Knowing your policy

How understanding your policy ensures appropriate coverage and risk management **Interviewed by Elizabeth Grace Saunders**

It's tempting to glance over your business insurance policy and call it reviewed, but taking the time to actually understand the contract ensures you experience the optimal risk protection at the best value. Locating and filling any gaps in your coverage can save you from unpleasant surprises and help contain your premium costs.

"Knowing what is and is not covered allows you to evaluate financial risk exposure before an event occurs," says Joe Kauffman, claims analyst at Westfield Insurance. "This also gives you time to meet established goals and protect and preserve financial assets at risk or exposed."

Smart Business learned from Kauffman about the benefit of carefully reviewing your insurance policy and how to use this knowledge to minimize your business risk.

Joe Kauffman
Claims analyst
Westfield Insurance

Why is it crucial to understand your policy?

One of the most important things policyholders can do to protect their assets is review and understand the terms and conditions of any new policy or renewal policy. If they have any questions, they should contact an appropriate professional for an explanation of benefits. This prevents misunderstanding of what is covered, where it is covered and how it is covered. It also helps to determine responsibilities after a loss.

To illustrate the above, an insurance contract specifically identifies the parties to the contract, referring to the named insured on the declaration and those who may qualify as an insured by definition or under 'who is an insured.' Commercial entities with multiple parts, such as corporations with subsidiaries, need to clearly understand which entities are insured under the policy. Unless a business is specifically named as an insured or qualifies as an insured under the condition 'who is an insured' or is listed or qualifies as an additional insured on the policy, coverage for this entity maybe denied.

How can a policy review reveal areas where you need to purchase additional coverage?

Each insurance contract sets forth the intentions of the insured and the insurer. Both parties should have a clear understanding of the coverage being agreed upon and what is required and expected of both sides. Your knowledge of these terms and conditions and how and when they apply allows you to purchase the insurance that best fits your situation. For instance, you may want to buy additional coverage if your policy has certain coverage limitations for specific types of losses, such as theft, or only covers the actual cash value instead of the full replacement cost of an item.

How should you evaluate deductibles, policy limits, exclusions and limitations?

These choices come down to determining your willingness and ability to accept financial risk exposure based on a risk and cost benefit analysis. You can reduce your premium by limiting or excluding coverage. But if you're not in a financial position to handle the consequences of a loss, you should pay close attention to the need for appropriate insurance with the correct coverage limits. Also, when you evaluate your liability exposure and coverage limits, consideration should be given to the need for excess or umbrella coverage.

How can businesses use their policy review to facilitate risk management?

Once you understand your areas of risk, you can establish goals on how to reduce your exposure without necessarily purchasing additional coverage. This could include conducting training for staff, redesigning accident-prone work areas or streamlining processes. You can also evaluate your relationships with suppliers and contractors and make sure you correctly transfer risk to them. With contractors, this includes having the appropriate hold-harmless and indemnification agreements and certificates of insurance on file. You can also require that your subcontractors add you as an additional insured on their policy.

How else can business owners prevent surprises?

A common misunderstanding involves the co-insurance clauses on most commercial property policies. This clause requires an insured to maintain coverage up to a percentage of the value of the insured item or the insured becomes responsible for part of the loss. For instance, if an insured has a co-insurance condition requiring a specific percentage on a specific item or building and fails to maintain the agreed coverage limit on the item or property, the insured will share in the loss. This can reduce any recovery the insured would receive in the event of a loss.

Also, some types of risks, such as moral or altar hazardous risks, are uninsurable from the standpoint of the insurer.

Guidance from a qualified expert, such as an agent, broker or risk manager, is a valuable asset when evaluating exposure to risk. Make sure to review exposure prior to and after receiving a policy, confirm that you purchased the coverage desired, and ask questions if you do not understand a term, condition, limitation or exclusion. Also review your policy annually or when there is any change in your operations with an expert that understands your business exposure. <<

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