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Underwriting Interest Group

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Underwriting Trends

Message from the Chair — 2009 … Looking Ahead Not Behind

by J. Brian Murphy, CPCU, ARM, ARe, AMIM

J. Brian Murphy, CPCU, ARM, ARe, AMIM, is chief risk officer and director of educational development for Brokers' Risk Placement Service, a managing general underwriter and reinsurance intermediary located in Chicago. Murphy's experience includes underwriting roles spanning more than 25 years in two of the largest commercial insurers as well as more recently on the brokerage side of the business. He serves on the boards of the Association of Lloyd's Brokers and the Elmhurst City Centre in Elmhurst, Ill. Murphy is chair of the CPCU Society's Chicago Chapter Program Committee and the Underwriting Interest Group Committee.

Two years ago, the caption for my February message was "A Reflection on the Past Year." While that may have been appropriate in 2007 looking back on 2006, the same does not apply to 2008. Our economy is in the worst shape since my parents grew up during the Great Depression of the 1930s. The insurance industry is not immune to the ills of the national economy, and like the economy, many feel it will get worse before it gets better.

Eight years ago, I was searching for a new job because mine had been eliminated due to downsizing. I interviewed for an operations manager position, and during the interview process the CEO, who is a CPCU, remarked: "Oh, I see you know something about reinsurance." I explained that I had some experience in the area and had completed the Associate in Reinsurance (ARe) program.

He wound up offering me a position that grew into the vice president of reinsurance. It was a job that hadn't even been posted. I held that position for almost eight years and enjoyed it immensely. Now I am the chief risk officer and director of educational development for the same firm and thoroughly enjoy my new responsibilities.

So, let's not dwell on the past but rather look forward to the future, especially what you can do for your own career and those of your colleagues.

These are challenging times for all of us in the insurance industry, including CPCUs. Each of us most likely knows one or more colleagues who have lost their jobs in the last year. There are many things each of us can do to invest in our future. You have taken the first important step, which is to earn your CPCU designation. But there is more that you can do, such as:

- Continue to hone your skills.
- Keep active with your local CPCU Society chapter.
- Attend the CPCU Society's Annual Meeting and Seminars, if you are able to do so.
- Take advantage of the CPCU Society job network.
- Participate in and attend nonCPCU industry events.
- Network, network, network.

If you are able to devote the time in your present position, take the opportunity to mentor and teach younger insurance professionals. Not only is it self-fulfilling, it can add to your résumé and add value to your present or future employer. As CPCUs, we have the opportunity and responsibility to continue to build our own skills and those of others.

May 2009 be a great year for each of you! ■

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From the Co-Editor

by Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS

Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS, is a vice president for the property lines of business and commercial product development at Selective Insurance Company of America Inc. He previously worked for Anthem Casualty and The Hartford in several underwriting management and marketing positions. Massey is actively involved in the industry, including serving as a committee member for the CPCU Society, Underwriting Interest Group newsletter editor, ISO Panel member, past president of three CPCU Society chapters, AICPCU textbook reviewer, AICPCU academic advisory council member and CPCU Society Ethics Working Group. He has taught at North Central College and Ashland University in Ohio.

This issue presents four informative technical articles that underwriters will find beneficial to their day-to-day risk selection activities. Likewise, agents/brokers will find these articles particularly useful as part of their consultative selling and risk advisement to clients.

- "Business Income Made Simple," by Robert M. Swift, CPCU, CIPA, CBCP. With business income being one of the least understood and undersold insurance coverages, coupled with the lessons learned from some of the CAT events over the last several years, it seems timely to provide an article on this subject. Understanding this particular coverage can help in closing the sale.
- "A Landmark for Builder's Risk Insurance Policies," by William J. Warfel, CPCU, Ph.D, CLU, and Jeffrey J. Asperger, J.D. Discussion of a court case interpreting coverage provided by builder's risk (BR) policies. The Court recognized that BR coverage is not ordinary property coverage and therefore not subject to the state's standard fire policy statute.
- "The Challenge of Undocumented Workers," by Jon Gice, CPCU, ARM. Claim handlers and underwriters alike need to understand the implications of this continued trend. There are unique issues in handling these types of claims, as presented in this article.
- "Coverage Options Worth Exploring," by Arthur Flitner, CPCU, ARM, AIC. Discussion of coverages available for commercial property owners and general contractors — another "least understood" topic. This article will help underwriters understand the coverages, including risk treatment options available; how such coverage is written and for whom; and why it is important.

As mentioned in previous newsletters, if you have a topic you would like to share with others in the Underwriting Interest Group newsletter, please get in touch with one of the editors. Our contact information is on the back page of this issue. We'll work with you in bringing the article to publish-ready status. ■

The Underwriting Interest Group Committee

We put the YOU in underwriting.

The importance of this slogan is that insurance is still a people and relationship business. People make the difference.

Make sure to put the YOU in the underwriting process.

Business Income Made Simple

by Robert M. Swift, CPCU, CIPA, CBCP

Robert M. Swift, CPCU, CIPA, CBCP, is a business interruption specialist with more than 30 years' experience in the insurance and risk management field, advising corporate executives on the benefits of properly preparing for a disaster. Through his company, Business Interruption Consultants Inc. (www.bisimplified.com), he has developed a unique, Web-based business interruption resource. Swift is an accredited instructor for the Institute for Business Continuity Training. He is a member of the CPCU Society, the Disaster Recovery Institute, the Risk and Insurance Management Society, the National Insurance Premium Auditor's Association and a past member of the Insurance Institute of London.

Business income (BI) insurance is the most complicated and misunderstood insurance product. As a result, 75 percent of businesses suffering major property damage are out of business within three years because they did not have a tested contingency plan or the proper financing to see them through the period of recovery. Each year, businesses and insurance companies lose millions of dollars and litigation becomes an ugly factor.

There are three areas of concern: Because businesses are in denial, the underwriter is not receiving the proper premium for the total exposure, agents and brokers are losing income and being sued because insureds did not read their policies, and the insureds are not getting paid what they expected.

Agents, underwriters and insureds need to do their respective part to produce a policy that is properly valued and accurately protects the organization's real exposure. Because adequate protection is the goal, thorough preparation is key.

At the same time, everyone is confused and irritated by the required business income worksheet. Underwriters do not receive one, agents get caught in the middle and sometimes must complete one, and insureds complain the worksheet is cumbersome and does not fit their business. The result: no BI worksheet in file. We want to resolve these problems by identifying the most common problem areas in the policy and providing solutions to consider.

Let us begin with the semantics. While the two terms, business income and business interruption are often used interchangeably, they really mean different things. Business interruption is what happens to a business (fire damage) while business income is the insurance coverage organizations buy to replace their lost income and pay their additional expenses during their period of recovery.

Insurance Contract — Commercial Property and Business Income

First of all, there must be direct physical damage to the described property, which impairs operations and causes a loss of income. The period of restoration (recovery) is the claim payment period and stops when income reaches its expected level. However, some polices state that the period of restoration ceases when you are able to resume operations (turn on your machines or pick up the telephone).This latter type of policy wording does not factor the time it takes to reach projected sales into the recovery period.

Business income coverage pays for actual lost business income (lost future sales during the recovery period). However, many of the insurance company accountants deny there are ever lost future sales because they say businesses will make it up. WRONG! However, the business must be able to substantiate its loss using sales forecasts with historical accuracy, specific lost contracts, expected sales, etc. You must be very careful to differentiate between deferred sales and lost sales.

Also, there is a clause in the policy that limits the amount of loss payable for multiyear sales contracts that are cancelled within the recovery period. For example, if you have a three-year contract with Ford Motor Company and a fire interrupts your business, when Ford Motor cancels the contract, you may only claim the amount of income lost during the recovery period (one of three years). This really catches a lot of businesses by surprise and costs them millions of dollars.

It is important to emphasize to insurance buyers that they should carefully read the entire insurance policy to determine rights, duties, and what is and is not covered. This places the responsibility on insureds and forces them to determine their own proper risk management.

ISO Business Income (And Extra Expense) Coverage Form

- Rents — may be included, excluded or by itself. This coverage protects income from a third party who has an "arm's length" relationship with the insured. For example, the jewelry counter or shoe department in a department store is owned by another company, and it leases space from the department store and pay a percentage

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Business Income Made Simple

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of its sales as rent. If the department store burns down, the store loses this rental income.

Rents are an area of confusion because quite a few organizations have separate entities for their operations and for their realty ownership. For example, the president owns the real estate, and the operating company pays him rent through his realty company. This is simply two pockets of the same suit and not considered rent protection as long as both entities are named insureds on the policy. The business income policy pays the rental expense as a continuing expense of the operating company, so it does not have to be added as additional income.

- Business Income — defined in the policy to be net profit or loss and continuing normal operating expenses, including payroll. For example: sales minus cost of sales = gross margin or gross profit (and is approximately the 100 percent BI amount). See Table 1.

  As a rule of thumb, combined BI and extra expenses should be approximately as follows: Manufacturers — 100 percent of their gross profit; wholesalers — 50 percent of their gross margin; retailers — 30 percent of their gross margin; service — 15 percent of their revenues.

  Do not use this to determine insurance limits; but this will help prioritize your accounts so you are able to spend time on those needing the most attention.

- Ordinary Payroll — causes a lot of problems for everybody. Businesses think it is direct labor, cash labor, warehouse or temporary help, so they exclude this coverage from their policy. However, it is defined in the policy to be everybody below the department manager level. When this is explained to insureds, their usual comment is that they cannot afford to lose those people and want them included.

  At the same time, if they do lay off their employees after a disaster, their unemployment tax rate increases, they have less qualified people in the job pool when they recover, and they have lost their reputation in the community. After working with several companies following Hurricane Katrina, the business owners discovered that after they had rebuilt their facilities and contacted their employees to come back to work, very few of the employees returned because they had found other jobs. Consequently, these businesses folded because they had no experienced employees to produce their product.

- Law and Order — remember to endorse "building ordinance" and increased cost of construction because while waiting for the property to be repaired, you could be losing a significant amount of sales.
- Common Areas — if there is no physical damage to the premises, there is no business income coverage. There have been several high-rise office buildings damaged by fire, hurricanes, tornadoes, etc., but because a specific suite was not damaged, the claim was denied even though there was no access to it. The ISO policy includes common areas as part of the premises definition, but many policies currently in the market do not. It should be part of the premises description so that a tenant's premises include all internal access routes (hallways, stairs, elevators, etc.).
- Deductible — most business income policies have a 24- to 72-hour deductible for lost income with no deductible for extra expenses. Some policies define it to be "normal business hours," which means a company working 9 to 5 with a 72-hour deductible would subtract nine days from its claim.
- Extra Expenses — do not confuse expediting expenses with extra expenses, even though some policies mistakenly call expediting expenses "extra expenses." The difference is that extra expenses pay all the expenses above normal operating expenses incurred to recover from a disaster. However, expediting expenses only pay the expenses that directly reduce lost income.

  For example:

  - Extra expenses are all the necessary money spent to avoid or minimize the suspension of business, that is, $750,000 reduces the loss $500,000, but it pays all $750,000.
  - Expediting expenses are the monies spent that actually reduce the loss, that is, $750,000 spent reduces the loss $500,000 so it only pays the $500,000

- Civil Authority — access to premises denied by civil authority due to adjacent property damage, commonly has a 24- to 72-hour deductible with coverage for a three-week period. There is no coverage for evacuation prior to the flood or hurricane — only for denied access after the disaster strikes because it is the physical damage that triggers the coverage.

  For example, three days prior to the hurricane, the city is evacuated. Three days after the hurricane makes landfall, the access denial is lifted. However, your landlord denies you accessibility while the building is checked for damage. Three days later, the landlord says there is no damage and allows entrance to your premises. What is the civil authority period of claim? It is the three days from hurricane landfall to access denial lifted by the city. This causes a tremendous amount of confusion for insureds and is even more reason for them to have a well-planned contingency plan

Table 1

Net sales:	$10,000,000
Cost of sales:	– 7,000,000
Gross profit:	$3,000,000 approximate annual business income amount

that includes conversations with the landlord about how quickly he/she will open the building or find other space for you.

- Extended Period of Indemnity — there is an automatic extended period of indemnity of 30 days in most policies, but this may not be enough to allow the business to reach its projected sales once it has resumed operations. The business usually needs at least 90, 180, or even 360 days if there is any seasonality to the business. Once again, the contingency plan identifies this need for the business.
- Loss Conditions — these foster several areas of concern:
  - **Loss Settlement Fees** — endorse "claim preparation" or "loss settlement fees" of $25,000 to $100,000 to pay for "experienced" help calculating the loss.
  - **Duties in the Event of Loss** — educate insureds so they know what to expect and what their responsibilities are as well as how to submit their claim. A business owner stated he lost $10 million because of the hurricane, but when pressed, he was just submitting his policy limit.
  - **Loss Determination** — excludes communitywide disaster impact. For example, a hotel could have had 125 percent occupancy because all the hotels in the city were destroyed, but its historical occupancy was 85 percent. The hotel's claim will be based upon the 85 percent figure, not the 125 percent. A business cannot make money from the disaster.
  - **The Loss Payment Clause** — this also causes a lot of frustration because the insured misreads this statement, which says the insurance company will pay 30 days after *agreement on the amount of loss* has been reached, **not** 30 days after claim submission. Because even minor business income claims take a long time to come to agreement, it is imperative that the insured has alternative financing available for cash flow while working on the claim amount.
- Coinsurance — really causes problems at the time of the claim and states that if the insured's business income limit is mathematically incorrect at the time of loss, then the insured will pay that error percentage of the claim.

  For example, the policy says there is a $1 million limit with a 50 percent coinsurance clause. This means the 100 percent amount would be $2 million. If, at the time of loss, the 100 percent amount was $3 million, then the limit should be $1.5 million (which is 50 percent of the $3 million) and the insured would be penalized 33 percent of the claim ($1 million vs. $1.5 million).

  One client was penalized 85 percent of its $750,000 loss after having failed to revise its insurance limits or coinsurance amounts in several years. The coinsurance penalty is cause for a lot of lawsuits and a lot of unpaid claims. Put "agreed amount" on the policy and eliminate this problem. However, to do so requires a signed worksheet in file showing future projections of income. No worksheet? Then coinsurance applies.

  Since most ISO companies have only filed rates to go down to 50 percent or six-month coverage, there are two other options available for businesses that want less than six-month protection.

  - **Maximum Period of Indemnity** — actual loss sustained for 120 days. No coinsurance applies, but this pre-settles the loss period and will not pay for a partial loss that exceeds the 120 days.
  - **Monthly Limit of Indemnity** — is a commonly used endorsement that provides a chosen monthly percentage of the limit. Thirty-three percent provides one-third of the limit for three months, 25 percent gives one-fourth of the limit each month for four months, etc. No coinsurance, but the problem is that this endorsement also limits the loss period and the amounts are not additive. In other words, use it or lose it. See Table 2.

Business Income Worksheets

Now let's discuss the infamous worksheets. They are an integral part of the insurance selection process because they easily determine an organization's financial risk/exposure to loss. If "agreed amount" coverage is requested, insurance companies must have a signed worksheet in file from the insured per state regulations. Additionally, the worksheet ensures that the underwriter will receive proper pricing on the policy and completing it is "good practice" for insureds so they know how to calculate their loss.

My firm, Business Interruption Consultants Inc., has completed over a thousand worksheets for all types of organizations, and the issues are always the same: "This worksheet does not fit our business" or "We calculated a negative amount" or "Where is payroll covered?" or "What about spread of risk?" and so forth. In response, we have simplified the worksheet completion process by developing 16 industry-specific electronic worksheets on our Web site (www.bisimplified.com) that calculate the totals for you.

The intent of the business income worksheet is to allow an organization to estimate the financial impact of a disaster. It also helps the underwriter understand the insured's logic and feel comfortable that the numbers used "make sense." For example, if the sales number doubles next year, then the number for payroll and inventory should also almost double.

Several scenarios may be used for the worksheets to see what the financial impact would be. Then, choose the scenario that best suits the organization. A worksheet may also be completed for each location to see how this affects the organization. The worksheet is almost

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Business Income Made Simple

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Table 2

For example, a $100,000 limit with 33 percent monthly limits would be:			
Month 1 lost:	$45,000	Policy pays:	$33,000
Month 2 lost:	$27,000	Policy pays:	$27,000
Month 3 lost:	$38, 000	Policy pays:	$33,000
Total lost:	$110,000	Policy pays:	$93,000

never used at the time of loss, partly because hardly anyone completes them, so the only penalty for worksheet error is either over- or under-insurance.

Most insureds do not realize that they can change their business income limits in the policy period. I always suggest that they review their calculations at least quarterly to see if there have been any material changes. With an electronic form, it takes them only a couple of minutes to see how the changes impact their exposure. That way, they will make sure their insurance protection is keeping up with their business.

Warning — Because only the business owner has a thorough understanding of his/her business operations, it is his/her responsibility to complete and sign the worksheet. Insurance professionals should not attempt to fill out the worksheet, as it becomes an E&O liability if the improper amount of insurance is purchased. You may, however, share the following tips with your client.

Let's take a look at the ISO business income worksheet. Since this is a one-size-fits-all form, a business owner cannot choose the appropriate worksheet for a specific business. However, there are several other sources for worksheets that may be accessed for a more appropriate worksheet. For this explanation, I am referencing the ISO form, as it is the most common. The form has four columns — the first two are for the current fiscal period and the second two are for the projected fiscal period. It is the calculation in the right-hand column that determines the exposure, as it is future income that needs to be protected.

Make sure the business owner keeps in mind that the loss may not occur until the last month of the policy period and then continue for a year into the future. This means if the policy period is 9/30/08 to 9/30/09, the business owner must project the loss into 2010. In most cases, this is a very large number, so the business owner should start with a 2009 loss projection and then check the calculations quarterly. It may be June 30, 2008, before the loss is projected into 2010 and the policy is endorsed accordingly.

Worksheet — Income

- Page one is the cover sheet that is signed by the individual (business owner) who completed the form.
- Page two is where the **total annual business income amount** is calculated. This is the amount of **income** that will be lost while the operations are interrupted. The most recent fiscal year-to-date profit-and-loss statement should be used for the calculations. The intent of the worksheet is to develop the income (revenue or sales) from operations. If the business does not actually receive the money, returns, discounts, etc., it is not included in the amount at risk. Also, the income not at risk, such as royalties, license or rental income, should be subtracted from the amount at risk. Continuing income, such as bank interest received, investment income (financial institutions will include this), and income from sale of assets should be disregarded because these monies are not generated from operations. Finally, the business owner should add items to income that may be found "below the line," such as sale of scrap, commission income and third-party rental income. This completes page two, and the total income is calculated.
- On page three, **cost of sales** (materials and supplies) is subtracted because if the business owner cannot manufacture or sell the company's product, raw materials need not be purchased. The "cost of goods sold" should not be automatically subtracted, as there may be payroll included in this amount that should not be subtracted. Only the cost of materials and supplies should be subtracted.

  Manufacturers also need to adjust their **net sales** for "production value." If production is increasing, future sales should also be increasing. This means the beginning finished goods inventory at sales price should be subtracted because that was last year's production. Then the ending year finished goods inventory at sales price should be added because that reflects the company's production activity for the current year. Now the value of manufacturers finished stock has been calculated for the property policy.

  Finally, the expenses that discontinue directly with the loss of sales should be subtracted. ISO does not have this line, so this amount should be included with "Cost of Sales." For example: Subcontractor costs, rental equipment or temporary help that would discontinue if the operations were shut down need to be accurately identified, or the business owner will be misrepresenting the income at risk. When in doubt, it should be omitted (not subtracted). A shortcut that may be followed is to take Net Sales minus Cost of Sales. This is the 100 percent annual business income amount.
- Page four is the **summary** section that puts everything together. The ISO form does not provide for dividing total income by spread of risk or the number of locations, so a separate worksheet must be completed for each of the largest locations. For example,

if there are three, widely separated locations with redundant operations, three worksheets should be prepared, while keeping in mind the largest location when looking at the exposure. Then, the recommendation is to get blanket insurance for the largest value. If the majority of income is from one location, that one should be used for the blanket limit. However, if the company comprises seven facilities of various sizes and locations (some close to others), the business owner should divide by three because two locations may go down at the same time.

Now, the business owner should determine if **ordinary payroll** should be excluded. This is an important step that must be carefully completed! This also is a common cause for undue distress and increased loss. The business owner should keep in mind that he/she may not exclude more months of payroll than the recovery period. For example, for a six-month recovery period, 12 months of payroll may not be excluded. Also, if the business owner is choosing a recovery period of less than five months, ordinary payroll cannot be excluded at all. In any event, the worksheet requires a subtraction of all payroll (including taxes, benefits, WC premium, union dues, etc.) and then the largest amount of payroll to be insured added back in for either 90 or 180 days. Remember, the loss is being pre-settled and there will be no coverage for the excluded payroll outside the chosen period. For example, if 90-days-payroll coverage is chosen, a loss that goes beyond the 90 days will have no coverage for payroll expenses. Without sounding like a broken record, the business contingency plan will determine how much payroll coverage is needed.

After subtracting ordinary payroll, the extra expenses are added to get the combined business income and extra expense value for the total disaster financing need.

Missing from the ISO form is the last calculation to determine the coinsurance rating factor. It is necessary to take the annual Business Income Basis on page four and apply the estimated recovery period as a percentage of a year. For example: six months = 50 percent. Then the business owner should select 50 percent of the annual business income basis and add the extra expenses to determine the total business income and extra expense policy limits. See Table 3.

Extra Expenses

As noted, there is no extra expense worksheet with the ISO form, although ISO is coming out with a buyer beware template that may be used. My firm automated the extra expense worksheet on its Web site and other sources have a form that can be completed manually. In these non-ISO forms, the extra expense worksheet calculates the amounts necessary to reduce the recovery period to the shortest possible time, which would then be identified by the coinsurance percentage selected (six months recovery = 50 percent). A business contingency plan is crucial to ensure accuracy in estimating these extra costs, as well as estimating the duration of the recovery period. Note: The business owner must determine that the policy coverage is for extra expenses, not expediting expenses.

For example, if normal rent is $10,000 per month and the temporary rent is $12,000 per month, then the extra expense is $2,000. However, the insured may be contractually obligated to continue making rent payments for three months before being able to stop, so then the first three months of temporary rent would all be extra expenses. Finally, the business owner must estimate how long it will take to fully recover normal operations (number of months for complete recovery) and multiply the total monthly extra expenses by that number.

For example $500,000 per month x 6 months = $3,000,000.

Reaching the projected sales level after restoring operations is the extended period for business income and must be endorsed on most insurance policies. Also, extra expenses may not be covered during this extended period, so the policy must be carefully checked.

Claims

Finally, we come to the claims component. My firm has been asked to help with a large number of claims and always ends up spending quite a bit of time educating everyone on what the policy says and how the claim should be calculated. This has become such a repetitive situation that we finally automated the claims submission process on the Business Interruption Consultants' Web site, which allows concentration on the relevant issues of recovery period and lost sales amount.

Insurance companies unnecessarily spend approximately $2,500 per claim in loss adjustment expenses (LAE) by hiring forensic accountants to show the insured what the realistic claim amount should be. Also, agents and brokers spend many

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Table 3

For example:	
$5,000,000 is the 100 percent Business Income x 6-month recovery period =	$2,500,000 (50%)
Add $3,000,000 extra expenses needed for the recovery period =	$3,000,000
Total of:	$5,500,000

Business Income Made Simple

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hours of non-billable time hand-holding, talking to the adjuster and explaining the policy to the insured. This unnecessary time and expense could be better used getting the insured properly prepared and adequately protected up front.

The insured is responsible for calculating and submitting the claim to the insurance company and, to protect the business's interests, should hire a specialist to do so. There is usually coverage to pay some of this expert's fees in the loss settlement fees section of the insurance policy. That way, the business owner retains control over the claim process and any business considerations that should be included. Remember, it is the insured's responsibility to tell the insurance company what the business lost and the expectation of payment. This is not a whimsical or unsubstantiated number, but must be a well-documented, calculated amount. It seems incongruous that the insurance company will send an accountant to the insured to advise how much the insurance company should pay.

The biggest problem with business income claims is an unrealistic projection of lost sales and an inaccurate recovery period. Discontinuing expenses to be subtracted is another area of confusion. Most forensic accountants use a computer model to calculate all expenses as a percentage of sales and then arbitrarily subtract some of each line item. For example, utilities are 4 percent of sales, so a one-month interruption would be 4 percent divided by 12 or 0.33 percent. This amount would then be subtracted from lost sales as a discontinuing expense regardless of the actual utility costs during this period.

We will save further detailed business income claim discussions for another article. Suffice it to say, a little forewarning goes a long way in reducing the negative impact of a business income loss, and insurance companies would be better served spending their money educating insureds instead of defending lawsuits.

In summary, prudent people plan for the worst case scenario. Make certain the financial impact has been carefully assessed and financed. Review both the commercial property and business income insurance policies to ensure full protection and make certain to use the combined form with agreed amount. Do not exclude ordinary payroll and make sure it is the business owner who completes and signs the worksheet. Being prepared offers the best protection. ■

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A Landmark for Builder's Risk Insurance Policies

by William J. Warfel, CPCU, Ph.D., CLU, and Jeffrey J. Asperger, J.D.

William J. Warfel, CPCU, Ph.D., CLU, is a professor of insurance and risk management at Indiana State University. He received his doctorate in insurance and risk management from Indiana University. Warfel is widely published in applied professional journals; a number of his articles have appeared in the *CPCU eJournal*, *Risk Management Magazine*, and *The John Liner Review*, among other publications. He has served as a testifying and/or consulting expert witness in more than 40 cases; most of these cases have concerned breach of contract, agent-broker liability and bad faith issues. Warfel can be reached at aadams8@indstate.edu.

Jeffrey J. Asperger, J.D., is the principal and founder of Asperger Associates LLC. His practice includes the handling of complex and multiparty litigation involving negligence, product liability, contract, and commercial liability, among other areas. Asperger earned a bachelor's and master's degree from Kent State University and a J.D. from The John Marshall Law School in Chicago. In the legal case discussed in this article, he served as lead coverage counsel for the insurer. Asperger has served as lead coverage counsel in a number of insurance cases.

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Liberty Insurance Underwriters, Inc. v Weitz Co., LLC, 215 Ariz. 80, 158 P.3d 209 (2007)

The Weitz Company was the general contractor for a project to erect four dormitory buildings at Arizona State University. Consistent with the custom and practice and Occupational Safety and Health Association (OSHA) fire safety requirements, the applicable builder's risk policy contained several protective warranty endorsements (e.g., maintain adequate fire extinguishers on site, conduct a fire watch during all welding operations or other hot processes, inspect for fire hazards at the end of the work day, etc.). A breach of a protective warranty automatically renders the coverage null and void. In this particular case, a subcontractor's employee was performing "hot work" operations using a blowtorch to cut and weld structural steel supports for the roof of a dormitory building. As a result of the cutting and welding, the combustibles in the immediate area were ignited and spread to destroy the entire dormitory building and caused damage to adjacent property.

According to a written statement provided by the subcontractor's employee subsequent to the fire, he was performing this "hot work" alone, there was no one providing a fire watch for his work, and he did not have a fire extinguisher either with him or in the vicinity. The subcontractor's employee attempted to extinguish the fire with a jug of water, but this attempt was unsuccessful. A co-worker summoned by the subcontractor's employee after the fire started ran to another floor of the building to find a fire extinguisher, but the fire spread unchecked, destroying the dormitory building and causing damage to the adjacent property. Based on these statements, it was clear that several protective warranties in the builder's risk policy were breached.

In contending that coverage was available under the policy, the Weitz Company challenged the legal validity of the protective warranties. It contended that the policy constituted property insurance rather than inland marine insurance and therefore had to be consistent with the Standard Fire Policy (SFP). Arizona is one of about 29 SFP jurisdictions. Weitz contended that a protective warranty conditions coverage on compliance with terms and conditions not found in the SFP and, thus, is inconsistent with it, detracting from the coverage required to be provided by the SFP.

Hence, Weitz contended that Liberty could not rely on the breach of a protective warranty to defeat coverage otherwise provided by the builder's risk policy. Liberty contended that the policy constituted inland marine insurance and therefore any conflict with the SFP was moot. In all SFP jurisdictions, an inland marine policy is statutorily exempted from complying with the terms of the SFP.

Without engaging in any factual analysis concerning whether the policy was constituted inland marine insurance or property insurance, the trial court summarily ruled that the policy is not an inland marine policy. In a landmark decision filed on March 27, 2007, the Arizona Court of Appeals, Division One, overturned the trial court decision and ruled that the policy constitutes an inland marine policy.

A Landmark Decision

Like virtually all states, Arizona has adopted the nationwide inland marine definition. This definition includes four general classes of property, one of which is "Commercial property floater risks covering property pertaining to a business … Builder's risks and/or installation risks covering interest of … contractors, against loss or damage to machinery, equipment, building materials or supplies, being used with and during the course of installation, testing, building … Such policies may cover at points or places where work is

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A Landmark for Builder's Risk Insurance Policies

Continued from page 9

being performed, while in transit and during temporary storage or deposit, of property designated for and awaiting specific installation, building … " is a subclass within this general class.

The guidelines further stipulate that (1) "Such coverage shall be limited to builder's risks or installation risks where perils in addition to fire and extended coverage are to be insured," and (2) "if written for account of a … contractor the coverage shall terminate when the interest of the … contractor ceases."

In ruling that the Weitz policy constituted inland marine insurance as opposed to property insurance as a matter of law, the Arizona Appellate Court relied upon the presence of two coverage features customarily associated with inland marine insurance that were contained in the policy. Both of these coverage features are referenced in the guidelines pertaining to coverage for builder's risks and/or installation risks and, thus, are codified in the Arizona statute.

First, coverage terminates under the applicable policy when the interest of the contractor ceases (i.e., upon completion of the building, at which time the owner takes possession). This provision is consistent with inland marine insurance as opposed to property insurance. An inland marine coverage form is flexible and adaptable with respect to the terms of coverage including, for example, the time period for which coverage is applicable, such that the coverage form is responsive to changing circumstances and provides coverage consistent with an exposure to loss that is not static—the parameters of the exposure to loss are unknown on the inception date of coverage. Inland marine insurance is an outgrowth of ocean marine insurance. In the case of ocean marine insurance, coverage terminates upon the completion of the voyage—a parameter that is unknown when coverage commences. For this reason, an expiration date as such is not identified in the declarations of an ocean marine policy.

Similarly, while the builder's risk policy contained an expiration date, the coverage form allowed for some flexibility in terms of the policy period. Coverage may terminate before the expiration date if, for example, the owner or buyer accepts the property before this date.

In emphasizing the presence of this coverage feature, the Arizona Appellate Court distinguished this case from 1993's *Village of Kiryas Joel Local Development Corporation v Insurance Company of North America*, in which the question of whether cancellation of a policy prior to the loss was defective hinged on whether the applicable builder's risk policy constituted inland marine insurance or property insurance. There were statutory restrictions on grounds for cancellation that applied to property insurance but not to inland marine insurance. In holding that the applicable policy constituted property insurance as opposed to inland marine insurance, the U.S. Court of Appeals, Second Circuit, noted that coverage under the policy did not terminate upon completion of the structure or receipt of certificate of occupancy.

Second, the Weitz Court relied upon the fact that coverage under the applicable policy included perils in addition to fire and the extended coverage perils, an apparent reference to the breadth of coverage provided under the applicable policy in terms of coverage for the perils of transportation. Such breadth of coverage is consistent with inland marine insurance as opposed to property insurance.

While the builder's risk policy excludes causes of loss that pertain to exposures that are clearly uninsurable (e.g. flood, wear and tear) or are more appropriately addressed under a specialty insurance coverage form (e.g., loss caused by dishonest acts of employees of the policyholder is excluded; this exposure is more appropriately addressed by an employee dishonesty policy), the exclusions are carefully defined and limited so as to preserve broad coverage while property is in transit and exposed to transportation perils.

Other coverage features customarily associated with inland marine insurance as opposed to property insurance were not considered by the Arizona Appellate Court because these coverage features are not specifically identified in the Arizona statute. However, the court noted that these other coverage features may be relevant in the event a case is submitted to a fact finder. The presence of these other coverage features, or the lack thereof, in a builder's risk policy may create a factual issue in terms of whether the policy constitutes inland marine insurance as opposed to property insurance.

Other Coverage Features

Other coverage features customarily associated with inland marine insurance also are contained in the applicable builder's risk policy:

- Coverage under the applicable policy is contingent on adherence to warranties, the breach of which automatically voids coverage. In ocean marine insurance, the potential magnitude of the risk of loss is so substantial that the exposure to loss is uninsurable in the absence of warranties. The character of the vessel and its equipment for the particular cargo or voyage are fundamental to the underwriter in arriving at a decision whether or not to accept the risk and in establishing the premium to be charged. Thus, for example, the policyholder must warrant that the vessel is "seaworthy." Coverage is automatically void in the event that the warranty is breached.

  Similarly, the builder's risk policy contained a fire extinguisher warranty that requires the maintenance of an adequate number of fire extinguishers on the premises at all times; a fire watch warranty that requires an employee with a fully operational fire extinguisher to observe welding or other hot process during the operation

and for at least 20 minutes thereafter; and a daily inspection warranty that requires daily inspections for the purpose of uncovering fire hazards. The potential magnitude of the risk of loss associated with the erection of a dormitory facility on a major university campus is substantial. Inclusion of protective warranties in the policy made it possible for Liberty to provide coverage at a reasonable cost for an exposure that otherwise would have been uninsurable.

- Coverage under the applicable policy includes coverage for property exposures that are mobile, or temporal, in nature. In the case of ocean marine insurance, coverage is provided to shippers and vessel owners (i.e., carriers) for ocean shipments of cargo. Ocean marine insurance was designed to cover property in transit on the sea.

  The builder's risk policy includes $100,000 of land-based transit coverage for materials and supplies while being transported from an off-premises site to the university campus.

- Coverage under the applicable policy includes coverage for remote losses beyond direct damage to property. In ocean marine insurance, coverage is provided not only for direct damage to property (e.g., hull insurance encompasses direct damage to the vessel and its equipment), but also for financial losses that are remote in nature. An ocean marine insurance policy includes a sue, labor and travel clause under which, for example, expenses incurred by the insured to prevent an imminent covered loss are addressed.

  The builder's risk policy includes substantial coverage for a range of financial losses that are remote in nature, such as $100,000 of accounts receivable coverage; coverage for added costs related to impaired collections; $25,000 of valuable papers and records coverage; coverage ($25,000) for a contract penalty imposed on the policyholder for failure to meet a "deadline;" coverage for expediting expense incurred by the policyholder to prevent a delay that otherwise would have resulted because of direct damage to covered property caused by a covered cause; and $25,000 of computer equipment, data and media coverage.

- Coverage under the applicable policy includes coverage for non-owned property in the care, custody, or control of the insured for which the insured is legally liable. In ocean marine insurance, coverage is provided for the liability exposure faced by the carrier (i.e., the vessel owner) in connection with loss to cargo in its care, custody or control while being transported by the vessel.

Inclusion of protective warranties is in the interest of both general contractors and insurers. Absence of such warranties would render the exposure uninsurable and result in a higher incidence of construction accidents, making many construction projects economically infeasible.

The builder's risk policy provides substantial coverage for non-owned property in the care, custody or control of the insured for which the insured is legally liable. First, coverage property is specifically defined to include not only property owned by the insured, but also property of others for which the insured is legally liable. Second, the $25,000 coverage extension pertaining to computer equipment, data and media includes not only owned property, but also non-owned property for which the insured is legally liable. Defense coverage is implied under the policy (i.e., the "duties in the event of loss" condition specifies that the insured is not authorized to admit any liability without the consent of the carrier, which means that the carrier reserves the right to contest a suit alleging liability on the part of the insured—presumably at the expense of the carrier).

All of the coverage features associated with inland marine insurance need not be present for a builder's risk policy to qualify as inland marine insurance as opposed to property insurance, and the presence of a single coverage feature per se does not automatically transform what otherwise would be property insurance into inland marine insurance. These coverage features must be collectively considered in determining whether a builder's risk policy constitutes inland marine insurance as opposed to property insurance.

Preserving Affordable Coverage

Because the risk of loss that is insured under a builder's risk policy is substantial, particularly in the commercial arena, insurers typically issue such policies on an inland marine coverage form. Inclusion of protective warranties is in the interest of both general contractors and insurers. Absence of such warranties would render the exposure uninsurable and result in a higher incidence of construction accidents, making many construction projects economically unfeasible.

For such warranties to be upheld in SFP jurisdictions, at a minimum, insurers and brokers must carefully design the policy to meet statutory requirements for inland marine insurance. Meeting these statutory requirements entails the inclusion of certain coverage features in the policy. An abundance of these coverage features likely will tilt resolution of a dispute between an insurer and a policyholder in favor of the policyholder. *Liberty International v the Weitz Company* et al. bodes well for the continued availability of comprehensive builder's risk insurance at an affordable price. ■

The Challenge of Undocumented Workers

by Jon Gice, CPCU, ARM

Jon Gice, CPCU, ARM, is the second vice president of the workers compensation major case unit at Travelers. An insurance executive with more than 25 years' experience, Gice previously held senior leadership positions at Royal & Sun Alliance, Managed Comp, Orion Capital and the St. Paul Companies. In addition to having built and managed workers compensation claims and managed care programs, he has worked in workplace health, safety and underwriting. Gice is a frequent author and speaker on industry trends and topics.

Editor's note: This article first appeared in the October 2008 issue of the CPCU Society's Claims Interest Group newsletter.

Not an Incidental Exposure

Claim operations are confronted with the reality of an ever-growing number of claims involving undocumented workers. While it is a violation of federal law to hire an illegal alien, it is estimated that there are millions of undocumented workers currently employed in the United States. A significant number are often hired to perform dangerous tasks. During a recent five-year period, the rate of workplace fatalities for foreign-born workers increased 43 percent compared to a 5 percent decline among U.S. citizens. Undocumented workers are either poorly trained or not provided with any safety orientation, due to cultural or language barriers.

The Federal Immigration Reform & Control Act was enacted by Congress in 1986. The law made it illegal to hire a worker who is either unlawfully living in the United States or unlawfully authorized to work in the United States.

Employers are mandated under this law to verify the legal status of every hire by completing an I-9 form with the federal government. Employers face civil fines and may be subject to criminal prosecution if found guilty of failing to verify legal status or knowingly hiring an illegal alien.

But even for diligent employers, this process of verification isn't enough. It is estimated that millions of illegal immigrants have purchased some combination of a counterfeit Social Security card, driver's license, work visa, green card and/or birth certificate. These documents are very authentic looking, so only an expert review can identify them as counterfeit. Many of these documents are acquired as part of the price paid to be smuggled into the U.S., or are easily acquired through vendors operating on the street and/or flea markets.

Other employers are not so diligent in their hiring efforts, either through lack of controls or deliberate avoidance of the law. These customers may fail to complete the I-9 form and, in the worst scenario, pay the worker cash rather than through a formal payroll process. Such customers are not only in violation of federal law, but are also potentially guilty of payroll fraud in the eyes of their workers compensation insurance carrier.

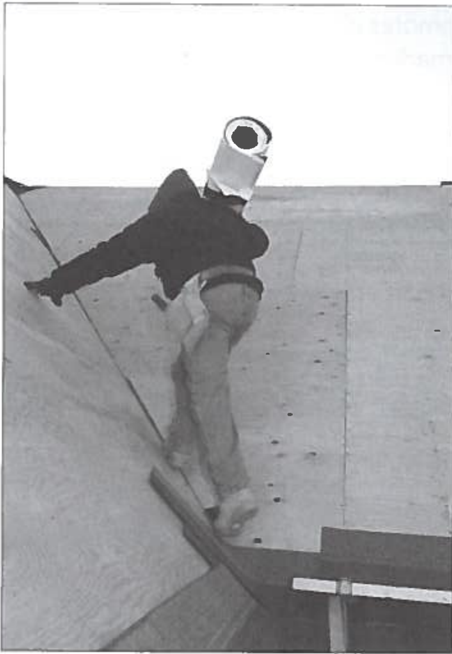
Despite the illegality, the hiring of undocumented workers continues unabated in many industries. One author has taken the position that the problem isn't illegal workers, the problem is illegal employers. *Fortune* magazine estimates that up to 40 percent of all new U.S. home construction is completed by illegal workers.[1] A recent study cited in that same article concluded that 36 percent of insulation workers, 29 percent of roofers and 28 percent of drywall workers are undocumented workers.

Beyond the difficulty of finding people to perform jobs that U.S. citizens may be unwilling to perform, another incentive for hiring undocumented workers is the opportunity to pay a lower wage to this worker. The lower labor cost provides a perverse economic reality. It has been suggested that the price of a new home in Florida would increase by as much as 40 percent if these lower-paid workers were eliminated from the home building industry.

Challenges of Undocumented Workers

An undocumented worker is not likely to report a soft tissue injury for fear of losing his or her job. It is the undocumented worker who falls from a rooftop or is crushed by a piece of equipment whose claim is reported. It is common for a claim involving traumatic brain injury, a severe burn or a spinal cord injury to easily exceed $1 million.

Attempts to deny these claims based on arguments that these workers are illegal have largely failed. For example, a key decision in Connecticut was rendered in *Dowling v Slotnik*, 712 A.2d 386,



409. The court held that the legislature intended to include illegal aliens in the group of persons who, in order to obtain compensation for work-related injuries, are not only eligible, but also requested to invoke the remedy provided by the Workers Compensation Act. When confronted with a claim that involves the issue of an illegal alien or undocumented worker, it is essential that the appropriate state or jurisdiction's laws, court decision, and rules are carefully considered in all claim decisions. There are several comprehensive documents available to member companies of the American Insurance Association (AIA), www.aiadc.org, and other organizations. But the law in this area is not static, and no one document should be relied on in considering our duties and obligations under the law or the benefits that are allowable under law. To that end, contact local defense counsel to assure compliance with the state's current law on these issues.

An undocumented worker who sustains a catastrophic injury presents additional costs that are only occasionally faced in claims involving U.S. citizens. Interpreter service is the most common and perhaps obvious additional cost, but the undocumented worker also presents the following potential additional claim costs:

- **Transportation.**
  Family members, if they reside in the U.S., often do not hold a valid driver's license or own a vehicle, so expensive medical transportation services become necessary.
- **Housing.**
  Family members often do not reside in the U.S., resulting in the catastrophically injured worker having no viable U.S. residence to return to that can be modified to meet the worker's needs.
- **Agency attendant care.**
  Family members often do not reside in the U.S., producing increased costs through the use of professional agencies in meeting the ongoing nursing and home care needs of the undocumented worker.
- **Return to work is not an option.**
  Because the undocumented worker can not be legally reemployed, a return-to-work effort may be deemed a violation of the Federal Immigration Law.

Claim Handling Suggested Solutions

The following two actions are suggested to meet the challenges of each claim involving a known or suspected undocumented worker:

- **Social Security number.**
  A claim where the injured worker can not produce a Social Security number is easy to identify as involving an undocumented worker. A claim where a Social Security number is presented is more complicated, as the number may be counterfeit. Any claim that is suspected to involve an illegal worker must be investigated to confirm legal status through contacting a local Social Security administration office. The Social Security office will require the employer's TIN number, so be prepared before making the call. If the employer refuses to participate in the investigation, this refusal may strongly suggest that the worker is undocumented. The Social Security office is the easiest way to verify the number, and there is no charge.
- **Benefit Limitations.**
  Once it is found that the worker is truly an undocumented worker, claim handling needs to focus on expediting maximum medical improvement. Additional care must be taken in the calculation of average weekly wage. For example, some states, such as Florida, define wages as: " ... earned and reported for federal income tax purposes on the job where the employee is injured ... ."
  Obtaining a wage statement from the employer is a critical step in the investigation of a claim involving an undocumented worker, as real wages, using the definition of what is reported for federal tax purposes, may total zero. Local law may permit or require only a minimum compensation rate be paid in such cases. State law may also limit the other benefits the claimant might otherwise be entitled to receive, such as vocational rehabilitation benefits, since rehiring the undocumented worker in any new position violates federal law!

Handling claims that involve an undocumented worker are challenging, and from all indications, these claims will only continue to grow in number. A claim handler needs to understand the challenge and find ways to best handle the claim to the most optimal conclusion. ■

Endnote

1. Birger, J. and Mero, J. "Immigration reform: Building costs could soar." *Fortune* 12 Jun. 06, Vol. 153, No. 11. Accessed 9/9/06: www.money.cnn.com.

New Interest Group Member Benefit

by CPCU Society Staff

Beginning Jan. 1, 2009, *every* Society member became entitled to benefits from every interest group for no extra fee beyond the regular annual dues, including access to their information and publications, and being able to participate in their educational programs and functions.

An Interest Group Selection Survey was e-mailed to members beginning mid-November. By responding to the survey, members could identify any of the existing 14 interest groups as being in their primary area of career interest or specialization. If you did not respond to the survey and want to take full advantage of this new member benefit, go to the newly designed interest group area of the Society's Web site to learn more about each of the interest groups and indicate your primary area of career interest. You will also see options to receive your interest group newsletters.

Currently, there are 14 interest groups: Agent & Broker; Claims; Consulting, Litigation & Expert Witness; Excess/Surplus/Specialty Lines; Information Technology; International Insurance; Leadership & Managerial Excellence (former Total Quality); Loss Control; Personal Lines; Regulatory & Legislative; Reinsurance; Risk Management; Senior Resource; and Underwriting.

As part of the Interest Group Selection Survey, members also were asked to express their interest in the following proposed new interest groups: Actuarial & Statistical; Administration & Operations; Client Services; Education, Training & Development; Finance & Accounting; Human Resources; Mergers & Acquisitions; New Designees/Young CPCUs; Nonprofits & Public Entities; Research; Sales & Marketing; and The Executive Suite.

Members who missed the Survey may update their selections on the Society's Web site or by calling the Member Resource Center at (800) 832-CPCU, option 4. Members can also order printed newsletters for nonprimary interest groups at an additional charge. ■

The **Agent & Broker Interest Group** promotes discussion of agency/brokerage issues related to production, marketing, management and effective business practices.

The **Claims Interest Group** promotes discussion of enhancing skills, increasing consumer understanding and identifying best claims settlement tools.

The **Consulting, Litigation, & Expert Witness Interest Group** promotes discussion of professional practice guidelines and excellent practice management techniques.

The **Excess/Surplus/Specialty Lines Interest Group** promotes discussion of the changes and subtleties of the specialty and non-admitted insurance marketplace.

The **Information Technology Interest Group** promotes discussion of the insurance industry's increasing use of technology and what's new in the technology sector.

The **International Insurance Interest Group** promotes discussion of the emerging business practices of today's global risk management and insurance communities.

The **Leadership & Managerial Excellence Interest Group** promotes discussion of applying the practices of continuous improvement and total quality to insurance services.

The **Loss Control Interest Group** promotes discussion of innovative techniques, applications and legislation relating to loss control issues.

The **Personal Lines Interest Group** promotes discussion of personal risk management, underwriting and marketing tools and practices.

The **Regulatory & Legislative Interest Group** promotes discussion of the rapidly changing federal and state regulatory insurance arena.

The **Reinsurance Interest Group** promotes discussion of the critical issues facing reinsurers in today's challenging global marketplace.

The **Risk Management Interest Group** promotes discussion of risk management for all CPCUs, whether or not a risk manager.

The **Senior Resource Interest Group** promotes discussion of issues meaningful to CPCUs who are retired (or planning to retire) to encourage a spirit of fellowship and community.

The **Underwriting Interest Group** promotes discussion of improving the underwriting process via sound risk selection theory and practice.

Coverage Options Worth Exploring

by Arthur Flitner, CPCU, ARM, AIC

Arthur Flitner, CPCU, ARM, AIC, is a senior director of knowledge resources at the American Institute for CPCU and Insurance Institute of America (the Institutes) in Malvern, Pa., where he participates in the Institutes' product development process. Flitner is the author of numerous textbooks, writes articles for insurance trade publications and gives presentations on technical insurance topics at industry meetings, workshops and webinars. His main area of endeavor is in the teaching of commercial property and liability insurance contracts. He previously was associate editor of *The Fire, Casualty, and Surety Bulletins* of the National Underwriter Company.

Editor's note: Reprinted with the permission of the American Institute for CPCU and Insurance Institute of America (the Institutes). Flitner based this article on material published by the Institutes in its CPCU and Associate in Risk Management designation programs. This article first appeared in the February 2009 issue of the CPCU Society's Agent & Broker Interest Group newsletter.

Given today's litigious climate and certain court decisions, members of the construction industry should carefully research and weigh all insurance options before acquiring the necessary insurance coverages. CGL policies, which provide for a broad range of risks and exposures, provide coverage for commercial property owners and general contractors who face loss exposures such as vicarious liability and supervision of an independent contractor's work, but there are also other coverage options a property owner or general contractor might find worth exploring.

Vicarious liability is a legal responsibility that occurs when one party is held liable for the actions of a subordinate or an associate because of the relationship between the two parties. There are many situations in which a property owner or a general contractor (the "principal") can be held vicariously liable for injury to others resulting from the negligence of its independent contractor during a construction project. In addition, the principal can also be held directly liable for injury to others that results from the principal's alleged failure to properly supervise its independent contractor's work. Some principals see greater benefit in transferring the cost of insuring these types of loss exposures to the contractor.

Three common options a principal may consider for coverage protection are:

(1) Requiring the independent contractor to purchase an owners and contractors protective (OCP) liability insurance policy listing the principal as the named insured.

(2) Requiring the contractor to add the principal as an additional insured under the contractor's CGL policy.

(3) Using a hold-harmless agreement to transfer the financial consequences of liability claims to a contractor that is working on the project. The advantages and disadvantages of each should be considered by the owner when making insurance decisions.

OCP liability insurance, provided by using ISO form CG 00 09, is typically a separate, monoline policy, purchased by an independent contractor, that lists the principal as the named insured. OCP coverage can be purchased by a general contractor to protect the building owner, or by a subcontractor to protect a general contractor. An OCP policy does not protect the "designated contractor" who actually purchases the policy.

OCP policies only cover operations performed for the named insured by the designated contractor at the location specified in the policy. When the work is completed, the coverage under the OCP policy ends. OCP coverage is primary insurance, and the project owner's OCP coverage will pay before the owner's own CGL policy, if any.

The property owner could also ask to be added to the contractor's CGL policy as an additional insured, which is accomplished by adding an endorsement to the contractor's policy that designates the property owner as an insured. Similarly, a general contractor can be named as an additional insured under a subcontractor's CGL policy. There are a number of additional insured endorsements available, although in 2004, Insurance Services Office Inc. (ISO) added more restrictive language to the CGL endorsements that deal with construction-related risks.

Endorsement CG 20 10 is commonly used for naming property owners, lessees, or contractors as additional insureds under the CGL policies of organizations that are entering into contracts with any of those parties. A listed person or organization is an additional insured for liability for "bodily injury," "property damage," or "personal and advertising injury" caused, in whole or in part, by the acts or omissions of those (such as the named insured's subcontractors) acting on the named insured's behalf. The location of the operations must be designated in the endorsement's schedule in order for the named person or organization to be an additional insured for those operations.

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Underwriting Interest Group

Volume 21 • Number 1 • March 2009

Underwriting Trends

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Coverage Options Worth Exploring

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The policy limits are available to the named insured and all those listed as additional insureds for the duration of the policy period, but a notice of changes to the policy is sent to the named insured only.

The third option a property owner may consider is negotiating terms of a hold-harmless or Indemnity agreement, which is a contract provision in which one party agrees to indemnify another. This type of agreement can be used to transfer the financial consequences of liability loss exposures from one party to another.

Hold-harmless agreements are not always enforceable, and in some states statutory or common law prohibits one party from assuming another party's liability in certain situations. When hold-harmless agreements are enforceable, the party assuming another's liability can insure itself for this obligation by making sure its CGL policy includes open-ended contractual liability coverage.

In many instances, insurers restrict contractual liability coverage under the CGL to a few specified types of "incidental contracts" (such as leases and elevator maintenance agreements) that do not include construction contracts, using the Contractual Liability Limitation Endorsement (CG 21 39). Any firm accepting contractual liability under a construction agreement must make sure that this endorsement has not been added to its CGL policy.

The insurance needs of property owners and contractors can be very complicated, and all options should be carefully reviewed. It is important for a property owner or general contractor to understand the nature and scope of all coverages offered, exclusions applied, and any potential problems or pitfalls. ■

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Underwriting Interest Group
http://underwriting.cpcusociety.org

Chair
J. Brian Murphy, CPCU, ARM, ARe, AMIM
Brokers' Risk Placement Service
E-mail: murphyb@brps.com

Co-Editor
Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS
Selective Insurance Company of America Inc.
E-mail: greg.massey@selective.com

Co-Editor
Stephen W. White, CPCU
State Farm
E-mail: steve.white.bnbg@statefarm.com

CPCU Society
720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

Director of Program Content and Interest Groups
John Kelly, CPCU

Managing Editor
Mary Friedberg

Associate Editor
Carole Roinestad

Design/Production Manager
Joan A. Satchell

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