

Do You Know and Understand Your Insurance Coverage?

By: [Scott J. Richardson](#)

The New Year is a time for resolutions. For many business owners, reviewing their insurance policies is on their resolution list and similar to the vast majority of resolutions, while well intended, they are simply forgotten. Business owners and individuals know they need insurance. However, they often buy insurance products without a full understanding of what they are getting – or much worse, not getting!

Insurance is the shifting of the risk of fortuitous loss. It is risk management to hedge against uncertain losses that may occur to you or your business. If you are spending money for insurance, then getting the best value is clearly in your best interests.

Frequently, insurance is purchased with the assistance of an agent or broker. They are professionals who guide you through the choices of coverage, levels of protection and costs of policies you purchase for you or your business. And, using a broker or agent does not cost you a penny!

Many times a business owners claims to have "great insurance" and doesn't have any idea of what is covered and what is excluded. Often they have not read the policy and it resides in a dusty file box somewhere awaiting the next renewal. Considering the cost of insurance and importance of shifting risk through insurance, more thought should be given to this important product. Do you, the policyholder, understand much more about your policy than the premium cost? And, what do you do with the policies once they are purchased?

What can you do to mitigate the risk to your business? First, find a qualified agent or broker who knows your industry well. Secondly, ask your agent questions mining their expertise and have them competitively shop your business to get the most advantageous pricing. The following is not meant to be an exhaustive list. It is a great starting point to dialogue with your agent.

- What risks are **not** covered that I or my business face? Are you willing to retain these risks? Can they be insured?
- Are there any limited coverage amounts (sublimits) that provide a lower dollar amount of protection for certain types of losses? For example, you may have purchased a million dollar policy but have only \$10,000 coverage for certain losses as defined and limited in the policy
- In the case of a property policy, does the policy cover actual cash value or replacement cost value? There is a significant difference and that is depreciation. An actual cash value policy provides for coverage in an amount less any depreciation on the property. In a replacement cost value policy you typically get your actual cash value (i.e. depreciation deducted) and after repair you get another amount that covers the difference between the depreciated value and the replacement cost. The goal of a replacement cost value policy is to make you whole again after the property loss.
- Is there any coverage that I should have? As a business with employees, employment practices liability coverage can provide protection against suits by employees, or even former

employees for discrimination, wrongful firing, sexual harassment and other such claims. If you have ever faced an EEOC claim you know the time and perils of defending your business.

- Is any of the coverage you are contemplating duplicative?
- Have I adequately covered my business risks?
- Business loss insurance should be considered as well understanding what it does and does not cover – especially as it relates to your data, a new business location in the case of a total loss of your existing location and business/customer records

Once your business policies arrive, carefully review them. Pay particular attention to endorsements, which are added pages that change, limit or add to the policy terms. Policies may have dozens of endorsements. If you only read the policy and ignore the endorsements you will not get a correct picture of your protection from risk. Read the declarations page, which outlines the coverage purchased and the amounts. Are they correct? Go over the declarations page – and your policy - with your agent or broker.

Some clients prefer to have a conference with their lawyer to review their insurance coverage. Timing of this meeting is important. After the policy is purchased it may be too late to change your coverage until the policy expires. A conference prior to renewal or purchase with a thorough assessment of the risks to you or your business is a better approach. Remember, insurance is a shifting of risk for a premium. If you do not fully understand your risks it is hard to purchase adequate protection.

Reviewing your insurance risks, existing policies and costs should be one resolution that is easy for you to keep and help your business start 2012 on a successful note.

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