



# **THE 9 THINGS YOU MUST KNOW ABOUT PROPERTY AND GENERAL LIABILITY INSURANCE**

A Special Report Prepared By the [HollywoodCommercialRealtor.com](http://HollywoodCommercialRealtor.com)™

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# The 9 things you must know about Property and General Liability Insurance

**It's an understated fact!** Companies who lease space, as well as companies who own their own buildings, face a number of unique business insurance exposures that need to be carefully managed. Care **MUST** be taken to properly insure the business property and general liability insurance exposures of the business. Is your company adequately covered???

Even though the topic of insurance can be a dry and boring subject, **EVERY** lease agreement has insurance clauses that dictate the Landlord's and Tenant's responsibility to insure! **Whether you're a business owner or a building owner, you're going to absolutely LOVE this special report.** WHY? Because it's jam-packed with a wealth of easy to read and understand information on the critical matter of property and liability insurance where the key details are way too often overlooked.

O.K. Lets start off with a real life scenario. You're an office tenant and you've put extensive upgrades into your space, i.e. your space contains highly sophisticated computer equipment; and, that a shutdown of your business, even temporarily, would have **DISASTROUS** financial consequences. Your office manager has an electric heater under her desk and forgets to turn it off one night. It overheats, **BLOWS UP**, and starts a fire! This fire causes **EXTENSIVE** damage not only to *your* office space, but to the rest of the building as well, including other tenants spaces. **NOW the question of "adequate" is put to the test.** And so, I ask the question again... Is your company adequately covered???. Read and find out!

Most businesses will insure their business property and liability exposures under a Small Business Owners Package policy, which "packages" a number of property and liability coverage's into one insurance policy. The business owner's insurance policy or "package policy" typically structured into two (2) sections; business property (business contents) and a section providing liability coverage's.

**Very Important!** It is suggested that the business owner review the information contained herein with his/her local insurance agent or advisor to make sure there is a mutual understanding of the business property and liability exposures that exist in the operation of their business and that the proper steps have been taken to insure, retain, or transfer the risk of these exposures. **And now... the FREE stuff!** At the bottom of this special report you'll find a *Property & Liability Risk Management Checklist* which will be helpful in reviewing the business property and general liability insurance exposures faced by most business owners. Tenants/Landlords... **PRINT THIS AND USE IT!!!** If you're a broker, attorney or property manager, this is a great "something extra" to give to your clients. Not only is it a great tool for them, but they will truly appreciate you for caring!

## Alright Then. Let's Get Started!

### The correct Named Insured

It is *extremely important* that the business insurance policy has the correct Named Insured. This is the entity or entities shown ("named") on the front page of the insurance policy. The named insured establishes which entities and individuals are provided coverage under the policy. The named insured should include the corporate entity (entities) and all related d/b/a's under which the business operates.

### 1. Building Property Coverage

Most business owner insurance package policies will insure the owned building for its replacement cost on an "All-Risk" coverage means that the building is insured for all direct physical losses, except for those losses specifically excluded in the policy. Replacement cost means that the building is insured for what it would cost to repair or replace the building at the time of loss, subject to the total amount of the insurance carried on the building.

The scope of a tenant's property insurance will be controlled to a very significant extent by the insurance provisions of the lease. Frequently, the tenant will carry, in addition to the insurance for its personal property, insurance for its improvements, and betterments (e.g. fixtures, and additions) that are part of the premises. These may not be owned by the tenant, although acquired at the tenant's expense.

#### Important Building Property Exclusions

- Earth Movement - Earthquake, Landslide, Volcanic Eruption
- Governmental Action - Seizure or destruction of property by the government authority
- Nuclear Hazard - Nuclear reaction or radiation contamination
- War - Military action
- Water - Flood, surface water, mudslides, backup of sewers or drains
- Pollution - Smog, rust corrosion, fungus decay, deterioration

Insurance coverage for the earthquake and water related exposures may be available as an optional coverage with some insurance companies.

**Deductible Options:** Most business owner type insurance policies will have deductible options of \$100 to 1,000, and \$250 to 500 being the most common deductible.

**Building Glass:** Coverage for the glass is usually limited to \$100 per plate with a maximum of \$500 for any one loss. Optional coverage is usually available that removes this glass limitation.

## 2. Building Interruption and Loss of Rental Income Insurance

If the insured leases a portion of an owned building to other tenants, rental income from the leased space can be insured if the rental space is un-tenantable because of a covered loss. The amount of insurance is established as a flat amount or as a monthly amount for a specified number of months.

If the insured is a tenant and damage is such that the lease is not terminated, the tenant not only requires business interruption insurance, which will continue the tenant's earnings, but also insurance for the extra added expense of substitute equipment and temporary quarters during the course of the restoration, as well as any necessary moving costs. These latter items are not included within standard loss of income coverage, but coverage is available through endorsements. Endorsements are also available to extend the time periods covered by typical business interruption policies, which are generally limited to the time necessary to restore the building to its pre-casualty condition.

## 3. Business Personal Property Coverage

This coverage protects owned or leased business contents and building improvements made by the tenant to leased premises.

- Furnishings – Office furniture, removable fixtures, plants, etc.
- Equipment – Fax, copier, water cooler, etc.
- Supplies – Stationary, brochures, miscellaneous office supplies.

It is important that the amount of insurance carried on the business personal property be equal to the replacement value of the property.

Like the building coverage, business personal property should be insured on an "all-risk" form for its replacement value.

4. **Property of Others:** Most insurance forms provide very limited coverage for the personal property of others, which would include an employee's personal and business property that he or she may have in the office. If it is the intent of the business to provide insurance coverage for personal or business property owned by employees and associates, a specific endorsement needs to be added to the owner's business package policy to provide this coverage.

5. **Electric Data Processing Equipment (EDP):** Computer hardware, computerized phone systems, computer software should be insured on a electronic data processing form, which typically provides broader coverage (i.e. breakage) at a reduced deductible. Extra Expense coverage can also be provided to reimburse the insured for extra expenses incurred to continue normal operations following a covered loss, i.e., the cost of lease/rental of temporary data processing or office equipment.
6. **Signs:** Signs attached to an owned building are typically insured as a portion of the building insurance amount. Outside, free standing signs will typically need to be insured for their replacement value by adding a specific endorsement to the business owner's insurance policy.
7. **Extra Expense Coverage:** This coverage may be included in the business owner's insurance policy or can be purchased to pay for extra expenses incurred to continue normal business operations following a covered loss (i.e. expenses for temporary office space, telephone equipment, rental of computer equipment, office moving expenses, temporary employees, etc.)
8. **Employee Dishonesty Coverage:** This is usually referred to as an "employee dishonesty bond" which is a type of fidelity bond that provides protection for the theft, forgery or destruction of checks, theft or destruction of cash or other property by employees. It is important to note that this coverage will not cover dishonest acts by associates who are independent contractors, as they are not employees of the insured.
9. **Business Liability- Comprehensive General Liability**

Comprehensive General Liability Insurance provides the insured protection for Bodily Injury and Property Damage claims or lawsuits, for which the insured is legally liable, resulting at or from the insured business premises. Legal liability generally means that there is a degree of negligence on the part of the insured. The typical general liability type claim is where a member of the public slips and falls in the office and presents a claim for injuries, claiming the insured's negligence in the maintenance or control of the premises.

#### **Who is an Insured?**

The definition of "person's insured", meaning the name shown on the declaration page of the insurance policy and any owners, partners, officers, and employees of the named insured. Sales Associates and others, if they are independent contractors, do not meet the policy definition of "person's insured" under the general liability coverage portion of the business owners package policy, as the independent contractor is not an employee of the insured. Consequently, there is no direct liability policy. However, coverage is provided for the named insured (business owner) for the activities of the independent contractor.

There are two (2) options to resolve this significant gap in coverage:

1. Have the general liability portion of the business owners package policy endorsed to include independent contractors as additional insured persons while acting on behalf of the named insured (business owner). This is done through a form called “Additional Insured –Designated Person or Organization” The business owner’s insurance agent or advisor should be familiar with this form.
2. The business owner requires each independent contractor to maintain his/her own general liability policy, with an endorsement naming the business entity as an additional insured.

### **Liability Limits**

Most business owner’s package insurance policies will offer general liability insurance limits of \$500,000 to \$2,000,000 per occurrence. Most lease agreements will require that the business maintain liability limits of at least \$1,000,000.

### **Medical Payments vs. Legal Liability**

Medical payments coverage is provided as a part of the general liability insurance to pay medical costs of injured third parties, regardless of the insured’s negligence or legal liability . The amount of this coverage is usually \$5,000 to \$10,000 per person.

### **Additional Liability Coverage**

**Personal Injury:** This coverage provides protection for claims of false arrest, detention or imprisonment, malicious prosecution, wrongful eviction from or entry into a room, dwelling or premises, invasion of privacy, oral or written slander or libel and defamation of character.

**Advertising Injury:** Provides coverage for claims resulting from oral or written publication of material that slanders or libels a person or organization or disparages an organization’s goods, products, or services. It also includes coverage for claims involving misappropriation of advertising ideas or style of doing business or infringement of copyright, title, or slogan.

**Host Liquor Liability:** Provides coverage for claims resulting from the acts of intoxicated employees or third parties at a function held by or sponsored by the insured, as long as the insured is not in the business of manufacturing, selling, or serving alcoholic beverages.

**Fire Damage Liability:** This coverage modifies the “care, custody, control exclusion” in the general liability policy to provide coverage for the fire damage to a rented or leased premises if the insured is legally liable for such damage.

**Employers Auto Non-Ownership Liability:** Provides coverage for claims resulting from the operation of a non-owned automobile by employee or the operation of an employee’s personal automobile while conducting business for the employer.

**Employees as Insureds:** With this coverage, employees of the named insured are specifically included in the policy definition of “who is an insured” for acts within the scope of their employment. Note that this coverage does not provide coverage for independent contractors.

**Employee Benefits Liability:** This coverage provides protection for liability claims arising out of the errors and omissions in the administration of an employee benefit plan; i.e. group life insurance, group health insurance, pensions/profit sharing plans, unemployment insurance, disability benefits, etc. Such errors or omissions could include errors in record keeping, enrolling, or cancelling participants, improper advice to employees about benefits or improper interpretation of a benefit programs rules and regulations.

**Employment Practices Liability:** This is a separate specialized coverage that provides protection for major types of employment related claims, such as wrongful termination, discrimination, and sexual harassment.

*The information above is provided as general information on the types of insurance coverage that may be required or may be available. Not all types of insurance coverage have been discussed and no action should be based on the information contained herein without the appropriate advice from a professional insurance agent, broker, or consultant. Only the insurance policy can provide the actual terms, coverage, amounts, conditions, and exclusions. Depending on the individual business organization or circumstances, some of the coverage’s discussed may not be applicable.*

# Property and Liability Risk Management Checklist

	Exposure Exists		Insure	Assume	Transfer
	Yes	No			
<b>PROPERTY</b>					
<b>Building Replacement</b>					
Cost \$					
Glass					
Sign \$					
Rental Value \$					
<b>Tenant Improvements \$</b>					
<b>Business Property Replacement</b>					
Cost \$					
Property of Others \$					
Extra Expense \$					
Computer Equipment Hardware \$					
Software \$					
Fine Arts \$					
Employee Dishonesty \$					
Computer Fraud					
<b>GENERAL LIABILITY</b>					
Comprehensive General Liability					
Limit of Coverage \$					
Independent Contractors Endorsed As Insureds?					
Coverages Included:					
* Personal Injury					
* Advertising Liability					
* Host Liquor Liability					
* Fire Legal Liability					
* Employees As Additional Insureds					
* Employers Auto Non-Ownership Liability					
* Employee Benefit Liability					
* Employers Practices Liability					
* Umbrella Liability					
* Additional Insured Endorsements					
Other Possible Exposures Might Include: Owned Autos, Owned Watercraft, Owned Aircraft, Mobile Equipment, Non-related Business Property/Liability Exposures.					