend to continue operations or resume operations as soon as possible without regard to income to be generated by doing so. These include, but are not limited to:

- Transportation fees when using next-day service instead of normal shipping schedules
- Any surcharge to put a rush on a purchase order
- Special set-up fees that may be charged for a manufacturing order

This coverage form also covers money legally spent to continue or resume operations.

This coverage should be considered for risks that do not sustain a business income loss but that incur considerable extra expenses to remain open and operating.

Many service businesses can quickly move to another location following a direct damage loss. If so, this coverage may be more important than business income coverage.

Related Articles:

[ISO Time Element Coverage Forms Analysis](#)

[Extra Expense Worksheet](#)

Leasehold Interest

This coverage form insures the named insured tenant that has a favorable long-term lease. It covers the difference between the rate in that lease and the prevailing rate in the area. Coverage applies only when the favorable lease is cancelled because a covered cause of loss causes loss or damage to the building. Coverage includes the value of up-front amortized costs. The limit of insurance decreases automatically based on the length of the lease.

The insured can choose basic, broad, or special causes of loss. It is important to review the insured's lease agreement to determine the type of loss that would break the lease and trigger coverage in order to select the appropriate causes of loss form.

Any service business with a long-term lease should consider this coverage.

Related Article: [ISO Time Element Coverage Forms Analysis](#)

Business Income Coinsurance

Coinsurance is a technique that encourages proper insurance to value. Values that reflect higher coinsurance percentages are subject to lower rates. The lowest rate is at 125% coinsurance. This unusual percentage is used to encourage the insured to cover both the business income and the extra expense that must be incurred beyond the business income loss. Business income coinsurance is based on time and the insured should base limits on the consecutive months that generate the highest income. For example, retailers should consider using winter months instead of summer months. Contractors that do exterior work should use summer months instead of winter months.

Business Income Alternatives to Coinsurance

Agreed value

This approach suspends coinsurance but requires that the insured submit annual signed statements that show both the prior 12 months business income and the anticipated business income for the next 12 months. The insured must then carry a limit that equals at least 50% of the anticipated business income for the next 12 months.

Related Article: [Business Income Alternatives to Coinsurance](#)

Maximum period of indemnity

This approach suspends coinsurance and pays the least of the business income loss incurred for up to 120 days following the date of loss or the limit of insurance. Coverage ends after the 120th day even if the limits have not been used up.

Related Article: [Business Income Alternatives to Coinsurance](#)

Monthly limit of indemnity

This approach suspends coinsurance and pays the monthly business income loss incurred up to 1/3, 1/4 or 1/6 of the business income limit, depending on the percentage on the declarations. Payment continues until business operations resume or the limit of insurance is used up, whichever occurs first. For example, if an insured chose the 1/3 option with a \$60,000 limit, \$20,000 would be available each month. If there was a loss and the loss in the first month was \$10,000, it would be paid in full. The next month's loss was also \$20,000 and would also be paid in full. The loss in the third month was \$30,000 but only \$20,000 would be paid. The loss in the fourth month was \$20,000 but only \$10,000 was paid because this amount used up the limit of insurance.

Related Articles:

[Business Income Alternatives to Coinsurance](#)

[Business Income-Sample Monthly Limitation Worksheet](#)

Premium adjustment

This approach suspends coinsurance while ensuring that the insured pays only for the coverage needed. It is similar to a personal property reporting option except that the full premium is paid in advance and the insured receives only a refund, never an additional premium. The insured submits a statement of estimated business income at the beginning of the policy period, chooses a coinsurance percentage and limit, and pays the appropriate premium. At expiration, the insured submits the statement of actual business income and the premium is recalculated. The insured receives a refund if the actual business income is less than the estimate. However, there is no additional premium charged if the actual income exceeds the estimate because the most the insurance company pays is the estimated business income limit.

Related Article: [CP 15 20-Business Income Premium Adjustment \(Reporting Form\)](#)

Optional Time Element Endorsements

There are a number of endorsements available to modify the time element coverage forms. Many of the endorsements are appropriate for specific types of insureds. The ones this list includes could apply to almost any insured.

Related Article: [ISO Time Element Coverage Forms Available Endorsements and Their Uses](#)

Business Income from Dependent Properties

This endorsement covers loss sustained at dependent properties that cause the insured's operations to be suspended. A dependent property can be a supplier or a customer of the insured. It can also be the lead store at a shopping center that draws customers to the insured. This endorsement is attached to the policy that provides business income coverage. Business income coverage on the insured's premises is not a prerequisite to purchasing this coverage.

When a service business derives a significant amount of business from one particular client, this coverage should be purchased to protect that service business's loss of income if that client should have a direct damage loss.

Related Article: [CP 15 08, CP 15 09, CP 15 01, CP 15 34, AND CP 15 02–Time Element Dependent Properties Coverage Forms](#)

Ordinance or Law–Increased Period of Restoration

Standard ISO Time Element Coverage Forms do not pay for increases to the time needed to rebuild following a loss due to local ordinances that require making improvements to a building following a loss. This endorsement provides coverage for that increase in time.

Coverage may be purchased under ISO CP 15 31. Other insurance companies may provide this coverage through extensions of coverage.

This endorsement should be attached when CP 04 05–Ordinance or Law Coverage is attached to the Building and Personal Property Coverage Form.

Related Article: [CP 15 31-Ordinance or Law-Increased Period of Restoration](#)

Utility Services

When business operations are interrupted because a utility service supplied by an off-site provider fails, coverage applies only if CP 15 45 17–Utility Services - Time Element is attached to the policy. The failure must be due to the off-premises utility being damaged by a scheduled cause of loss. The only utility services covered are those scheduled in the endorsement. The covered utility services can be water, communication, wastewater removal and/or power as defined in the endorsement.

Related Article: [CP 15 45-Utility Services-Time Element](#)

PROPERTY AND TIME ELEMENT CAUSES OF LOSS

ISO property policies are assembled form-by-form so they can be customized. Once the insured selects the appropriate coverage form or forms, it must then select the causes of loss form or forms. There are three primary options to choose from. Earthquake and flood coverage also should be considered.

Basic

This causes of loss form insures against fire, lightning, explosion, smoke, windstorm or hail, smoke, damage from aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action.

Sinkhole collapse does not include the cost to refill the sinkhole. Volcanic action is damage that particulate matter, dust, ash, and lava flow causes. It is also the damage caused by airborne shockwaves and blasts but not from any movement of the ground.

Related Articles:

[Basic, Broad, and Special Causes of Loss Forms Analysis](#)

[Compare: ISO Commercial Property Program Causes of Loss Forms](#)

Broad

This causes of loss form insures against all of the basic causes of loss plus falling objects, weight of ice, snow, or sleet, and water damage from plumbing, heating, ventilating, air conditioning, or appliances breaking or cracking. It also covers collapse due to any of the causes of loss in the basic causes of loss form and the broad causes of loss form.

Related Articles:

[Basic, Broad, and Special Causes of Loss Forms Analysis](#)

[Compare: ISO Commercial Property Program Causes of Loss Forms](#)

Special

This causes of loss form insures against direct physical loss or damage except as the coverage form limits or excludes. This causes of loss form provides the broadest coverage of the three forms available.

Related Articles:

[Basic, Broad, and Special Causes of Loss Forms Analysis](#)

[Compare: ISO Commercial Property Program Causes of Loss Forms](#)

Earthquake

All three primary causes of loss forms exclude earth movement. Coverage for earthquake damage can be provided by any one of three different ways:

- Include this cause of loss by using CP 10 40–Earthquake and Volcanic Eruption Endorsement
- Purchase a Difference in Conditions (DIC) policy that includes earthquake as a covered cause of loss
- Purchase a separate earthquake policy from a nonstandard market

The first two options are the most positive way to obtain this coverage. However, a nonstandard market may be the only place to obtain coverage for this cause of loss in certain earthquake-prone areas and with certain types of properties. Deductibles are a percentage of the limit of insurance and usually range from 1% to 10%.

Related Article: [CP 10 40-Earthquake and Volcanic Eruption Endorsement](#)

Flood

All three primary causes of loss forms exclude flood. Coverage for flood can be provided by any one of three different ways:

- Include this cause of loss by using CP 10 65–Flood Coverage Endorsement
- Purchase a Difference in Conditions (DIC) policy that includes flood as a covered cause of loss
- Purchase a separate flood policy from the National Flood Insurance Program (NFIP)

When coverage under the NFIP is available, flood carriers usually require that the insured purchase the NFIP policy as primary and it then provides excess limits over it.

Any service operation located in flood-prone areas should consider purchasing flood insurance through the federal program and then purchase excess amounts from the private market.

Related Articles:

[CP 10 65-Flood Coverage Endorsement](#)

[Overview of the National Flood Insurance Program](#)

INLAND MARINE COVERAGES

Inland marine traditionally has been less regulated than other types of insurance because of the unique nature of the property covered. In order to be consistent in treating it, insurance regulators adopted the Nationwide Marine Definition in 1933. While the basic definition has not changed, amendments have been added over the years that recognize changes in technology and the economy. Inland marine coverage can be provided by standard ISO coverage forms and by independent coverage forms from various inland marine carriers. While there are many common forms, inland marine insurance is known for recognizing and insuring unique exposures. When "it has never been done before" and needs to be insured, the inland marine market comes into play.

Related Articles:

[Nationwide Inland Marine Definition](#)

[Who Needs Inland Marine Coverage?](#)

Accounts Receivable

This coverage protects against loss resulting from an inability to collect accounts receivable due to the loss, damage or destruction of books or records of accounts. This coverage may be written using a standard ISO or AAIS Inland Marine Form.

Related Articles:

[.ISO Accounts Receivable Coverage Form](#)

[AAIS Accounts Receivable Coverage](#)

Bailees Customers

A Bailee Customer policy covers bailment situations. In a bailment, one person accepts goods from another and promises to return them to that person in the condition received or better. There is both a contractual and a goodwill obligation. The bailees coverage is a nonstandard form offered by various inland marine markets. Coverage can be limited to only the legal liability but many insureds purchase full coverage (called goodwill coverage) to better serve their clients. The valuation may be on an actual cash value or replacement cost basis. Coverage can be purchased for the item while in process or not. Coverage may be "risks of direct physical damage" or named perils only. Coverage is provided while the goods are at the insured's premises, in transit or while at another person's premises who is performing services to the goods on behalf of the insured.

Related Articles:

[AAIS Bailee Customers Floater Coverage-Dry Cleaners and Laundry Coverage Form](#)

[ISO Bailees Customers Coverage Form](#)

Commercial Articles

The Commercial Articles policy provides coverage for the commercial user of cameras and musical instruments. Property is covered wherever it is located and does not require scheduling of locations or property.

Cameras can be very important part of many service operations.

Related Articles:

[Commercial Articles Coverage Form](#)

[AAIS Photographic Equipment Coverage](#)

Contractors Equipment

This coverage provides physical damage insurance for the mobile or contractors' equipment located at the insured's premises, job site or while it is in transit. Items that can be included range from employees' tools to scaffolding to cranes and more. If it is used by the contractor to do a job and is not licensed for road use, there is a good chance that it is contractors' equipment and should be covered. There is no standard form to provide this coverage. Coverage comparisons to consider are: actual cash value or replacement cost; is the coverage all risk or named perils; can the coverage be blanketed; automatic coverage for new or replacement equipment; leased, rented and borrowed items; coinsurance requirement and penalty; "overcapacity" limitation in the form that will deny coverage if the equipment lifts something beyond its stated capacity.

Service operations are both on and off premises carrying tools and using a variety of types of equipment. This coverage is a very important part of many service operations.

Related Articles:

[AAIS Contractors' Equipment Coverage Forms](#)

[ISO Contractors Equipment Coverage Form](#)

Difference in Conditions (DIC)

Difference in Conditions (DIC) coverage is occasionally referred to as umbrella coverage for property lines of insurance. It does not provide excess coverage for existing insurance coverages; instead, it provides coverage that is not in underlying coverage forms and policies. Its name derives from the difference in coverage provisions between it and the underlying coverage forms and policies. The greater the number of differences in coverage between the underlying coverage and the DIC, the greater the coverage the DIC provides. It is used primarily to provide earthquake and flood coverage and then

insureds are pleasantly surprised to discover that the DIC covers certain perils that their underlying coverage forms and policies exclude.

DIC insurance coverage is designed to close specific gaps in standard insurance policies and is usually available only for larger industrial or commercial risks. DIC coverage is usually provided by a separate coverage form or policy but in some cases is available as an endorsement to the underlying coverage form or policy.

There is no standard form to provide this coverage, but generally it is offered through both inland marine and property markets. The keys to comparison are the limits, deductibles, exclusions, territory, and method of capping.

The broad aspects of the DIC can prove helpful for the unforeseen.

Related Articles:

[AAIS Difference in Conditions Form-Property Coverage Part](#)

[ISO Difference in Conditions Coverage Form](#)

Electronic Data Processing

Covers loss to electronic data processing equipment, software and media owned, leased or used by the insured. Computerized production equipment may be insured as well as conventional computer equipment. Coverage may include or exclude breakdown and power interruption. This coverage is available through the inland marine markets and coverage is not standardized. Comparisons must be made as to exclusions, on- and off-premises coverage, and transit. Valuation basis is a consideration because most computer systems will not be replaced with like and quality due to changes in technology.

Service businesses may work on computers or may use computers to provide services to their clients. This coverage is vital to either type or operation.

Related Articles:

[AAIS Electronic Data Processing Equipment and Business Computer Coverage Forms](#)

[ISO Computer Systems Coverage Form](#)

Fine Arts

Property coverage forms either exclude fine arts or limit payment to their utilitarian value. This coverage provides a valuation clause based on a piece of art's specified value. The art including paintings, etchings, statuary, stained or etched glass windows are covered against risk of direct physical loss. The key for comparison is the on-premises limit, off-premises limit and transit. The breakage exclusion is common but can be bought back for a significant surcharge.

Many service businesses display artwork in their offices or as part of their landscaping.

Related Articles:

[AAIS Fine Arts Coverage Forms](#)

[ISO Commercial Fine Arts Coverage Form](#)

Furriers Block

Furriers block policy covers the unique aspects of the fur garment business. Furs and fur garments are covered while on premises and off premises. With purchase of a furrier's customers extension or separate policy, the coverage is extended to cover the customer's property on the insured's premises, in storage, in transit, and even at the customer's home. Coverage is for all perils except fairly standard exclusions.

There is no standard form but most companies that offer the coverage use similar forms. Coverage keys are the limits on and off premises, limits for customers' goods and whether there are per item limits. Limitations, including territorial limitations are important considerations especially for customer garments off premises.

Service businesses that work on or with fur or fur garments will need this coverage to properly insure those items.

Related Articles:

[Furriers Block Policy](#)

[ISO Furriers Block Coverage Form](#)

Goods in Transit

There are many types of policies that cover product being transported. The product may be owned by the insured and being transported by the insured. It may be owned by the insured and being transported by a hired firm. It may be non-owned and the insured is the hired transporter. In all cases coverage can be purchased to protect the product through a number of inland marine carriers. The coverage may be called motor truck cargo or transportation insurance but the policies should be similar. Key comparisons are causes of loss covered, travel territory restrictions, and warranties on security, alarm systems, locks, and unattended circumstances.

Service operations often transport goods of others or transport their own good so this coverage is vital.

Related Articles:

[AAIS Motor Truck Cargo Legal Liability Coverage Forms](#)

[AAIS Transportation Coverage Forms](#)

[ISO Motor Truck Cargo Carriers Coverage Form](#)

[ISO Motor Truck Cargo Owners Coverage Form](#)

Jewelers Block

The jewelers block policy covers jewels and metals used in the insured business on all peril basis. Coverage is both on and off premises and while in transit. There is also coverage for customers' goods while in the insured's custody. While there is a standard ISO and a standard AAIS form for smaller insureds, many companies use their own forms to provide the coverage. It is important to review the perils that are covered, the limits attached to each type of property, and any limitations. Security system and changes to premises warranties are common and should be reviewed carefully.

A proposal form, which includes the application, will need to be completed by the insured and the insurer. This proposal becomes a warranty. It must be completed thoroughly since an error can cause a lapse in coverage.

This coverage is needed by any service business that works with precious metals or jewels.

Related Articles:

[AAIS Jewelry Dealers Coverage Form \(Filed form\)](#)

[ISO Jewelers Block Coverage Form \(Filed form\)](#)

[ISO Jewelers Block Coverage Form \(Non-filed form\)](#)

Miscellaneous

One kind of miscellaneous floater is called a Special Floater, and is used for items that cannot be covered under any other floater offered by a carrier. It is a very open form and allows for the maximum flexibility in developing necessary coverage. Since the items covered are floating, it is important to determine the limits in effect throughout the floating and while on premises. Limitations can be a concern especially for off-premises situations. Another important consideration is any maximum capping when it is less than the total value of all items being insured.

There are also a number of inland marine coverage forms that may be appropriate for a particular insured. Review the following PF&M articles for a description of forms currently available through ISO and AAIS.

Related Articles:

[AAIS Non-filed Inland Marine Coverage Forms Overview](#)

[ISO Non-filed Inland Marine Coverage Forms Overview](#)

Signs (Neon and Electric)

Neon, fluorescent, automatic or mechanical electric signs are covered against a risk of direct physical loss or damage. This is offered using standard AAIS or ISO Inland Marine Forms. If regular wooden sign coverage is needed, the Building and Personal Property Coverage Form must be used.

Related Articles:

[ISO Signs Coverage Form](#)

[AAIS Sign Coverage Form](#)

Valuable Papers and Records

The policy insures on a risk of direct physical loss basis, including misplacement or mysterious or unexplained disappearance. It covers the costs to research and replicate damaged important documents, books, and records or to replace them. Coverage is provided using standard ISO or AAIS Inland Marine Forms. There is a limited amount of coverage provided in property forms, but it is not as broad as the Inland Marine Form.

Service operations may have valuable papers relating to mortgages, union contracts, lease agreements, service contract and warranties and more. It is important to review the types of papers kept in order to evaluate the coverage need.

Related Articles:

[ISO Valuable Papers and Records Coverage Form](#)

[AAIS Valuable Papers and Records Coverage Form](#)

CRIME COVERAGES

The need for crime coverages is due to exclusions in commercial property coverage forms and policies. Most risks of physical loss of commercial property forms cover theft of merchandise and business personal property by other than employees. Theft of money, computer fraud, and employee dishonesty are usually excluded except for minimal amounts in Businessowners Policies and similar products. Crime coverage forms fill in the gaps in coverage.

Money, Securities and Other Property

The coverage forms in this section provide coverage for securities, other property, and in all but one coverage, money.

Computer Fraud

Money, securities, and other property are covered when any computer is used to fraudulently cause a transfer of the insured's property to another person located off the premises. The ISO Commercial Crime Coverage Form provides this coverage.

Related Article: [Commercial Crime Coverage Analysis](#)

Destruction of Electronic Data or Programs

This coverage applies to loss or damage when a computer virus is introduced or a person who is not authorized to access the system damages the insured's electronic data or programs within the computer.

Related Article: [CR 04 13-Destruction of Electronic Data or Computer Programs](#)

Employee Dishonesty

Most property coverage forms exclude employee dishonesty. As a result, this coverage is very important because employees have the potential to cause the most damage to an insured. They have access to all of the money, products, and information about the company. Employees who have more authority and access have greater potential to cause loss or damage. Coverage applies to loss of money, securities, and property that the insured owns or leases, or to property of others in its possession. Coverage may be provided under either standard ISO coverage forms or Surety and Fidelity Association of America forms.

Each service business will have unique opportunities for employees to steal property, money or securities from the business. It is important to review the potential opportunities and purchase a limit that reflects the exposure.

Related Article: [Commercial Crime Coverage Analysis](#)

Employee Dishonesty Including Customer's Property

Most property coverage forms exclude employee dishonesty. As a result, this coverage form is very important because employees have the potential to cause the most damage to an insured. They have access to all of the money, products, and information about the company. Employees who have more authority and access have greater potential to cause loss or damage. Coverage applies to loss of money, securities, and property that the insured owns or leases or to property of others in its possession. Coverage also applies to loss of money, securities, or property situated on a client's premises caused by an employee of the insured but only if that employee can be identified.

Many service businesses operate on clients premise so this coverage extension if very important.

Related Article: [CR 04 01-Client's Property](#)

Extortion

Money, securities, and other property that is lost because of an extortion demand is covered by this coverage form. The definition of territory is very important and the insured can select the countries that are included within the definition. Coverage applies to threats of bodily harm to directors, officers, employees, and any of their family members. Threats of damage to the insured's property or premises are also covered. Coverage is available through standard ISO coverage forms and from specialty markets if the territory(ies) are especially dangerous.

Service business employees often work away from the premises so potential for kidnap and extortion can be considerable.

Related Article: [CR 04 03-Extortion-Commercial Entities and CR 04 04-Extortion-Government Entities](#)

Forgery or Alteration

Covers when someone – not an employee or owner – forges a signature on a check or other monetary instrument in order to obtain money that belongs to the insured. Forgery caused by an employee is covered as part of employee dishonesty.

Coverage may be provided using either a standard ISO form or a Surety and Fidelity Association form.

Related Article: [Commercial Crime Coverage Analysis](#)

Identity Fraud Expense

The cost to restore a company or individual to normal after its identify is stolen can be very high. This coverage pays nine specific types of expenses for both the insured business and its employees, directors, officers, trustees, and their family members.

Related Article: [CR 04 15-Identity Fraud Expense](#)

Kidnap and Ransom

This coverage applies to expenses related to the kidnap of a covered person. The expenses include the ransom, the cost to transport the ransom and the rescued person, the security and intermediaries in the negotiations, and more. Coverage applies to employees, directors, trustees, officers, and their relatives. Coverage territory is anywhere in the world except for specifically listed countries.

Related Article: [CR 00 40 and CR 00 41-Kidnap/Ransom and Extortion Form and Policy](#)

Lessees of Safe Deposit Boxes

This coverage insures property the insured keeps in a safe deposit box. Theft, destruction, and disappearance causes of loss apply to securities. Burglary, robbery, or vandalism causes of loss apply to all other property. This coverage form does not insure money.

Related Article: [CR 04 09-Lessees of Safe Deposit Boxes](#)

Telephone Toll Fraud

When an unauthorized person accesses a phone system and uses it to make outgoing calls, that person is not charged any toll. Instead, the telephone system's owner must pay the bill. This can be very expensive so this coverage is available to pay those fraudulent charges. There are two important conditions. The first is that protective measures must be in place to prevent such fraud. The second is that coverage applies for only 30 days after the initial fraudulent call.

Related Article: [CR 04 16-Telephone Toll Fraud](#)

Unauthorized Reproduction of Computer Software by Employees

Software manufacturers have the right to collect penalties and fines from any company that uses its computer software without authorization. If an employee of the insured adds software that the insured does not know about, this coverage pays those penalties and fines.

Related Article: [CR 04 14-Unauthorized Reproduction of Computer Software by Employees](#)

Money and/or Securities Only

The coverage forms in this section insure only money and/or securities. There is no coverage for other property.

Theft, Disappearance, and Destruction

Money and securities inside the insured's premises or at a banking premises is covered for theft, disappearance, or destruction causes of loss. Similar coverage is provided outside the premises when money and securities are in a messenger's custody.

Related Article: [Commercial Crime Coverage Analysis](#)

Robbery and Safe Burglary

Money and securities inside the insured's premises or banking premises that are in a safe or vault are covered against robbery and safe burglary. Money and securities are also covered against robbery while outside the premises and in the care of a messenger.

Related Article: [CR 04 07-Inside the Premises-Robbery of a Custodian or Safe Burglary of Money and Securities](#)

Securities Deposited With Others

This coverage insures securities against loss caused by theft, disappearance, or destruction while inside a custodian's premises, while transported by a custodian, or while on deposit in a depository. The custodian must be named and the depository must be specifically scheduled. Coverage is provided by entering a limit, a custodian, and a depository on the declarations.

Related Article: [CR 04 10-Securities Deposited With Others](#)

Property Other than Money and Securities

The coverage forms in this section insure only property. There is no coverage for money or securities.

Premises Burglary

Covers property **other than money and securities**, inside the premises, against loss caused by robbery of a watchperson or by burglary. This is covered using the ISO Standard Crime Form.

Related Article: [Commercial Crime Coverage Analysis](#)

Premises Theft

Covers for loss by theft of property, **other than money and securities**, while it is inside the premises. This is covered using the ISO CR 04 05. This should not be attached if property coverage is provided using the CP 10 30—Causes of Loss Special Form because it would provide duplicate coverage.

Related Article: [CR 04 05-Inside the Premises–Theft of Other Property](#)

Robbery and Safe Burglary

Covers **property other than money** from actual or attempted robbery or safe burglary. Coverage inside the premises may be written to cover both robbery and safe burglary or be limited to either robbery or safe burglary. Coverage outside applies to robbery of property other than money in a messenger's care and custody.

Related Article: [CR 04 06-Inside the Premises-Robbery of A Watchperson or Burglary of Other Property](#)

LIABILITY COVERAGES

Liability coverages include both commercial general liability coverage and common liability coverages that relate to the business's premises or operations.

Commercial General Liability–Occurrence Basis

This coverage pays for damages the insured becomes legally obligated to pay due to bodily injury, property damage, or personal and advertising injury that arises from its premises, operations, completed operations, and products. The occurrence basis means that occurrences that take place during the policy period are covered, regardless of when a claim for injury that results from the occurrence is presented.

The potential for off premises injuries to others are considerable because of the interaction most service businesses have with clients. This coverage is vital.

Related Article: [CG 00 01 and CG 00 02-Commercial General Liability Coverage Forms Analysis](#)

Commercial General Liability–Claims-Made Basis

This coverage pays for damages the insured becomes legally obligated to pay due to bodily injury, property damage, or personal and advertising injury that arises from its premises, operations, completed operations, and products. The claims-made basis means that only claims presented during the policy period are covered regardless of when the occurrence that resulted in injury took place. A retroactive date often limits the time the occurrence could have taken place.

Some service businesses may be able to purchase CGL coverage only on a claims-made basis.

Related Articles:

[CG 00 01 and CG 00 02-Commercial General Liability Coverage Forms Analysis](#)

[Compare: ISO Commercial General Liability Coverage Forms-CG 00 01 \(Occurrence Basis\) To CG 00 02 \(Claims-Made Basis\)](#),

Optional Liability Coverages

The ISO Commercial General Liability Coverage Forms cover bodily injury, property damage, and personal and advertising injury from operations, premises, completed operations, and products. This may be sufficient for many insureds but others have liability exposures that these coverage forms exclude. The coverages described in this section are options that should be discussed with most insureds.

Cyber Liability

This is the most rapidly changing liability area today. The growth in the number of persons who use the Internet regularly has led to businesses promoting and marketing their products and services online. Most companies have home pages and communicate with others via text, email, chat, blogs, Facebook, and other social media. Exclusions are being added to liability coverage to restrict coverage for many cyber liability-related activities. A number of carriers are responding to the need for this cyber liability coverage. Comparing coverage forms is important because there is no standard coverage form. The following coverages should be part of any cyber liability coverage:

- Security and privacy liability

- Website content coverage/intellectual property and domain name coverage
- Virus coverage
- Civil regulatory actions
- First-party coverage for breach notifications, forensics, and credit monitoring expenses
- Cyber extortion
- Loss of data
- Loss of income due to loss of network resources

Almost every service business should consider its exposure to cyber-attacks and purchase coverage accordingly.

The Insurance Marketplace has additional information.

Directors and Officers

This coverage insures corporate directors and officers against claims usually brought by stockholders that allege loss that arises from mismanagement. Claims may also be made against the corporation for mismanagement by other than stockholders, which is also covered. An Outside Directorship Liability Policy Form is available as supplementary protection to insure that there are sufficient limits for the exposure created when a company's director, officer, or employee serves in an outside director position at the company's request. This coverage is not standard and may vary significantly between carriers and by type of business - i.e., for-profit, not-for-profit, closely-held, or publicly-traded.

Any service operation with outside directors will need this coverage or risk losing the outside directors.

Related Article: [Directors and Officers Liability Insurance Overview](#)

Employee Benefits

Mistakes by the insured in administering its employee benefits program can cost employees. This coverage insures those situations. This DOES NOT INCLUDE fiduciary responsibilities or any situations that involve discrimination or harassment. A simple example is when the insured does not provide the employee with the appropriate COBRA information following termination that results in the former employee losing benefits. Most carriers provide this coverage on their own filed forms by either a separate coverage form or as an endorsement to the commercial general liability coverage. Comparisons should address the types of benefits covered, claims-made versus occurrence, and the employer's contribution. ISO provides a standard endorsement to attach to the Commercial General Liability Coverage Forms.

Related Article: [ISO Commercial General Liability Coverage Forms Available Endorsements and Their Uses](#)

Employment-related Practices

Commercial General Liability Coverage Forms do not insure lawsuits that past, present, and prospective employees or governmental entities bring against the insured employer that allege wrongful discharge, discrimination, or certain types of harassment. A separate coverage form that insures employment-related practices is available. ISO developed its own coverage form but many insurance carriers have their own versions. Using the ISO standard as a starting point to compare coverages can help agents advise their customers on the best coverage form to use for their particular situation.

Service operations should have procedures and processes in place to prevent harassment and discrimination. This coverage is important because allegations can still arise.

Related Article: [Employment-related Practices Liability Coverage Form Analysis](#)

Liquor

Commercial General Liability Coverage Forms exclude liquor liability coverage for any insured in the business of selling, manufacturing, or serving alcoholic beverages. The liquor liability coverage form provides the coverage these types of operations need for the legal liability imposed on them because of providing such beverages to underage persons, those already intoxicated, or because of violations of state liquor statutes. Coverage can be provided on either an occurrence or claims-made basis.

Service businesses may serve or sell alcoholic beverages and be considered in the business of doing so and therefore subject to the liquor exclusion. This coverage should be purchased of the general liability should be modified to eliminate the liquor exclusion.

Related Article: [CG 00 33 & CG 00 34-Liquor Liability Coverage Forms Analysis](#)

Owners and Contractors Protective

This liability coverage is designed to protect either a property owner or a general contractor for the potential liability exposure that results from the hired contractor's negligent acts to perform work on the property owner's or general contractor's behalf. The contractor actually purchases the coverage, but the insurance is for the property owner or general contractor for whom the work is being done. Coverage is limited to a specific location and project.

An unusual feature is that the named insured is the property owner or general contractor who hired the contractor but the contractor pays the premium. Only the named insured property owner or general contractor can cancel.

Using this separate policy instead of being added as an additional insured to the contractor's Commercial General Liability Coverage Form allows the building owner or general contractor to better control the policy and ensure that other claims against the contractor do not dilute the limits.

Any service operation that is having extensive work done on their premises may want to consider requesting a contractor obtain an OCP policy in their name rather than just requiring a certificate of insurance. The cost may be slightly higher, but the added protection may prove invaluable.

Related Article: [CG 00 09-Owners and Contractors Protective Liability Coverage Form-Coverage for Operations of Designated Contractor Analysis](#)

Railroad Protective

This liability coverage protects a railroad against potential liability exposures that result from negligent acts of a designated contractor that any party hires to perform work on or near a railroad. The contractor actually purchases the coverage but it protects the railroad. Coverage is limited to a specific location and project. Commercial General Liability Coverage Forms exclude construction or demolition projects that are at or near railroad properties including railroad tracks, beds, trestles, tunnels, and similar property. This is a limited liability coverage form that buys back coverage.

Related Article: [CG 00 35-Railroad Protective Liability Coverage Form Analysis](#)

Special Events

Special events generate many exposures an underwriter does not anticipate when covering a particular business. A business that participates in special events may need special coverage during that event. In other cases, businesses may sponsor special events and be exposed to unexpected hazards that must also be addressed. Commercial General Liability Coverage Forms can insure special events. The insured may decide to purchase separate coverage in order to participate in the event and to avoid diluting its limits.

Service operations that sponsor special events should consider purchasing a special policy to protect the limits on their regular policy.

BUSINESSOWNERS POLICY

Property, time element, inland marine, crime, and liability coverages can be combined together in businessowners policies. This is a restricted option policy but it provides most of the coverages many small- to medium-size insureds need. Time element coverage is provided for up to 12 months without a specific limit of insurance.

Related Articles:

[ISO Businessowners Program Overview](#)

[AAIS Businessowners Policy Overview](#)

[AAIS Contractors Special Policy Overview](#)

[MSO Businessowners Program Overview](#)

PROFESSIONAL AND ERRORS AND OMISSIONS LIABILITY COVERAGES

Most liability coverage forms exclude professional and errors and omissions liability. There are many types of professional and errors and omission liability and a number of markets willing to write the coverage.

Coverage can be provided on the following common professional and errors and omissions exposures and coverages:

- **Accountants**

Related Article: [Accountants Professional Liability Coverage Analysis](#)

- **Architects and Engineers**

Related Article: [Architects or Engineers Professional Liability Insurance Coverage Analysis](#)

- **Beauticians and Barbers**

Related Article: [Beauticians and Barbers Professional Liability Coverage Analysis](#)

- **Environmental Consultants Errors and Omissions**

See *The Insurance Marketplace* for additional information.

- **Funeral Directors/ Morticians**

Related Articles: [Funeral Directors or Morticians Professional Liability Insurance](#)

- **Insurance Agents**

Related Article: [Insurance Agents and Brokers Errors and Omissions Insurance](#)

- **Land Surveyors**

Related Article: [Land Surveyors Professional Liability Coverage Analysis](#)

- **Law Enforcement**

Related Article: [Law Enforcement Liability Coverage Form Analysis](#)

- **Lawyers**

Related Article: [Lawyers' Professional Liability Coverage Form Analysis](#)

- **Real Estate Agents**

Related Article: [Real Estate Brokers Professional Liability Coverage Analysis](#)

- **Safety and Environmental Consultants**

Related Article: [Safety and Environmental Consultants Liability Coverage Form Analysis](#)

COMMERCIAL AUTO COVERAGES

These forms provide all of the coverages the insured needs for its owned, leased, or hired vehicles. They also cover the insured for non-owned use of a vehicle when an employee or volunteer uses his or her vehicle on company business. The insured can customize the coverage it needs by entering symbols on the schedule. Coverage can apply to all owned, leased, hired, and non-owned autos or just on selected vehicles.

Related Article: [ISO Business Auto Coverage Form Overview](#)

Liability

This coverage applies to bodily injury and property damage to others that an insured vehicle causes.

Related Article: [CA 00 01-Business Auto Coverage Form Analysis](#)

Physical Damage

This consists of two different coverages.

Collision

This coverage applies to covered vehicles damaged by impact with another vehicle, object, or animal.

Other than collision

This coverage applies to covered vehicles damaged by any cause of loss other than collision, unless specifically excluded.

Related Article: [CA 00 01-Business Auto Coverage Form Analysis](#)

Hired Car

This coverage applies to bodily injury and property damage caused by any vehicle the insured hires. Physical damage coverage may also be purchased. Vehicles hired for less than six months are considered hired vehicles, not leased vehicles. This coverage is available with owned auto coverage or as stand-alone coverage.

Related Article: [CA 00 01-Business Auto Coverage Form Analysis](#)

Non-Ownership Automobile Liability

This coverage insures the employer when its employee or volunteer causes bodily injury or property damage to others while using their vehicle on the employer's business. Coverage is only for the insured's benefit, but it may be extended by endorsement to also benefit the employee.

Related Article: [CA 00 01-Business Auto Coverage Form Analysis](#)

Personal Injury Protection/No-Fault

This coverage is designed to meet the requirements of state-mandated "no-fault" coverage laws.

Related Article: [CA 00 01-Business Auto Coverage Form Analysis](#)

Optional Automobile Coverages

The Business Auto Coverage Form can be used for any insured. However, ISO has designed coverage forms that more precisely cover specific types of insureds.

Garagekeepers

Garagekeepers coverage insures against loss or damage to customers' vehicles. Coverage may apply on a legal liability basis or without regard to legal liability. It may be offered as direct coverage that is excess over insurance carried by customers or as direct primary coverage. It is a standard part of the Auto Dealers Coverage Form or can be endorsed to the Business Auto Coverage Form.

This coverage is important to any service operation that offers valet parking or attended parking of any kind. While general liability does provide some coverage, as soon as the vehicle leaves the premises, general liability ceases and if there is no garagekeepers coverage, all coverage ceases.

Related Article: [CA 99 37-Garagekeepers Coverage](#)

Medical Payments

This coverage pays the medical expenses of an insured injured in a motor vehicle accident. It follows the insured inside any vehicle and when struck by another vehicle when he or she is outside the vehicle. Coverage also applies to family members and any other persons who occupy a covered vehicle at the time of an accident.

Related Article: [CA 99 03-Auto Medical Payments Coverage](#)

Uninsured Motorists

This is coverage for the insured that is struck by an uninsured motorist. It is a mandatory coverage in many states. It extends to family members and passengers in the covered vehicles. This coverage is usually restricted to bodily injury but some states also require property damage coverage. The limit should be the same as the bodily injury liability limit on the coverage form.

This coverage does not respond if the other driver is underinsured.

Related Articles:

[CA 00 01-Business Auto Coverage Form Analysis](#)

[CA 21 Endorsements-Uninsured and/or Underinsured Motorists \(UM/UIM\) Coverage](#)

[Auto Uninsured/Underinsured Motorists Coverage Requirements](#)

Underinsured Motorists

This is excess coverage provided to the insured. It applies when the party that causes the accident does not carry adequate limits to fully cover the insured's injuries. The limit should be to the same as the bodily injury liability limit on the coverage form. This coverage does not respond if the other driver is uninsured.

Related Articles:

[CA 21 Endorsements-Uninsured and/or Underinsured Motorists \(UM/UIM\) Coverage](#)

[Auto Uninsured/Underinsured Motorists Coverage Requirements](#)

WORKERS COMPENSATION COVERAGES

Workers compensation coverage is standardized but what benefits employees receive vary considerably from state to state because coverage refers directly to each particular state's workers compensation statutes. In addition, certain locations and activities allow non-federal employees to avoid state statutes and instead come under various federally mandated programs.

Workers Compensation and Employers Liability

Part A covers all injuries and diseases that individual state workers compensation statutes require be covered. Benefits are paid according to schedules each state provides. Part B covers liability that an employer may have imposed on it beyond the state statutes. The National Council of Compensation Insurance (NCCI) provides a standard form that is a model for all member companies to use. Certain states have alternatives to NCCI but all are fairly similar. Part A is compulsory with benefits the state mandates. Part B is liability coverage and is subject to standard tort liability.

Any service operation with employees must purchase this coverage. Service operations that utilize independent contractors rather than employees may choose to not purchase this coverage which could be very costly if the service operation is deemed to be an employer.

Related Articles:

[WC 00 00 00 B-Workers Compensation and Employers Liability Insurance Policy Analysis](#) 280.6-4, Workers Compensation Independent Contractor Status

Stop Gap or Employers Liability Coverage

There are gaps in coverage between workers compensation and commercial general liability coverages that can leave an insured uncovered. Part B of the Workers Compensation and Employers Liability Insurance Policy fills the gaps in most states. However, the state covers only Part A in monopolistic states. Another mechanism must provide the equivalent of Part B. Coverage may be offered on a monoline basis, as a stand-alone policy through a workers compensation carrier, or as an endorsement to the commercial general liability coverage.

Related Article: [Stop Gap-Employers Liability Coverage](#)

Federal Employers' Liability Act (FELA)

This coverage ensures employees who work for or on railroads that cross interstate lines who are not subject to state workers compensation coverages. This coverage is provided by an endorsement to the Workers Compensation and Employers Liability Insurance Policy.

Related Article: [The Federal Employers' Liability Act \(FELA\) Of 1908](#)

Longshore and Harbor Workers Coverage

This endorsement to the Workers Compensation and Employers Liability Insurance Policy covers workers or maritime employees such as longshore workers, harbor workers, shipbuilders, ship-breakers, ship repairers, or other employees engaged in loading, unloading, repairing, or building vessels. It also covers employees who work on navigable waters, adjoining piers, wharves, dry docks, terminals, building ways, and marine railways. Masters, captains, or crews of vessels are not covered because they are subject to the Jones Act.

Service operations that operate on the water, especially on navigable waters, such as rivers and oceans, may be required to purchase this coverage.

Related Articles:

[The United States Longshore and Harbor Workers' Compensation Act \(USL&HWCA\)](#)

[The Merchant Marine Act Of 1920 \(The Jones Act\)](#)

Voluntary Compensation

Each state defines who must be covered and who is exempt under workers compensation statutes. The employer then has the opportunity to include the exempt employees using the voluntary compensation endorsement.

Service operations should consider including all exempt employees by using this form in order to eliminate coverage gaps.

Related Article: [Voluntary Compensation Insurance](#)

EXCESS LIABILITY COVERAGES

Excess liability coverage supplements the limits of an insured's commercial general liability, commercial automobile liability, and employer's liability coverage. Excess liability coverage is triggered when the limits of the underlying insurance are used up. Also it covers an underlying loss that the underlying coverage excludes, subject to the self-insured retention.

Excess Liability Policy

In its purest form, excess liability policies do not have any exclusions or coverage. They track 100% with the scheduled underlying coverages and simply extend limits. Excess policies never provide additional coverage. Many carriers use their own coverage forms and add exclusions and language that make them look more like restricted umbrella policies instead of excess liability policies. Key areas to compare are exclusions and following-form terms.

Service operations should carry either an umbrella or an excess policy. If unusual terms have been negotiated in the underlying policy, the excess liability could provide the most complete coverage; but if the underlying is standard, the umbrella may provide some gap coverage not available in the excess.

Related Article: [What Is The Difference Between Umbrella Policies and Excess Policies?](#)

Umbrella Policy

These policies serve two purposes. First, they provide excess liability limits over the limits in scheduled underlying policies. Second, they fill some gaps in coverage in the underlying coverage. ISO and AAIS have developed standard liability umbrella coverage forms, but many carriers use their own independently filed forms to provide coverage. As a result, comparing coverages is essential. Key areas that should be compared are exclusions, deductibles, whether a follow-form is offered over unusual underlying exposures, limits, and defense costs (included inside or outside the limits).

Service operations should carry either an umbrella or an excess liability policy because of the potential for catastrophic loss.

Related Article: [CU 00 01-Commercial Liability Umbrella Coverage Form Analysis](#)

AVIATION COVERAGES

Specialty markets provide aviation coverages. Any operation that utilizes aircraft in its business needs these coverages. The applications are extensive and coverage is unique and more closely related to Ocean Marine Insurance than other types of coverage.

Aircraft Policy

Aircraft policies are business auto policies for vehicles that fly. Four coverages are available:

- Liability for bodily injury or property damage to parties the aircraft injures
- Passenger liability for bodily injury or property damage to parties in the aircraft
- Medical expense coverage for the aircraft's passengers and crew
- Hull coverage or physical damage coverage on the aircraft itself

Aircraft coverage is very specialized. The marketplace is limited and there are few standardized forms.

Service operations that require officers or employees to fly on a regular basis may find that a small airplane is more convenient than commercial airline flight.

Related Article: [Aircraft Insurance Coverage Analysis](#)

Passenger Liability

Bodily injury to passengers on aircraft is written on a per seat/aggregate basis. All aircraft coverage is written by non-admitted carriers on forms they developed. Key points to compare are the limits by type of coverage and exclusions.

This coverage should be purchased when an aircraft is owned to protect any passengers who may be aboard.

Related Article: [Aircraft Insurance Coverage Analysis](#)

SPECIALTY COVERAGES

These are unique coverages for particular types of insureds. The coverage forms used to provide the coverage are not standardized and are usually written with excess and surplus lines markets.

Electronic Data Liability

Electronic data liability occurs when businesses that supply computer and technology-related services cause electronic data to be damaged, deleted, or unusable. The loss must be due to an error, omission, or other type of accident or negligent act.

Service operations that are supplying electronic data support or services should purchase this coverage.

Related Article: [Electronic Data Liability Insurance](#)

Environmental Impairment Liability Policy

Standard liability insurance policies exclude most damage that pollution causes. This coverage form insures a business's pollution exposure associated with its property and operations. It can also cover cleanup costs and remedial action a third-party demands or a governmental entity orders. Coverage varies by carrier, and comparing coverage forms based on items covered, exclusions, definitions, and defense costs inside or outside the limit is important.

The Insurance Marketplace has additional details.

Fiduciary Liability Insurance

A fiduciary that manages a pension or employee benefit plan faces substantial liabilities that are primarily framed by the Employee Retirement Income Security Act (ERISA.). Private pension and employee benefit plans are subject to ERISA, whether sponsored by single employers, multi-employers, unions, or joint labor-management trusts.

The insured is a trust or employee benefit plan, any trustee, officer, or employee of the trust or employee benefit plan, employer who is sole sponsor of a plan, and any other individual or organization designated as a fiduciary. The coverage provided uses nonstandard forms. The most important information to obtain in any coverage form is that it conforms to current pension law.

Related Article: [Trustees and Fiduciaries Liability Insurance](#)

International/Foreign Operations Insurance

Policies written in the United States usually define territory to include only the United States of America, its territories, Puerto Rico, and Canada. Some provide limited worldwide coverage for incidental travel and some products liability losses.

Many companies have international exposures that exceed the limited coverage that standard policies provide. Companies that have physical assets outside of the United States need international coverage for property, liability, automobile, appropriate workers compensation, and inland marine. Many major insurance companies have facilities to provide international coverage or can assist in placing the coverage.

There are two kinds of policies for property located and land operations conducted abroad. Non-admitted insurance policies are written in English in the United States or a branch office of the company abroad. Protection may apply to more than one country and premiums and losses are paid in dollars.

Admitted insurance policies are products of the insurance market of the country involved with which the American underwriter has a working agreement. They are written in that country's language and premiums and losses are paid in the local currency. American businesses that do not establish facilities abroad but still import or export products require international coverage for risks that arise from using certain of their products. Many major carriers have developed the international equivalent of Businessowners Policies to cover these risks.

Many service operations have employees who regularly travel outside of the country and may have international exposures. Exposures should be analyzed and appropriate coverage purchased.

Related Article: [International Insurance](#)

Media/Communication Liability

Any company that distributes information to the public via a website or other means of communication faces the exposures of a traditional publisher. Easy access to electronic technology is contributing to a huge influx of newsletters, periodicals, and educational services.

Media liability errors and omissions claims seek to impose liability on the publisher for physical injuries or economic loss allegedly caused by some error or negligent publication in the ideas or expressions that the published material contains. A claim or lawsuit may not involve a clear error or omission in some cases. A client who is unhappy with the result of a firm's efforts may file a claim to obtain a different result or avoid paying a fee. Media liability insurance usually pays the costs to defend spoken statements by a publisher or broadcaster, and infringements of copyright, slander, libel, and false light suits are a few of the areas covered. Commercial general liability usually excludes personal and advertising injury claims against publishers or broadcasters and this coverage is used to provide it. This coverage is nonstandard and comparing coverages is important, especially with respect to definitions and exclusions.

Many service operations publish newsletters, blogs and other information to draw potential customers to their website and to provide information to existing customers. This coverage should be considered when material published is not created by outside sources that would have this coverage. Related Article: [Media/Communications Liability Coverage Analysis](#)

Rain or Weather Insurance

There are often nonrefundable fees and other expenses that must be paid up front when someone sponsors a special event, come rain or shine. Sponsors of such events need some hedge against the weather. Rain or weather insurance may be purchased from various specialty markets to cover a variety of expenses associated with a special event. They are very precise with respect to the type of weather and/or amount of rain or snowfall that must occur.

Service operations that hold or sponsor events that require an outlay of fixed expense regardless of the outcome of the event should consider this insurance.

Related Article: [Weather Insurance](#)

Terrorism Insurance

Standard ISO coverage forms do not specifically exclude terrorism. However, many companies exclude both domestic and foreign terrorism by endorsement. Terrorism coverage must be offered. An endorsement is issued if the insured

rejects coverage. When terrorism coverage is accepted, the insurance company that provides the other coverage also provides terrorism coverage.

The terrorism coverage most carriers offer was initially based on the 2002 federal legislation called T.R.I.A. It is now based on the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) that extends federal backup coverage until 2014.

Related Article: [Terrorism and Insurance](#)

Underground Storage Tank Liability (UST)

The United States Environmental Protection Agency (EPA) requires property owners or business operators with underground storage tanks on their premises that contain petroleum products to prove that they are financially responsible. It requires that the owner of the tank be able to pay for any bodily injury or property damage may result from the tank leaking as well as the expenses to take corrective action. Covered underground storage tanks include ones designed to store fuel for the insured's motor vehicles as well as heating fuels.

ISO designed the UST Policy with the EPA's approval to meet those financial responsibility requirements. Other carriers have developed their own forms that should be examined carefully to ensure they meet or exceed EPA standards and requirements.

Any service operation with a UST exposure must secure this coverage.

Related Article: [CG 00 42-Underground Storage Tank Policy Analysis](#)

BONDS

The surety market offers many types of bonds. The two primary categories are Contract and Non-contract bonds. Contract bonds include bid, contract, and payment bonds and are used when there is a contractual obligation with respect to a specific contract. Non-contract bonds include license, permit, and judicial bonds and relate to obligations and performances that must be met that are not due to a contract.

Related Article: [Surety Bonds Overview](#)

Bid Bond

The bid process can take a long time. When it is complete, the customer expects the contractor or supplier to deliver as promised. In many cases, a bid bond is required that obligates the surety to honor the bid bond either by issuing a contract bond if the contractor or supplier receives the contract or paying a penalty that offsets the cost of reopening the bid process.

Related Article: [Construction Contract Bonds](#)

Contract Bond

Contracts are a way of doing business. One way to guarantee that a contract will be performed is to require posting a bond that guarantees its successful performance. The bond provides a level of security beyond the signature on the contract. The purchaser of the services is assured that the surety will either carry out the contract or provide compensation.

Related Article: [Construction Contract Bonds](#)

License and Permit Bond

Most municipalities and states require that businesses provide license or permit bonds to a governmental entity as part of their application to obtain needed permits or licenses. The bond guarantees that the entity will abide by the conditions of the license or permit. If the business violates the conditions, the surety pays the bond penalty to the governmental authority and then collects the penalty from the business.

Related Article: [License and Permit Bonds](#)