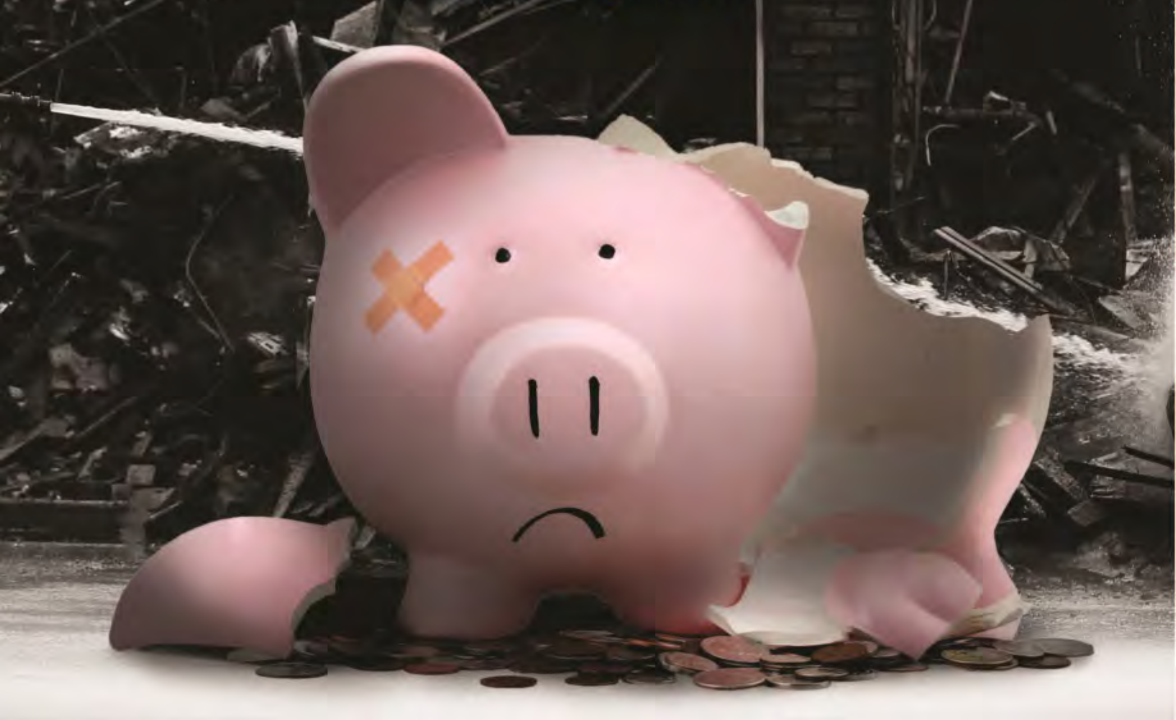
Author of the International Best Sellers ***Turning Premiums Into Profits, The Laws of Insurance Attraction***, and ***Stop Being Frustrated & Overcharged (By Your Workers' Compensation Program)***

INTERNATIONAL #1 BESTSELLER

INSURED TO FAIL

Over 50% of businesses that suffer a disaster either do not reopen or find themselves out of business within three years despite being insured



DAVID R. LENG, CPCU, CIC, CBWA, CWCA, CRM

Insured
To
Fail

Why do over 50% of businesses fail to reopen after a disaster, or close within three years of reopening?

Despite being insured!

by

David R. Leng, CPCU, CIC, CBWA, CWCA, CRM

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This book contains information concerning insurance and coverages, disaster recovery planning, human resources, and safety. The information is not intended as a substitute for insurance, legal, or financial advice from an appropriately qualified professional and should not be treated as such. If you have any specific questions about any insurance or disaster planning matters, you should consult an appropriately qualified professional.

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DEDICATION

To Winnie,
thank you for a wonderful
30 years and counting!

Table of Contents

FOREWORD

Early 2014 was a memorable period for me. Unfortunately, it was for all the wrong reasons.

During that time, I was truly in a bad state of mind, having lost my son in February. I had previously planned a golf trip to Florida with my brother, and I was not going to go, but my brother suggested I should go to relax a bit. So, I went on April 2nd.

We played golf on April 3rd. Just when you think you have hit bottom and things will start to get better, life pulls out a shovel and digs the hole even deeper. At 7 am April 4th, my phone started ringing. The alarm company was calling to tell me my business back in Pittsburgh, CCF Industries, which I started in 1995, was on fire.

I rushed to the airport, jumped on the first flight I could, getting me back to Pittsburgh just after 2 pm. The building was gone, and I was looking at ashes. An errant spark ignited the metal filters in the buildings' air filtration system, igniting the dust in the ducts of the dust collection system. It took less than 10 minutes from the time the spark occurred for the raging fire to spin out of control, and the roofline started to collapse.

I was suddenly living every business owner's worst nightmare; the destruction of my business, over 30 of my employees out of work, and failing to meet the demands of countless customers.

I am writing this forward almost seven years to the day of this horrific event. I now realize how close I came to not surviving and enjoying the thriving business I have today. My survival was 100% dependent upon just one thing. If that one thing had not happened, my 20 years spent laboring and building my business would have been over.

That one thing? Meeting David Leng!

About a year before the fire, David came to talk about our insurance programs. At the time, I was set in my ways. I preferred to stay with my current insurance agent, who we, and those in my industry, considered as “the industry expert.”

Even when I did consider other agents to quote, no one could touch what I had. But what even started this conversation with David was that he did not mirror or sound like all the other agents. He asked questions no one else had asked before. He clearly wanted to understand me, my business, how we operated, everything.

He focused on trying to help find better ways to improve my business. He took me through scenarios, such as what would happen if I encountered a situation that might put me out of business, just like the devastation that occurred.

Looking back now, it was as if David was predicting the future. He essentially walked us through and protected us for what – *did* happen – *before* it happened. Even more importantly, by digging into other parts of our business, such as our employee safety and injuries, David was able to help us shrink our workers’ compensation premium. This allowed us to afford the coverage changes he recommended, which we clearly needed.

What always impresses me about David is his accessibility. This weekend was no exception. Even though he was meeting with a client in Upstate New York along the Canadian border when the fire happened, he cut his trip short and was here the next morning, helping me sort out what it would take to get back on my feet. We talked in detail about what it would take to rebuild and what was covered. David understood the stress I was clearly under, and he did everything in his power to lessen it. And I can unequivocally state that without David Leng, I would not be in business today.

Just think, if I had stayed with my previous agent, I would have to dig into my pocket to try to find nearly $1.3 million to rebuild and well over $2 million to protect my cash flow. Amounts I just did not have. My old program provided “building,” “contents,” and “business income” coverage “the industry expert” recommended. In looking back at the “before David coverage,” the shortage that was staring me in the face was way beyond simply increasing "building," "contents," or "business income" limits. There were holes in the types and structure of the coverages I needed. David added these coverages no other agent ever mentioned, including ones missed by my former "industry expert."

With these monstrous holes in my coverage, I could not have afforded to rebuild. I would not have been able to keep all my employees and most of my customers. I would not have been able to stay open after rebuilding. I would not have survived. Period.

But I did.

Owning a business for over 25 years, I have known a number of business leaders, including a former client who faced a disaster and ultimately had to shut their doors permanently. This is why I feel too many business leaders may not fully realize when a catastrophe occurs how much they could possibly be *under-insured,* nor *under-prepared* for what it actually will take for them to rebuild, reopen and endure the long, difficult road they must travel after reopening.

Clearly, do not assume how your insurance program is designed and how your recovery plan is laid out will be good enough to survive when facing your own disaster. Be aware of what it will take and verify you are prepared for it, and insured for it, now!

This is why David's book is essential for every business owner to read. What David says in these pages can make the difference when your business suffers a catastrophe, the difference between restarting and continuing to endure and grow, or not being able to restart, or even having to give up after trying to make it work.

David makes you realize "having insurance" is not the automatic solution when you must rebuild, and there are factors that seem destined to derail the best-laid plans. But David has that unique ability to minimize those factors based on one simple goal; getting you back up and running as quickly as possible, plus knowing the additional issues facing you once you reopen your doors. Most importantly, his knowledge and understanding of the "fine print" in the various available insurance coverages allowed him to craft our insurance programs and plans, making it possible for us to thrive today.

We buy insurance because we want to be made whole again when we suffer a disaster; we want to be back in business. I would think most businesses do so for the same reason.

In looking back, I would not wish the devastation I went through on my worst enemy. However, it became clear that how I bought my insurance before David was not the best way to buy insurance. In hindsight, following that old way seems to reinforce renewing my insurance with my old agent year after year, typically with minimal changes, if any at all, despite my continually growing business; that way is an inefficient process that rewarded an ineffective agent. You may not like insurance and probably do not like paying premiums. Just imagine paying premiums for years or decades, and when you need your insurance the most, your heart sinks when you discover you did not buy enough, nor did not buy the right coverages.

Trust me; *after* your disaster is *not* the time you want to find out you have a problem.

After my fire, many business leaders reached out to me to see how I was doing and discuss what I went through and what I learned. During those conversations, one thing struck me as scary. What was genuinely concerning was that it appeared that almost every business I spoke to purchase their insurance the same way I used to.

I cannot stress enough that it took going through the process of David and his team analyzing my business to clearly see that there was a better way to buy and manage our insurance program. Their assessment process we went through was unlike anything I have experienced before, and when talking to other business leaders, the extent of their analysis is something others cannot seem to grasp until they too experienced it themselves fully.

Think about it, without a deep analysis that creates a clear understanding of a business, the goals, and what issues are being faced, how could anyone truly advise a business leader? How could they understand your business well enough to help you be appropriately insured to survive a disaster? And help you plan for that disaster? The assessment findings and action plans David showed us, even before we committed to working with him and his team, made it clear that they understood our business. He knew what it would take for us to be properly insured and had a plan to get us through the rebuilding, reopening, and business recovery phases needed after a disaster. It also showed us that David and his team were solely focused on helping us and not themselves.

I feel fortunate to have met David and have him be part of the team that helps me guide my business. I just cannot say enough about David personally and professionally. He is always in our corner, advising us as to what we should be considering, and he has always controlled and even reduced our insurance costs over time, but not at the sacrifice of our program's coverage. I believe that is because he always has *our* best interests at heart.

With this book, David Leng puts it all on the page, so you know where you stand *before* anything happens. And that alone makes this book a must-have for every business owner.

Ken Clifton
President, CCF Industries

Forward by Ken Clifton – CCF Industries

ACKNOWLEDGMENTS

I want to thank the following associations and organizations and their members for introducing me to the 86 businesses that suffered a disaster and unfortunately failed to reopen or closed within three years. They also introduced me to almost three dozen business leaders that barely survived as the effort required them to pour hundreds of thousands to millions of dollars into their business to do so:

Wood Products Manufacturers Association
Manufacturers and Business Association
Hardwood Manufacturers Association
Alliance of Automotive Service Providers
SMC Business Councils

And several Advisor members of the
Institute of Work Comp Professionals

I would also like to thank my friend Christopher Boggs, CPCU, ARM, ALCM, LPCS, AAI, APA, CWCA, CRIS, AINS, Executive Director Risk Management, and Education IIABA, and fellow Technical Affairs Committee member. He has been a tremendous sounding board over the years when solving complex risks and the insurance coverage issues that they bring about.

INTRODUCTION

You are driving down the road and see a boarded-up, burned-out business. Your first reaction is almost always, *"WOW! What happened?"*

Then you drive past the same location over and over, month after month, and see that nothing is changing. At some point, you start asking yourself, *"Why are they not reopening?"*

Or maybe one day, you were happy to notice that the business reopened. Then, months or a year or more, you are driving down that road again and are shocked to see the "Going Out of Business Sale" banner hanging out in front of it. Inevitably, you are back to, *"WOW! What happened?"*

Driving almost 30,000 miles a year to work with clients, I, too, have seen these roadside scenarios play out too many times. However, there is one difference when I see one of these businesses closed as compared to most people; being a degreed and credentialed risk manager, now trapped in the "insurance world," where designing, managing, and procuring insurance programs on behalf of business leaders for 30+ years, I wonder *"Who insured their business?"*, *"What did their insurance program look like?"* and the biggest one, *"What was the business's plan for reopening?"*

In other words, what went wrong *before* and *after* the disaster?

Decades ago, this roadside scenario played out for a particular business that had me wondering to a point where I reached to see if they could use some assistance. I approached for several reasons: one, my family ate dinner there one to two times a month; two, he was a local business active in my community, especially with the schools; and three, I knew the business had insurance. Being friends with his insurance agent for most of my life made it easy to know the restaurant was insured and even who his insurance company was.

Unfortunately, after digging into the restaurant owner's insurance program and talking to his agent, accountant, and insurance company, the insurance company had paid *every penny* they should have. But yet, the business reopened and shut down after being open for just 11 months.

So, *WOW! What happened?*

One of our family's favorite restaurants became another number in a terrifying statistic. According to the Institute for Business & Home Safety[1] and other insurance industry sources like FEMA, approximately 25% of businesses that suffer a catastrophe do not reopen. An additional 25%+ see their doors close within three years after, even though they are insured! These statistics do not even contemplate disasters like Hurricane Katrina.

So, would you bet your entire business on a flip of a coin? No rational business owners would do so, but as you can now see, statistics show otherwise...

When you see such a failure rate, it makes you pause and wonder, *WHY*:

- A – Did they have the wrong "get-back-in-business plan," a Disaster Recovery plan to rebuild, reopen, and regain customers; or
- B – Did they have the wrong insurance program design?

A few years ago, this scenario played out again. While at a client's facility performing a periodic Risk Analysis with the owner and navigating through his 70+ employee machine shop, he walked over to introduce his new general manager. When the GM turned around, he said, *"Hey, how have you been, David?"* Taken aback for a moment, I had to pause a second to recall the name that went with the familiar face. It turns out it was John, who used to own a machine shop that burned to the ground four years prior, and I had called on John's business about three years before his fire. It appeared that John too became one of those affected by that scary

[1] www.ibhs.org

statistic when he was forced to sell the business sixteen months after his grand reopening.

Everyone could see the anguish in John's face as he told the story over an hour-and-a-half lunch that day. John had built a 47-employee operation from scratch over 32 years, put his three children through college, had two of them working there, and planned on perpetuating the business to the next generation in about another ten years or so. John poured in his life savings and even sold their vacation home on Hilton Head Island for more cash to try to save his business for his family. Now, all of that was gone, and everyone had to find new jobs. The only thing John had left was the new building he rented to his machine shop's new owner, who did not want to keep John, or his children, employed there.

That meeting was the compelling motivation for this book. The goal is to help business owners avoid losing their life's work and their family's livelihood, not to mention leaving all those employees without jobs. Especially when failing to survive could have been avoided.

Fast forward almost nine months from that reunion with John, an event shook the world and affected businesses like nothing else anyone has seen before. COVID-19 hit the world.

Because of this pandemic, business leaders began to address the realities of challenges with insurance coverage when COVID surprised them. Almost every business leader stared at their insurance policy when their insurance policies did not respond to their "Business Income" needs and asked, *"Wow! What happened?"* Liability policies did not respond to lawsuits filed against them for the accusations of spreading COVID-19 to a customer. All of this left business leaders asking, *"What else is not covered?"*

FEMA states roughly 40% of businesses never reopen their doors following a disaster, and another 25% fail within one year. The US Small Business Administration states over 90% of companies fail within two years of being struck by a disaster.

According to FEMA, there were 103,600 non-residential structural fires in 2018[2]. If 60% of fires are considered catastrophic, meaning the business is closed for more than 30 days, and 25% did not reopen, then in 2018, 15,540 businesses were lost. Because of those lost businesses, throughout 2019, 2020, and 2021, statistics will play out that there would be another 15,540 to 35,544 businesses fail. That is a total of 31,080 to 55,944 that no longer exist due to a 2018 fire... According to the National Fire Protection Association, that number grew to over 120,000 non-residential structural fires in 2019, which caused 36,000 businesses not to reopen and another 36,000 to 41,000 that will later fail by 2022.[3]

When you shift away from a business destroyed by fire, and you start to think about all of the cyber breaches with cyber-crime, cyber extortion and ransomware, and so forth. Plus, the data breaches and ransom demand to giant corporations like HBO, Target, and Home Depot garner widespread media attention, but this leads to the false assumption that only large companies face this growing digital problem. According to CNBC, a 2016 study found that 43% of all cyber-attacks targeted small businesses[4]. Even more alarming is that a staggering 60% of small businesses hit with a cyber-attack or data breach go out of business within six months, according to the National Cyber Security Alliance. The average cyber-attack costs a small business $200,000, according to Hiscox Insurance Company.

Do you believe that you do not need to worry about it? A breach caused the 2013 Target Black Friday Credit Card Breach, and it started at a 30+ employee HVAC contractor outside of Pittsburgh, PA[5]. Reports state that a key logger virus enabled hackers to access Target when the contractor used their User ID and Password to upload a work order.

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[2] www.usfa.fema.gov/downloads/pdf/statistics
[3] https://www.nfpa.org//-/media/Files/News-and-Research/Fire-statistics-and-reports/US-Fire-Problem/osFireLoss.pdf
[4] https://www.cnbc.com/2019/10/13/cyberattacks-cost-small-companies-200k-putting-many-out-of-business.html
[5] https://bestblackfriday.com/blog/could-target-have-prevented-the-black-friday-data-breach/

What about the “Nuclear Jury Verdicts” handed out at such a rate that now everyone is feeling the impact on their wallets and bottom line as auto and excess insurance premiums are surging. More importantly, these Nuclear Verdicts are typically multi-million-dollar jury awards directed against an employer meant to punish them for the wrongdoing. You may recall the lady who sued McDonald’s after burning her leg with coffee and receiving a $2,900,000 jury award.[6] But then imagine facing a $22,000,000 award for a lady injured by a delivery truck when she was in a crosswalk[7].

Then you have the surge in lawsuits directed at employers from their employees. Employment Practices claims top the list of management liability lawsuits in both frequency and severity. According to the U.S Equal Employment Opportunity Commission (EEOC) Charge Statistics, the EEOC received and reviewed 72,675 employment discrimination charges in 2019[8], which breaks down to approximately 278 employment-related charges per business day. Retaliation claims led the pack at 53.8% of all allegations.

With today’s flattening world, there are many stories about a surge in uncovered employee injuries. Every state’s workers' compensation laws are different, and then you must add federal workers ’compensation laws on top of those. Do business leaders need to understand what needs to happen when you have an employee traveling out of state? Out of the country? Or working remotely?

What if your product happens to find its way out of the country and someone sues you? What happens when they file that lawsuit against you in that country?

There are far more risks that a business faces to survive than you may realize... Many cannot be traditionally insured, and you have to customize your insurance program design to address them.

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[6] https://segarlaw.com/blog/myths-and-facts-of-the-mcdonalds-hot-coffee-case
[7] www.oasisfinancial.com/10-of-the-largest-personal-injury-verdicts-settlements-in-history/
[8] https://www.eeoc.gov/newsroom/eeoc-releases-fiscal-year-2019-enforcement-and-litigation-data

Over the years, many business leaders have commented that *"we have an umbrella policy that covers us for everything."* For example, some business leaders believe that if they have a $5,000,000 umbrella policy, that "everything is good"; they thought that the umbrella policy would step in to provide them with coverage over every policy that they purchased, plus some that they did not buy. Nothing could be further from the truth. In reality, an umbrella is a liability policy that covers some bodily injury and property damage liability claims. It does not cover you for any damage to your property. It does not cover you for a lawsuit claiming Breach of Contract. It does not cover you for someone's "Economic Loss" lawsuit directed at you.

Therefore, it is not about what you think you have. It is about knowing and understanding your coverage in detail:

- Which of your insurance policies applies to your specific issue?
  - Example: Building/Property, General Liability, Auto, Cyber, Directors & Officers, Employment Practices, International Liability, etc.
- Does that policy contain coverage that specifically may apply to the issue you face?
  - Example: What specifically caused the damage? What was the specific allegation in the lawsuit?
- Does the coverage you have address the specific issue? Or, are there any coverage limitations or "exclusions" that would lead you not to have any coverage for the problem or not enough coverage?
  - Example: Is the specific piece of property defined as *covered property* or *property not covered* within the property policy? Is the lawsuit allegation worded in such a way that it may be excluded?
- Are you covered for where the issue occurred?
  - What is the coverage territory?
- Assuming you have coverage, do you have enough limits to pay for the issue?

- And most importantly, do you have an effective plan you can implement that will help improve your odds of survival?

This book is not intended to be a scare tactic to get you to buy every type of coverage and buy more of it. It is intended to help you understand how insurance works, how it responds, and what your responsibility is ***before*** and ***after*** a catastrophe to improve the odds that your business will survive and succeed.

It is also to help highlight that, unfortunately, business leaders today are facing a crisis that they are not aware of, one where too many insurance agents have misled them to believe that:

- Insurance policies are "comprehensive" or "All-Risk."
- Insurance policies are ALL the same.
- A Business Leader can focus on the general coverage headings items like "Building," "Contents," "Liability," and feel confident that they are appropriately covered when comparing quotes, and the limits are the same.
- Since everything is the same, take the lowest premium.

Think about these tidbits:

- How can a 300+ page, small type policy be adequately summarized into a 10-15 page, or even 50-page "proposal"?
- What process did the insurance agent go through to understand your operations to determine what coverage your business should have? Or are they guessing?

To drive the point home, let us go a little further. A few years ago, teaching a continuing education class to a room of 263 insurance agents, I asked the agents to play a game. They were to raise their hands and leave them up if they were still in the game throughout the series of questions. These were the questions:

- How many of you have a business as a client? – everyone raised their hand.
- How many of you had a business that had a disaster? – a little over ½ the room leave their hand up.
- How many had a disaster that required the business to be closed for more than a week? – about 30-40 hands.

- How many had a business that was closed for more than a month, and by closed, it meant that they were not operating at all or operating from a temporary location? – 11 hands still up.
- How many had a business that was closed for more than 6 months? – 4 hands.
- How many had a business where the building was completely destroyed and needed to be rebuilt from the ground up? – 3 hands.
- How many had a business that was closed for more than 9 months? – same 3 hands.
- How many rebuilt their buildings? – 2 hands.
- How many had their business reopened? – 2 hands.
- And is that business still in business? – **just 1 hand left.**

Although far from an actual in-depth study, a sample none the less: 4% (11) of the agents had clients that suffered a significant loss, 1.5% (4) suffered a severe loss, 1.1% (3) a total catastrophe, 0.7% (2) had buildings rebuilt, and businesses reopen, but only 0.4% (1) had a successful outcome.

Here is the question you need to ask yourself – Did the agent have a client that experienced a catastrophe? If an agent has not experienced what challenges a business will have to face in the process of trying to operate temporarily elsewhere and rebuild a new building, then how confident are you that an agent can adequately guide you? Can they assist you in determining what your insurance program needs to look like, identify what you need to do before the catastrophe occurs, and then guide you after you reopen so that you can survive?

This book will review how all seven clients that had their businesses wiped out by a disaster are open and still in business today and highlight some of the pitfalls that business leaders have faced that led to their failures. These pitfalls are often overlooked or misunderstood. Now, not trying to blow smoke up somewhere and state that all destroyed businesses I worked with went perfectly in their reconstruction and post-opening; that would not be the case. I vividly remember the words Jack Kirsopp, the owner of Kirsopp Auto Body, my second total fire, when he said to me one day, *"David, there are days I want to deck you and days I want to hug you!"* You will learn why in this book.

It is essential to understand that their insurance programs were close enough to get the job done. However, it is more important to know that they would not have survived without dramatically improving their program designs from what they had before working with us.

You will see that their reopening plans were at least sufficient for them to not only reopen but, once again, more importantly, enabled them to stay open. In the end, each of these seven has been a learning experience as each was different, and earlier ones, in essence, helped benefit the later ones.

There will also be stories of other interviewed businesses but were not as fortunate and either could not reopen or closed after reopening. Stories where things outside the business owner's control caused such delays or issues that made reopening or surviving long term impossible.

More importantly, the book will map out what you need to do *before* and *after* the disaster to increase the odds of survival and help you build a blueprint toward building your insurance program so it will respond the way you believe it should.

This book will focus on the effects of a *Disaster* upon Your Stuff, Your Employees and even address some 3rd Party Liability issues that a disaster will cause you to face. It will provide an overview of what you will need to know to prepare before a disaster and what you should do after one occurs. Unfortunately, there is no way to condense everything about insurance, risk management, or disaster planning into a single book. We cannot address all your potential liability issues either. This book aims to provide you with enough knowledge to begin to lay the groundwork to build a better insurance program and help you better choose the professional or professionals to work with doing so.

Chapter 1

WHY Do So Many Businesses Fail?

No rational business owner would bet his entire business on a flip of a coin. However, as you read in the introduction, the statistics show otherwise.

We have all seen TV reports showing clips of businesses that have suffered a disaster. Inevitably, there will also be an interview with the business owner talking about the devastation this event had on his business and his employees. And even though you have heard the business owner say, *"We will rebuild!"* you continue to drive past the charred or decimated remnants of that same building, month after month, year after year, and yet, they did not rebuild nor reopen.

The question that needs answering is ***WHY?*** Once everyone understands ***WHY*** what actions are necessary to avoid such a tragic outcome.

After interviewing 86 business leaders from failed businesses, we compiled a multitude of various causes that led to an incredible over 50% of businesses going out of business, even though they were insured:

- A – The business did not have a "get-back-in-business plan," such as a *Disaster Recovery Plan* to rebuild, reopen, and regain customers; or
- B – The business had the wrong insurance program design.

Digging deeper, ***WHY*** did A and/or B happen? Let us dissect ***WHY***.

It may come down to ***tangible*** versus ***intangible***:

- It is easy to *SEE* that you have a building to protect, and therefore you buy coverage to protect or "cover" your building – *tangible*.
- You can *SEE* that you have things such as equipment, inventory, and computers to protect – *tangible.*
- From what you *SEE*, you will probably make an educated guess as to how much insurance coverage limits you may need to buy to "cover" your property and your "stuff" – *tangible.*
- You can *SEE* your physical insurance policy sitting on your shelf or your computer screen but understanding what is *covered* versus *not covered* by your insurance policies – *intangible*.
- How will your policy respond? – *intangible*.
- What will it take to rebuild your facility, including changes that need to be made to construct the new building? – *intangible*.
- What will you need to do to purchase your equipment, machinery, contents, and inventory – *intangible*.
- How long will it take for you to rebuild your facility and obtain your equipment, machinery, contents, and inventory– *intangible*.
- What will you need to do to keep customers while rebuilding or acquire customers after reopening – *intangible.*
- How long it will take to financially return to where you were before the disaster – *intangible.*
- How much money will you need to keep paying the bills while you are either closed, or your business is open but yet significantly hampered? Not only do you have bills to pay, but you also have employees, loans, and taxes. Plus, you need to bring home money to support your family–

intangible.

- What process you need to go through to determine if your insurance program design will respond for you – *intangible*.
- How do you determine which insurance advisor to use to help you with all of this? – *intangible*.

Based on experience and the interviews with business leaders who did not survive a disaster and some that did, *INTANGIBLE* causes employers to lose their business due to a catastrophic event.

But you are probably saying to yourself right now, “I have insurance coverage!” You saw the statistics…

The coin is flipping through the air...

Some of the reasons business leaders have trouble planning for a disaster and designing their insurance program have to do with how people make decisions when addressing risks. Noble Prize-winning psychologists Amos Tversky and Daniel Kahneman[9] created a scenario to demonstrate how framing questions impact people’s decisions and highlight their risk tolerance. The scenario below has been changed only as to the event’s cause compared to what originally was proposed.

There were two breakout groups. The same event scenarios were given to each:

- Imagine that a ship carrying 600 people has started to take on water and is now in the process of sinking.

Group 1 - received the following solutions to the scenarios to choose from:

- If **Solution A** is adopted, 200 people will be saved.
- If **Solution B** is adopted, there is a one-third probability that 600 people will be saved and a two-thirds probability that no people will be saved.

[9] A. Tversky, D. Kahneman, Science 211, 1981 p453±458

Which of these options, A or B, would you choose?

Group 2 - received the following solutions to the scenarios to choose from:

- ➢ If **Solution C** is adopted, 400 people will die.
- ➢ If **Solution D** is adopted, there is a one-third probability that nobody will die and a two-thirds probability that 600 people will die.

Which of these options, C or D, would you choose?

In Group 1, 72% of the respondents expressed a preference for Solution A ± the risk-averse alternative.

In Group 2, Only 22% of these respondents opted for Solution C, even though it is the same risk-averse alternative as Solution A, while Solution D is the same risk-seeking alternative as Solution B.

Framing risks impacts decision-making when comparing available options and also highlights someone's tolerance for risk. If you are more apt to take a risk, you are more likely to roll the dice, so to speak, on the side that something catastrophic might not happen to you, or that if it does, it will not be as bad as what could happen.

There was a need to dig in even deeper into ***WHY*** business leaders have trouble with the intangible and decisions on addressing risk. From 2013 through 2015, researching and interviewing business leaders, compiling stories, and creating the outline for this book, a list of why business leaders had trouble surviving was collected. In interview after interview, business leaders stated one or more reasons ***WHY*** they struggled with implementing a *Disaster Recovery Plan* or making necessary *Insurance Program Design* changes to better position themselves to survive a disaster. Although no one issue was solely responsible for any of the business failures, it took the cumulative impact of several of them to lead to the heartbreaking outcome for each of the businesses. Stories were listened to, and root causes were analyzed. Each of the reasons provided was categorized into one of the following:

- Business owners, by their nature, are risk-takers. Therefore, they are reluctant to believe that a significant or catastrophic event will affect them.
- Many business owners started their company from scratch; thus, they believe they can do so again while forgetting that they have families and lifestyles that would be significantly and negatively affected.
- Most insurance agents do not fully understand what efforts and capital it will take for a business to survive while being closed, reopen, and then rebuild or regain their clientele following a disaster. Therefore, these agents cannot help in educating business leaders as to what to expect.
- Most insurance agents do not understand how to calculate ***How Much*** business income coverage a business will need. Therefore, they cannot explain it to a business owner to calculate the amount themselves.
- Business leaders often believe that they will be back in business faster than it will take them to do so.
- Business leaders struggle to perceive how much extra expense they would incur when attempting to keep the doors open and retain as many customers as possible.
- Business leaders did not realize the significance of the risks that they were facing from something catastrophic occurring. This is simply because it never happened to them before, nor to anyone that they know.
- Business leaders think all or most of their clients are loyal and will return as soon as their doors reopen.
- Insurance Terms do not always correspond to Business Terms or how business leaders believe they should, so misinterpretations occur.
- Financial Industry terms that accountants and business owners use are different from “Insurance World” terms. For

example: "cost of goods sold" and "net income" means different things in each world.

- Business leaders are reluctant to share their detailed "financial picture" with insurance agents.
- Business leaders struggle to distinguish between the purchasing of an insurance policy and the value of selecting the right insurance advisor to help build the correct insurance plan design.
- Business leaders and agents do not like to discuss uncomfortable topics, such as the business's death, and more importantly, what the plan is when something happens.
- Business leaders did not fully understand their insurance coverages nor how the insurance companies would respond to their disaster.

After completing the first draft of this book in late 2020, a risk management colleague forwarded a podcast that included Wharton Professor Howard Kunreuther as one of a number of people interviewed by the host. The topic was on the insurance industry and its response to COVID-19 and why insurance policies were not designed to respond to pandemics. The biography section of the podcast referenced that Professors Robert Meyer and Howard Kunreuther, from the Wharton Risk Management and Decision Processes Center, wrote the book *The Ostrich Paradox - Why We Underprepare for Disasters.*

What is fascinating is that both professors dug even further into the *psychology* of ***WHY*** people struggle with preparing for disasters, which leads to so many businesses not surviving. The psychological reasons also caused business leaders not to have insurance programs properly designed to respond adequately to such disasters.

Professors Meyer and Kunreuther identified ***6 Behavioral Risk Biases***[10] that people have that lead to distorted perceptions of risk, and how such misperceptions may manifest in preparedness errors,

[10] Robert Meyer and Howard Kunreuther - *The Ostrich Paradox - Why We Underprepare for Disasters* - Wharton School Press, 2017

and possible remedies:

- ***Myopia**: a tendency to plan over short future horizons*
- ***Amnesia**: a tendency to base decisions on most recent experiences*
- ***Optimism**: a tendency to underestimate the likelihood of harm*
- ***Inertia**: a tendency to choose default courses of action*
- ***Simplification**: a tendency to process only limited subsets of information*
- ***Herding**: a tendency to make decisions by social imitation*

The *6 Behavioral Risk Biases* dovetail nicely with the reasons business leaders state ***WHY*** they struggled with implementing changes to be better positioned to survive a disaster.

- ***Myopia**: a tendency to plan over short future horizons*

  People focus on what is right in front of them, such as: the next customer or contract that they are trying to land; an issue they are having with one or more employees; a staffing shortfall that they need to fill quickly; or a capital expenditure that needs to be funded and implemented. This can lead business leaders not to decide upon taking necessary action now relating to things that are best for the company in the long term because they are not the pressing issues. Therefore, focusing on a long-term project of constructing a Disaster Preparedness Program gets tabled. While taking the time to analyze the actual coverages and limits within their insurance program, the design also gets delayed or rushed through, ultimately leaving the program short regarding responding to a disaster.

  Meyer and Kunreuther used the example of someone spending $10,000 to flood-proof their property to save $2,500 per year on flood insurance premiums. Given this scenario, Meyer and Kunreuther stated that most people would postpone the decision as they did not want to spend the $10,000 today even though they would recoup the costs in four years, save money, or essentially profit from the investment they made to improve.

In reality, taking the time to formalize your Disaster Preparedness Program can be used as leverage with the insurance company underwriters to reduce your insurance rates. Not only does that free up capital, but it also gives you time to analyze your insurance program and adjust coverages, deductibles, or your waiting period for business income coverage to start. The reduced rates you will receive will then help you afford higher coverage limits that you will need to help survive your disaster.

- ***Amnesia**: a tendency to base decisions on most recent experiences*

If something has not happened to you before or for a prolonged time, then there is a tendency to forget those very real risks still exist. For example, many business leaders will drop flood insurance since they have not had a "flood" before, or at the very least, their only experience with a "flood" was minor or a long time ago. Flood insurance is typically frequently canceled when the "bank no longer requires the coverage."

Therefore, there is a tendency to cancel coverage or a policy to save the premium paid to the insurance company to protect their business for that specific risk. Business leaders also tend not to keep their Disaster Recovery Program up to date for this same reason. Dropping coverage was one of the main reasons some business leaders stated that they were not covered when Hurricane Sandy pulverized the New Jersey coast in 2012. This is also why many business leaders become openly frustrated, as they think to themselves, "I don't know why I pay all these premiums since I never had a loss before."

Then there is also the common effect an event has on businesses. Following a flood or earthquake in a specific area, the number of property owners that purchase the coverage surges. This was the case when a 6.7 magnitude earthquake hit Northridge, California, in 1994. The event leads to more than 40% of property owners purchasing earthquake coverage. Then, years later, when nothing else happened, people decided to drop the coverage for one reason or another. Today, barely 10% of businesses in California have earthquake coverage[11].

There have been cases where business leaders canceled insurance coverage or allowed the reduced limits when looking at bids since they "did not use" those coverages in the past. Thus, it is vital to make decisions to determine the minimum coverages that you *must have* included in your insurance program, separate from the process of deciding what insurance program to use. Then stick to the minimums you have determined.

- ***Optimism****: a tendency to underestimate the likelihood of harm*

The likelihood of a disaster affecting your business is minimal, which is why the underlying fundamentals of insurance work. Insurance is based on the *Law of Large Numbers*, where you have a large number of businesses that pay small amounts of premium, in proportion to their risk, to pay for those few that have something catastrophic impact them. By looking at the more significant numbers, risks become more predictable. Actuaries know that a certain number of businesses will have a catastrophe and approximately how much will have to be paid out. The actuaries just do not know which businesses will be affected.

This thought process of "it won't happen to us" leads business leaders not to identify, analyze, plan for, and implement an appropriate Disaster Recovery Plan or design

[11] https://www.npr.org/2018/10/18/658570642/quake-insurance-california-pushing-people-to-say-yes-to-coverage

their insurance program to respond to such occurrences. This optimism leads to thinking the risks are not as large as they are or that the impact of the risks will be smaller than they will be if they occur. Because of this, there is a tendency to undervalue what their insurance needs are. Some of those interviewed stated that they chose a specific building limit because they did not believe anything that might happen could be worse than the amount of coverage they purchased. For example, "our building is all concrete and steel, so there is nothing that could destroy our entire building," or something similar, is what I heard from many interviewed business leaders.

For another example, if you are in the "100 Year Flood Zone" or Special Flood Hazard Area, the odds are that once every 100 years, you will incur a flood. This leads business leaders to feel that there is a 1% chance that they will be flooded, and therefore this 1% chance is a risk that they are willing to take and thus do not insure themselves for a flood. However, if you put it into the context that over 25 years, that you have a 25% probability that you *will* have a flood, you may change your decision. The question is not a matter of *if* but more of *when*. Not to mention that FEMA states that 20% of floods occur in areas that are not in "flood zones."

This optimism also leads business leaders to believe that they can identify and avoid a cyber-attack that would allow someone into their computer system or install ransomware. Therefore, they do not take steps to train and educate their staff and make sure that they have viable backups. And yet, these events are happening at an increasing rate every day.

- ***Inertia****: a tendency to choose default courses of action*

  Inertia is the "if it is not broken, don't fix it" thought process, however, sometimes the business leaders do not realize it *is* broken, or at least it is not fully functional. The continuation of the *status quo* in preparation for risk or design of disaster restoration plan or an insurance program was one of the problems cited by business leaders that were allowed to linger before their disaster. Therefore, they were not fully prepared nor adequately insured.

But if you think about your business, your business grows and evolves. Insurance companies change how they look at businesses and the coverages that they offer over time. Weather patterns have changed as the world continues to evolve. Therefore, if you do not keep your Disaster Recovery Plan and your Insurance Plan Design up to date, you will be the one left behind when you need them.

In September of 2004, an enormous hurricane was bearing down on New Orleans. With three days warning that the storm was approaching, community leaders hurriedly put plans in place to evacuate people and shelter those in need in the Superdome. You are probably thinking of Hurricane Katrina. It was Hurricane Ivan, and New Orleans got lucky; Ivan turned away to hit another part of the US coastline. Professors Meyer and Kunreuther used this as an example of *Inertia*. Community leaders did a post-mortem and came to several conclusions:

- The levees and pumps were not fully functional due to years of neglect by the Army Corps of Engineers;
- Public transit was not able to handle transporting the over 100,000 people in the city that did not own vehicles; and
- The Superdome was not suited to shelter a large number of people.

Eleven months later, Katrina bore down on New Orleans, where nothing had changed. City leaders followed the plan that they already determined was poor, although they had ample time to improve. But it was simply easier for city leaders to do nothing and focus on other "pressing" issues rather than prepare for a disaster as, in their thinking, "hurricanes do not hit every year."

Sometimes, the bias stems from when the perceived cost (i.e., time, effort, and money) of taking action *now* is believed to be greater than the perceived future benefit. If you think about it, most people will choose to receive $100 today instead of waiting 365 days and receiving $120 at the end of the year. However, an investment advisor would be yelling at the person to take the 20% return on their money!

As a business leader, you need to set aside time to analyze your programs and determine what needs to be changed each year or more frequently. The failure of COVID-19 being "covered" by insurance became why many business leaders changed how they assessed their relationship with their insurance design professional. It was also why businesses relooked at their recovery and response programs.

- ***Simplification****: a tendency to process only limited subsets of information*

Remember the Tversky and Kahneman split group study on making risk decisions example? It was an example of making decisions with limited information.

Simplification may be one of the broader biases in terms of what it comprises. Business leaders, unfortunately, often must work with limited or imperfect information. They must then fill in the information holes with their own knowledge and experience. Some of the limited information comes from insurance agents in the form of their condensed or simplified proposals or their vague recommendations as to what risks to address. Some of it is because business leaders tend to provide limited information to insurance agents. Because of this, agents cannot make solid recommendations but must instead rely on guesswork, also know as *Simplification*.

Besides, even if the business leader has reliable information to base a decision upon, he or she will typically seek to simplify the solution, or in other words, mitigate the impact on their business when implementing changes. This mitigation or simplification could also lead to imperfect outcomes or decisions about what program to implement or which insurance program to accept.

The concept of receiving "apples-to-apples quotes" for insurance is *Simplification* in that the business leader will assume that they are receiving the exact same coverage back. However, as you will learn throughout this book, there is no such thing as "apples-to-apples quotes." The imperfect information will lack clarity about what is *Covered Property* and what is *Property Not Covered*, two completely different issues. There are also the actual Inclusions and Exclusions within the various coverage forms that need to be understood before deciding.

One of the biggest *Simplification* problems for business leaders will be discussed later in this book: the actual insurance policy procurement process itself. It is a process that the insurance industry has taught employers to follow. In essence, because of the bias of *Simplification,* the process has become broken. When making a decision, will you look thoroughly into every detailed facet of the insurance program? Will you just give a cursory review with a focus on some key areas of recent concern? Will it be based on price? Or do you have a detailed checklist as to what specific endorsements and coverages you are looking for to make sure nothing you missed nothing? In the end, did you choose the agent with the lowest price that "copied" what you had but really will not be able to truly advise you and your leadership team moving forward? When it is all said and done, will *Simplification* make your comparisons difficult? And what if *Inertia* sets in and you do not make a critical and beneficial change?

- ***Herding****: a tendency to make decisions by social imitation*

  The alarm goes off in your hotel in the middle of the night. You annoyingly put on your shoes, coat (and hopefully pants), and proceed out to the hallway to exit the hotel. You see other people standing in their doorways, looking up and down the hallway. No one else is leaving. After making a few funny, sarcastic remarks to each other, you also head back into your room and wait for the alarm to stop screeching so you can return to sleep. This is an example of *Herding* or following the lead of others. But what if you could not see that there was a fire in the main floor kitchen? Would that decision to delay cause you to be inevitably trapped and die of smoke inhalation?

Although this example may be viewed as a little morbid, it is a realistic example that plays out repeatedly. Some of the decision was due to past situations where the alarms that endlessly rang were basically “the boy who cried wolf,” but it does show how people tend to follow the actions of others.

Business leaders tend to network with other business leaders; they share ideas, experiences, and actions that they have taken. A business leader asks a fellow business leader how they addressed a particular risk; let us pretend it was about improving security for remote access to their computer system, such as using Multi-Factor Authentication. The other business leader states that they have not done anything or looked into it. Or maybe the solution was costly or cumbersome. This causes the business leader to have a false sense of security because they will then believe the risk does not need addressing. That would be a critical error with today’s cyber threats.

The opposite is true; when a colleague experiences an issue or addressing a risk, the business leader finally also addresses a weakness in their overall programs.

For example, we will look at some closely related businesses where the owners are relatives or close friends. After having multiple conversations surrounding the risks of Employment Practices and Cyber Risks and discussing the need to have solid policies and procedures, training, and insurance coverage, this group did not take action or, at the very least, limited action. Within three months, two events occurred, a harassment lawsuit and cyber extortion and ransomware event. Since then, the entire group of businesses updated their policies and procedures, provided ongoing training to employees, and all purchased the appropriate insurance programs.

There is also the tendency for a business leader to copy an early implementer of response to risk. The problem becomes if that particular program design is inappropriate for their business. When reviewing documents provided by the interviewed business leaders, it was not uncommon to find the names of other businesses within their documents. These were the policies and procedures, employee handbooks, business recovery plans, and even insurance specifications used by those unfortunate businesses when they obtained insurance before they had their disasters.

When attempting to categorize the business leaders' reasons into the *6 Behavioral Risk Biases,* you will see when you look at each of them that there are typically multiple biases that are at the root of their reasons for not taking action:

- Business owners, by their nature, are risk-takers, and therefore are reluctant to believe that a significant or catastrophic event will affect them –
  - ***Myopia & Optimism*** – These tend to cause business leaders to delay focusing on their recovery plan or insurance program design.
- Many business owners started their company from scratch; thus, they believe they can do so again while forgetting that they have families and lifestyles that would be significantly and negatively affected –
  - ***Amnesia*** – Many business leaders, when they have been so successful over a more extended period, tend to forget how difficult and how much work and effort they put forth when starting the business.
- Most insurance agents do not fully understand what efforts and capital it will take for a business to survive while being

closed, reopen, and then rebuild or regain their clientele following a disaster. Therefore, these agents cannot help in educating business leaders as to what to expect –

  - ***Simplification, Inertia & Herding*** – Business leaders often do not work with all the details they need when deciding. Since their "current" insurance program has "met their needs so far," there is often a lack of effort focused on making any changes. They may not have the personal knowledge of others affected or clear stories of other businesses affected by an issue, and therefore do not adequately prepare.

- Most insurance agents do not understand how to calculate ***How Much*** business income coverage a business will need, and therefore cannot explain it to a business owner so they can calculate the amount themselves –
  - ***Simplification & Inertia*** – Once again, business leaders are not working with all the details they need to decide. Also, insurance agents look for simple, positive-sounding solutions, such as *12 Months Actual Loss Sustained Business Income* coverage, without highlighting potential significant shortfalls of the coverage to business leaders.
- Business leaders often believe that they will be back in business faster than it will take them to do so –
  - ***Amnesia & Optimism*** – business leaders tend to forget all the little details of the preparation that took place before the first shovel hit the ground for the Groundbreaking Ceremony. Most business leaders only remember the construction phase while forgetting how long it actually took to build or how long it will take for production machinery to be ordered, delivered, and installed.
- Business leaders are unable to perceive how much extra expense they would incur when attempting to keep the doors open and retain as many customers as possible –

  - ***Simplification and Optimism*** – business leaders know how much they spend on their expenses but can only guess how much those expenses might be when trying to keep the doors open. They also tend to believe that they can purchase the services or products from others for far less than they will have to pay for them and think they will have to buy from competitors for a much shorter timeframe than they will have to.
- Business leaders did not realize the significance of the risks that they were facing from something catastrophic occurring. This is simply because it never happened to them before, nor to anyone that they know –
  - ***Herding*** – It is clear that if a business leader has not experienced something before, they have no frame of reference. Business leaders also tend to network with other business leaders to share ideas, experiences, and actions that they have taken. Therefore, if a fellow business leader does not address a particular risk, the other business leader develops a false sense of security.
- Business leaders think all or most of their clients are loyal and will return as soon as their doors reopen –
  - ***Optimism*** – probably does not need explanation, but business leaders may not understand that their customers have options or are creatures of habit, as we will discuss in more depth later in this book.
- Insurance Terms do not always correspond to Business Terms, nor to how business leaders believe they should, so misinterpreting are things are common–
  - ***Simplification*** – Business leaders will make decisions based on their understanding of terms rather than learning the details of the insurance world.
- Financial Industry terms that accountants and business owners use are different from “Insurance World” terms. For example: “cost of goods sold” and “net income” means different things in each world –

    - ***Simplification*** – Once again, business leaders will make decisions based on their understanding of terms rather than learning the details of those terms.
- Many business owners are reluctant to share their "financial picture" with insurance agents as they feel that their information is "private" –
    - ***Simplification*** – This is a tough one. As best as can be determined, business leaders do not view insurance professionals the same as they might their financial advisor. A poor quality financial advisor may cause you to invest in some investments that do not yield enough return. A poor accountant may cause you to pay too much in taxes. However, a poor job done by an insurance agent can cause you to go out of business when your insurance program does not respond when you truly need it.
- Business leaders struggle to distinguish between the purchasing of an insurance policy and the value of selecting the right insurance advisor to help build the correct insurance plan design –
    - ***Simplification & Optimism*** – This one is also difficult. Let us pretend that the "apples-to-apples" insurance policy *actually* existed. If that was the case, with everything being identical, then the insurance company that supplies your insurance policy becomes a commodity, which is how most business leaders view insurance today. However, if genuinely identical policies existed, this would enable you to make a better business decision in that you could focus on choosing *who* would be the best advisor to help you properly design your insurance program. Clearly, an insurance agent's knowledge and expertise are certainly not equal, nor is knowledge and experience a commodity.
- Business leaders and agents do not like to have a conversation about uncomfortable topics, such as the

business's death, and more importantly, what the plan is when something happens –

- ***Optimism & Myopia*** **–** Business leaders tend to believe that a disaster will not happen to them. Therefore, they would like to focus on more exciting things like winning another client or increasing profitability. Having a business leader focus on their business's demise seems to them like cruel and unusual punishment. Oh, wait a minute, you are reading this book about that very matter. So, clearly, this is the most exciting subject that you could ever have the opportunity to learn more about… you get the picture?

- Business leaders do not fully understand their insurance coverages nor how insurance policies will respond to a disaster **–**
  - Misunderstanding insurance is the broadest description of the reasons given for failures. It may appear to be a catch-all, but it does highlight one of the leading and most stated root causes for many of the failures. The Behavioral Risk Biases that affect this one:
    - ***Simplification*** in assumptions about how the insurance coverages within a business leader's policy will respond. Therefore, assumptions made about what coverages they purchase or assumptions made about how the insurance company will adjust their disaster claim will ultimately impact their business and its survivability.
    - ***Optimism*** in that business leaders believed their insurance policies would adequately respond to their disaster. Optimism in that business leaders believed the agents or individuals that provided them with advice on what coverages the business leaders ultimately purchased fully understood their business well enough to advise them about the proper coverages they would need.

- ***Herding*** happens because business leaders typically do not have a frame of reference organization that previously suffered a disaster to use as motivation to plan for and insure their business properly.
- ***Amnesia*** because a business leader was satisfied by how the insurance company adjusted *a* small claim leads them to assume they have a good insurance policy for *all* claims. There were examples of the opposite. A small claim was handled poorly by an adjuster, which led the business leader to focus on forcing a change of their insurance agent or company. Unfortunately, when making the change, critical insurance coverage that existed on the prior policy was lost.
- ***Myopia*** comes into play when a business leader perceives the cost of the efforts required to change as greater than the benefits of making the actual changes needed to survive. Changing an insurance agent, an insurance company, or the insurance coverages they have, or even implementing a disaster recovery plan, gets pushed aside. Whether it means taking the time to figure out how much coverage a business needs to protect its cash flow, completing applications for new but necessary coverage, or the effort required to change who they use as their agent advisor. If taking that time to do any of these is viewed as more “painful” than focusing on something else in the business, unfortunately, business leaders tend to focus on something else.
- ***Inertia*** inevitably sets in. The business leader does not take any action or changes as they do not recognize the inherent risks of not changing their insurance program or implementing a recovery plan.

One thing is sure; business leaders buy insurance to have their claims paid. It may not be the $500 claim that goes uncovered that is a concern or the $5,000 claim, although that might be smart for some. It may not even be the $50,000 uncovered claim that is a business-ending issue for a business leader. But when you have to cut your own check for $500,000, or $5,000,000, at some point, it gets your attention, especially if it will put you out of business.

As Benjamin Franklin once said, *"Failing to plan is planning to fail."* The key point of this chapter is that you should focus on breaking the more significant complex concepts and programs into smaller, more manageable decisions and actions. Look past your biases and work to build your Disaster Recovery Program and improve your Insurance Program Design.

Accomplishing these will help you avoid being a statistic and, more importantly, avoid the devastating impact that statistic will have on you, your family, your employees, and your community.

We will continue further in this book to provide a deeper understanding of issues that ultimately doomed the failed businesses and even impacted those who survived. These issues will be discussed in detail, aiding you in properly designing your insurance program and a Business Recovery Plan. The goal is to achieve the success of coming out on the other side of a disaster and thrive, rather than ending up out of business and just another statistic.

Chapter 2

Be Careful What You Ask For

Jack Kirsopp, Kirsopp Auto Body

On the morning of November 14th, 1997, while in Erie, Pennsylvania, with my wife and our birthday girl of two years, we visited my sister-in-law, who was still in college (on the seven or eight-year plan, apparently.) While there, I received a phone call from Jack Kirsopp of Kirsopp Auto Body, who told me his building burned to the ground that night. Jack said nothing was left; all the vehicles inside, tools, equipment, everything was gone. Jack's dad had started the business 37 years prior and was utterly destroyed. Jack employed 18 employees, most of whom were with him and his dad for more than 15 years. It was a true family business as the financial side of the business was run by Jack's amazing wife, Gale. It was all gone in just an hour or two. I can still visualize the small desk next to Gale's where their daughter, Lori, who now owns the business, would do her homework after school.

It turns out that during the night, a three-year-old overhead furnace exploded, destroying most of the backside of the building, and a large portion of the metal roof was ripped open in the explosion. The fire brought down the entire roof, which in turn brought down most of the walls. It completely obliterated everything inside, along with everything outside that was within 15 to 25 feet of the building.

Throughout this book, you will learn Jack's story (and others), what happened, and lessons learned.

When speaking over the years at conferences, I have had the fortunate opportunity to engage with thousands of business leaders and learn the daily risks and challenges they face while growing and managing their businesses. The challenges are many, from hiring and retaining good employees while facing growing local, national, or even international competition; to navigating the ever-evolving challenges of obtaining resources and supplies while constantly battling the evolving governmental regulations. Today, business leaders are exhausted from the constant strain of dealing with the frustrations regarding the amount of time they need to focus on the too numerous critical items. Today, business leaders do more with less, something that seemed to have been brought about by the Great Recession, a time when you *had* to do more with less to survive, and no one returned to pre-recession practices.

Therefore, when it comes time to "buy insurance," they have been taught by insurance agents the process of attempting to oversimplify what is complex, which has led to the scary statistics we highlighted in the Introduction.

While presenting to business leaders at conferences and engaging with them outside of the sessions, there is the opportunity to ask them why they buy insurance and how they manage risks. Almost every business leader says that they purchase insurance to pay their claims. To further define their most significant concern (other than their premium), they respond that they hope to have a business after a disaster. But yet, a large majority of leaders only request an "apples-to-apples" insurance quote, or in other words, they request agents to provide a quote for only what they currently have, or at the very least, what they *think* they have. Or what they provided the agent, whether or not the business leader included "everything." Those who use this insurance quote comparison process as the way they choose their insurance agent fell into three groups. Listed below are what the business leaders have told me:

A. There is significant confusion about the insurance industry and what is and what is not covered, so they want to get quotes for at least what they have.

B. There is a distrust of insurance agents (placing them just above or below a used car salesperson.) They believe agents will propose things that they do not need. Therefore, once again, they want to receive quotes for the coverage they currently have.

C. The last group falls into the slightly broader category of focusing mainly on premium. They may believe their insurance program is correct and want the apples-to-apples quote to help them decide who has the best rates. Or they want an apples-to-apples quote to see who has the best rates, so *if* they make any changes in coverages, they will do so using the best rates.

During my Disaster Preparedness keynote session, I asked a question of the participants. You should ask yourself, *"When would you like to know that your insurance program is not going to respond to your disaster fully: when you are purchasing your policies (a.k.a. NOW), or after a disaster when you really need it?"*

By a show of hands, business leaders overwhelmingly said *NOW, as in before the disaster*. But there always seems to be a few stragglers in the audience with their hands down for *now*.

They were asked to imagine this scenario. Picture in your mind that you have a catastrophic fire and are now rebuilding. You receive a $385,000 invoice, or maybe a $1,385,000 invoice, from the contractor for excavating, grading, and pouring the foundation. You submit your invoice to the insurance company, and they send you a letter that generally states, *"Sorry, your groundwork and foundation are not Covered Property. Therefore, we deny payment for these items."* Now, how do you feel?

WOW! What happened?

When asked again, everyone's hands are in the air as to that they would prefer to know NOW that they have a problem with their insurance program.

As the expression goes, *the devil is in the details*. So, let us dig into those details.

Since 1971, Insurance Services Office (ISO) has been the leading provider of advanced tools, data, and analytics for property and casualty insurers. ISO serves insurance companies, reinsurance companies, agents and brokers, insurance regulators, and risk managers in the property/casualty insurance marketplace. It also serves as the statistical, actuarial, underwriting, and claims information source for the insurance industry. The one thing that impacts every business owner is that ISO creates the insurance standard policy language. Look at the bottom of any coverage form in your insurance, such as your property, auto, or general liability policy. You will see © *Insurance Services Office, Inc.* listed at the bottom of the page or possibly referencing that the policy form contains copyrighted Insurance Services Office language.

There are 586 available endorsements or "riders" that your industry-standard business property, general liability, and auto policies can *add* to alter your coverage. These 586 endorsements do not include the multitude of "exclusions" and uncovered items built into those core policies you rely upon to pay your claims. These endorsement numbers do not include the separate endorsements that insurance companies can create on their own to customize your coverage or exclusion. Clearly, a standard policy does not address everything for everyone. Your policy must and can be customized to fit your business and operations.

Another way to look at it is, insurance policies are written for the *average* business. The problem is – neither you nor anyone else is truly average, which requires specific endorsements to be used to more appropriately insure your risks and exposures.

Time to quickly revisit the "apples-to-apples" quote myth. People generally love to evaluate options in the most organized fashion. After learning how many endorsements there are, business leaders have realized that there is no such thing as "apples-to-apples" comparisons. Especially when you consider nearly 2,500 apples are growing just in the United States and over 7,500 different apples are growing in the world. So, when you requested "apples-to-apples," did you specify the Gala, McIntosh, Red Delicious, Golden Delicious, Granny Smith, or Honeycrisp? And were the apples in the local grocery store that week.

Once again, when do you want to find out that your insurance program will not be there for you when you need it?

For the remainder of this chapter, as well as over the next three chapters, we will discuss the following topics relating to your "Property Coverage":

- What is Covered Property, and what is Property Not Covered?
- What are the "causes of loss" that provide you coverage?
- How does the insurance company determine how much to pay you?
- What are the most missed or confusing issues with property policies?

One of my favorite television shows comes to mind: *MythBusters*. After reading this book, you will see why the *Myth Busted* sign will appear when it comes to "apples-to-apples" comparisons.

Let us highlight several of the issues you will face with the **ISO CP0010 Building and Personal Property Coverage Form.**[12]

> A. **Coverage -** We will pay for **direct physical loss** of or damage to **Covered Property** at the **premises described in the**

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> **Declarations** caused by or resulting **from any Covered Cause of Loss**.

It is just one sentence from the coverage form, but it highlights key terms and phrases that you must focus on to make sure you are insured the way you want to be:

- **Direct Physical Loss:** That something happens to the property in question that causes the property to have some damage to it.
- **Covered Property:** That it must happen to specifically defined types of property.
- **Premises described in the Declarations:** That it must happen at a location, building, or property listed specifically in the policy,
- **Covered Cause of Loss:** That it must happen from particular actions/issues/accidents/etc.

Covered Cause of Loss – it is mentioned out of order as there is so much to discuss with just this topic, we will need to examine separately and do so in Chapter 5.

> A. **Coverage -** We will pay for **direct physical loss** of or damage to **Covered Property** at the **<u>premises described in the Declarations</u>** caused by or resulting **from any Covered Cause of Loss**.

Premises Described in the Declaration – If the location and structure are not specifically listed in your policy, there is no coverage. If you have one location, that would be easy to deal with as you can see the one location with the Building and Your Business Personal Property listed on the declaration page, with limits for each of them. But what happens if you have 10 locations, 100 locations, or 1,000 locations? The more locations you have, the more you must pay attention to the schedule of locations and the items listed for coverage on the policy.

Are you are thinking, *"But I have Blanket Coverage for all my locations?"*

Yes, you can have Blanket Coverage, meaning you may have just one shared limit for Buildings and one shared limit for Your Business Personal Property, or even one shared limit combined for both. But that does not mean ALL locations and structures are automatically included; you could forget to add one to the policy. Even blanket policies will have a schedule of locations, structures, and coverages that comprise where and what is making up the Blanket Limit.

I have seen some policies with so many locations that the insurance company does not want to enter them into their computer system. Therefore these policies do not have a schedule. Instead, the insurance company may alter the Declaration Page. Where the schedule of locations would typically be, they may display "Schedule of locations per the Statement of Values on file with the insurance company." Therefore, the claims adjuster would look into the insurance company's files to verify that the Statement of Values included the location, structure, and contents before agreeing to pay a claim that happened at a location.

> A. **Coverage** - We will pay for **<u>direct physical loss</u>** of or damage to **Covered Property** at the **premises described** in the Declarations caused by or resulting **from any Covered Cause of Loss**.

Direct Physical Loss - This was the clause that caused all the trouble for business owners regarding COVID-19 claim declinations. Did the virus cause direct physical loss? Some said, *"I had to clean and disinfect my copier, door handles, light switches, etc. Therefore, the virus caused damage."* However, if you left those same property items alone for five days, the CDC said that the virus would no longer be active. Because of this, those items did not technically need to be cleaned, and therefore there was no damage.

The clause clarifies that if the property is rendered useless or cannot be used for some reason, but it is not damaged, that there is no coverage. There needs to be some *physical damage* to the property for there to be possible coverage.

> A. **Coverage** - We will pay for **direct physical loss** of or damage to **<u>Covered Property</u>** at the **premises described** in the Declarations caused by or resulting **from any Covered Cause of Loss**.

Covered Property – This is where the big problems start; what is considered Covered Property and Property Not Covered will be the focus of the rest of this chapter.

Many agents will tell you that you have Building and "Contents" coverage. Therefore you think you have coverage for both your structure and then the items inside the structure. But sometimes what you think is a Building is actually "Contents," and what you feel is "Contents" is actually Building or Property of Others. You need to know the difference to know how much coverage you have to purchase for each respective category and what you may need when customizing your policy.

> **1. Covered Property**
> Covered Property, as used in this Coverage Part, means the type of property described in this section, A.1., and limited in A.2. Property Not Covered, if a Limit Of Insurance is shown in the Declarations for that type of property.

As this book goes through what is Covered Property and what is Property Not Covered, assumptions were not made about the reader's level of knowledge regarding insurance. Therefore, the book will detail what everyone should know and reference for clarity when the time comes, should you have questions.

A.1. COVERED PROPERTY CATEGORIES:

BUILDING

Building means the building or structure described on the Declaration page of your policy. If the building is not represented on the declaration page, it is not covered. Do not get caught up in the term “blanket” coverage. If the specific building is not on the schedule of locations and buildings, it is not covered. You may think your “blanket” is fully covering you, but in reality, your feet are sticking out.

Completed Additions & Materials for Construction

Building coverage also includes completed additions, which makes sense since it is part of your building. However, suppose you completed an addition or improvement to your building and did not notify your agent and insurance company as to the increase in value of your structure. In that case, you may have issues with receiving a “full payment” on a future loss. This will be discussed later in the book, but remember the word *Coinsurance* (you should now be hearing the ominous, impending *“duunnn dunnn… duuuunnnn duun…”* theme music of *Jaws* approaching playing in your head).

If not covered by other insurance, your building also includes additions under construction, alterations and repairs to the building or structure; and materials, equipment, supplies, and temporary structures, on or within 100 feet of the described premises, specifically used for making additions, alterations or repairs to the building or structure. However, suppose you OR your contractor has Builder’s Risk or Installation Floater coverage. In that case, the addition being constructed and the materials being installed would not be covered by your property policy. This is true even if you or your contractor do not have enough coverage on the other policy.

Fixtures & Equipment

The definition of Building includes fixtures, including outdoor fixtures attached to the structure, and permanently installed machinery and equipment. However, the term Permanently Installed can be confusing at claim time, as there are two schools of thought:

- One, you dress up in your spandex and cape, become the Man of Steel, pick up your building, turn it on its side and shake it. Everything that moves or falls out is not Building.
- Two, if you can dawn your blue overalls with an orange checkered shirt and yellow hard hat, turn into Bob the Builder, and proceed to disassemble everything and then move it to a new location and reassemble. Anything you can move is not permanently installed and not Building.

Besides the costume you chose, the real decision to which applies may come down to your claim adjuster's interpretation at claim time, which could be too late. However, the latter is the most commonly used description. But the good news is, there are endorsements available that allow such issues to be clarified. However, they are often overlooked.

Certain Personal Property

Building also includes personal property owned by you to maintain or service the building or structure or its premises, including fire-extinguishing equipment, outdoor furniture, floor coverings, and appliances used for refrigerating, ventilating, cooking, dishwashing, or laundering. This is where many restaurants and hospitality operations get themselves in trouble when determining how much coverage to have. Most business leaders tend to include these values in their "contents" limits when they should be within the total Building value limit.

Let us revisit Kirsopp Auto Body. When it came to analyzing their operations, Jack Kirsopp did not just do bodywork for cars. He specialized in really big trucks called Tractors, Semi-Trailers, Box Trucks, all kinds of vehicles where you need a Commercial Driver License to operate. Everything they have in their operation was supersized to accommodate the massive sizes of the big rigs; the two paint spray rooms were 40 and 75 feet long to paint tractors and trailers safely.

Jack had many installed or attached equipment to the structure but could be removed should they decide to move locations: such as spray room lighting and exhaust collection systems, dust collection systems, vehicle lifts, frame straightening platforms, and compressors.

The good news is that ISO has an endorsement, **CP1415 Additional Building Property**, that allows you to specifically describe what items you want to be included in the definition of the building. Another advantage of adding these to the building definition and values is that there is no theft charge built into building rates, so building rates are typically much lower than "contents," thereby creating insurance premium savings.

While doing the Coverage Analysis, I worked with Jack to estimate the value to insure his building. It was necessary to determine how much all this "stuff" would cost to replace, and then add it all up and place those values into the total building value you use. To give you an idea, back in 1997, his prior agent insured the building for $274,000, or $39 a square foot for the 7,000 square foot building (the going rate per square foot at the time was about $55-$65). Jack suspected that the building limit had not changed or had not changed much for years as Jack requested "apples-to-apples" quotes from agents. Each quoting agent would copy the policy and provide the same limit for the Building on the expiring declaration page, so the Building value was from the prior year. The current ("incumbent") agent would leave the same values on the renewal policy as they knew the competition would be using the old values. Therefore, they did not want to be at a "competitive disadvantage." When Jack shopped his insurance several years in a row, the Building value did not change for those years.

After explaining the Coinsurance Clause to Jack, he agreed to help estimate everything permanently installed, which allowed the building to arrive at $847,000. Not a bad guess as the insurance company's contractor estimated the cost to rebuild the structure was $865,000.

Failing to take the time to dig in and estimate the replacement cost value, Jack's old agent at $274,000 would have left him short a staggering $573,000 instead of the minimal amount of $18,000 the $847,000 would have. (Just wait to hear what else was also off in terms of values in later chapters.)

For Jack's new facility, the definition of Building had to be changed to now include the $350,000, 120-foot long, 22-foot-tall spray-bake paint booth that can fit a tractor and trailer inside, as well as the addition of a new exhaust system that can be disassembled and moved.

Oh, by the way, by shifting equipment to be defined as Building, which has a lower rate versus insuring them as "contents," you reduce your premium. In Jack's case, the final total premium difference ended up being minimal, even with all the extra coverage.

YOUR BUSINESS PERSONAL PROPERTY (BPP)

Business Personal Property is commonly incorrectly referred to as "Contents." Therefore, "Contents" will no longer be used when describing such coverage in a Property Policy. We will substitute terms of Your Business Personal Property (BPP) or Personal Property of Others (PPO) in its place. The reason for this distinction is that BPP is YOUR stuff and not the stuff of OTHERS; plus, Personal Property of OTHERS (PPO) has a separate coverage category, which will be discussed later.

BPP includes the following:

- Your furniture and fixtures;
- Machinery and equipment;
- "Stock" (which means merchandise held in storage or for sale, raw materials and in-process or finished goods, including supplies used in their packing or shipping); and
- All other personal property that is **owned by you** and used in your business.

Distance & Location/Storage Constraints

BPP consists of the property located in or on the building or structure described in the Declarations **or in the open (or in a vehicle) within 100 feet** of the **building** or structure or within 100 feet of the premises described in the Declarations, whichever distance is greater. To add to the confusion, an insurance policy defines the Building as the Premises, so it is the distance from the Building's edge and not your property line.

As soon as your property leaves your premise, you typically cease having coverage. The policy does provide $10,000 coverage at limited temporary locations:

- A location you do not own, lease, or operate;
- At a storage location you lease, provided the lease was executed after the beginning of the current policy term; or
- At any fair, trade show, or exhibition.

If you are working or operating at a temporary location, then you would not have coverage either. If your property is more than 100 feet from your building and comprises things like tools and equipment, you should purchase separate coverage for these items. The coverage for specialty coverage for property that leaves the premise is referred to as an Inland Marine policy.

Also, when your property drives away from your premises, it is no longer covered. Therefore, if you have property headed to a customer or job site, you have to address property that is being moved or transported with an endorsement for Property In Transit.

Increase in Value of Property of Others

BPP includes your labor and materials or services furnished or arranged by you on the personal property of others. For example, if you receive materials or parts from a customer and spend time (labor), purchase more parts, and assemble them, you have added value and materials to the customer's property. That increase in value is included in your BPP. The customer's original provided items that you work on would still be PPO even when you have completed your services or modifications.

Tenant Improvements and Betterments

Your use interest as a **tenant in improvements and betterments**. Improvements and betterments are fixtures, alterations, installations, or additions made a part of the building or structure you occupy but do you not own and have acquired or made at your expense but cannot legally remove from the building. Believe it or not, this is a more complicated concept that will be specifically addressed in another chapter.

Leased Personal Property

Leased personal property for which you have a *contractual* responsibility to insure is included in your BPP unless the property is provided for under Personal Property Of Others (PPO). For example, you will typically be contractually responsible to insure your leased copier.

Property in the Open

Property in the open or within a vehicle on your premise is covered.

Another issue with many businesses, such as what Kirsopp encountered, is that they use cargo containers, and not semi-trailers, to store excess materials or inventory. They may also do it as part of their shipping process, where they load shipping containers for future shipment of their finished products. We have seen property damaged, totaling tens to hundreds of thousands of dollars, for goods inside a cargo container about to be picked up and placed on a trailer or barge for shipping. When you also include the many large retail facilities that have a significant excess inventory on-premise, particularly around the Christmas and holiday seasons, you need to pay attention to cargo containers versus semi-trailers.

The issue becomes, a cargo container is not a trailer. Therefore, a cargo container is not an auto, and the items inside a cargo container on-premise are not covered property. Using the similar form of **CP1410 Additional Property Covered** and adding the definition of property that BPP on-premise stored in a cargo container as Covered Property. Otherwise, you would need to schedule each cargo container and the corresponding BPP value inside the container on the policy.

PERSONAL PROPERTY OF OTHERS (PPO)

Personal Property Of Others includes personal property in your care, custody, or control located in or on the building or structure described in the Declarations or in the open (or in a vehicle) within 100 feet of the building or structure or within 100 feet of the premises described in the Declarations, whichever distance is greater.

BPPO coverage is only at your premises. If you perform operations away from your premises, and in the course of performing work have to handle or move PPO, you have to address this. You may need to purchase liability coverage such as Voluntary Property Damage Liability Coverage or specialty property coverage such as an Inland Marine Installation Floater. It will depend upon what you do and what type of PPO you are handling. However, whether at your premises or others, you may need to purchase a separate liability policy or Inland Marine Policy for these items: such as Bailee's Coverage, Warehouse Legal Liability, Wharfingers and Stevedores Liability, etc. You may also need to address the property of others transported via a Motor Truck Cargo Policy. The best thing is to have an in-depth conversation with an insurance expert as to the Personal Property of Others and your operations.

Leased Property

You may have more property of others than you realize. Any leased property you are using, such as a copier, postage meter, production machinery, or computer systems, is technically the property of others. However, if you recall, the definition of what is covered property under BPP includes *leased* personal property for which you have a contractual responsibility to insure unless otherwise provided for under PPO. Therefore, you need to focus on the property of others that you do not lease or if you lease property that your contract does not require you to insure their property. Basically, all other property of others needs to be addressed.

Just so you are aware, any payment for loss of or damage to the personal property of others will only be for the account of the property owner.

Personal Effects

The Building and Personal Property Coverage Form do provide $2,500 of coverage for the personal effects. You may own the Personal Effects, or it can be owned by your officers, partners or members, managers, or employees (but does not include theft of such). It also includes the *personal property of others in your care, custody, or control*. You can increase the limit if you need to, but sometimes a different type of overage is better suited for your situation.

Continuing with the example of Kirsopp Auto Body, many of their mechanics owned the hand tools they used every day. Therefore, substantial amounts of PPO needed to be added to cover their tools, especially since a mechanic's Homeowners policy would typically exclude tools of the trade when they away from their residence.

<u>A.2. PROPERTY NOT COVERED CATEGORIES</u>

The examples of Property Not Covered may amaze you, but this is where all the confusion starts. The ISO Building and Personal Property Coverage form goes on to clarify that Covered Property **does not include**:

Foundations, Excavations, and Backfilling

You cannot build a great building on a weak foundation – Gordon B Hinkley.

This relatively known quote is more spiritual but try to imagine constructing an actual building without a foundation. It would be impossible to have the building last for a long time. But yes, foundations of buildings, structures, or equipment are not covered property.

There are many issues with Property Not Covered that can cause significant problems when a disaster occurs and rebuild your facility. As alluded to earlier in the chapter, the cost of excavations, grading, backfilling, or filling is not covered. Nor are foundations of buildings, structures, machinery, or boilers if their foundations are below the lowest basement floor; or the surface of the ground, if there is no basement. Also, underground pipes, flues, or drains are not covered.

Because of this Property Not Covered restriction of coverage for Jack's building, it was necessary to use the CP1415 Additional Building Property to add the cost of excavations, grading, backfilling, or filling, the foundations of the building, spray booth, and frame straightening platform as well as the underground pipes. Failing to do so would have made Kirsopp Auto Body ineligible to receive the $285,000 needed to backfill and raise the ground and pour caissons (piers) down 10 to 30 feet to rock to support the entire new building structure (more story later). Whereas the final cost for the new structure without the new spray booth was about $1,150,000, you can see that failure to account for the ground and foundation work can cause a business not to afford to rebuild.

For those keeping score at home, the total shortage Jack's prior agent would have left him to deal with is at $858,000, and there is more to come.

To explain this issue further, recently, a business built a 150,000 square foot manufacturing facility in a Regional Industrial Development Park. You are probably familiar with the concept of a privately funded, non-profit serving a metropolitan area focusing on a regional approach to economic development primarily through managing and rehabilitating former large manufacturing sites (in this case, a former steel manufacturing plant) into a land development for area research and business parks. Because of this, the entire site was already prepped and graded flat for a building with utility service hook-ups ready to go.

Within the $12,605,766, the bid to build the new facility was $2,165,539 for the foundation and groundwork. That is roughly 17% of costs that would be Property Not Covered and would have to be paid for should the building ever have to be rebuilt. In reviewing construction estimates, foundations and ground costs have been in the 20% to 25% range over the years. Just imagine a tornado destroys your building. You are starting to rebuild when you find out you are financially 20% (or more) in the hole regarding your insurance policy paying the total costs to rebuild your building.

Retaining Walls

Retaining walls that are not part of a building are not covered, and it is common for vehicles to cause significant damage to them. Following the collapse of a retaining wall, we have seen tens to hundreds of thousands of dollars rebuilding the wall and repairing the ground behind the wall, including the parking lots and access roadways that the walls supported. Therefore, you should consider whether or not you feel they should be added to the definition of Building.

Land and Crops

Also not covered is the land itself, water, growing crops, or lawns (other than lawns which are part of a vegetated roof). If you grow a product, buy crop insurance.

Property in Odd Places

Whether or not they are within 100 feet of your building, personal property while airborne or waterborne, bulkheads, pilings, piers, wharves or docks, are not covered. Businesses such as marinas with docks for boats or businesses with piers to load and unload barges can use the same form to define coverage for the docks and piers. That way, you would be covered should river traffic, a runaway barge, or ice flows damage property.

Other Coverage

The form also states if the damaged property is covered under another coverage form of this or any other policy where it is more specifically described is not covered. However, the policy can be excess coverage of the amount due (whether you can collect on it or not) from that other insurance.

Money & Securities

Accounts, bills, currency, food stamps, or other evidence of debt, money, notes, or securities are not Covered Property. Therefore, you will need to purchase separate crime coverage. However, lottery tickets held for sale are not securities and are covered under BPP.

This is also an area where many businesses look for Accounts Receivable coverage to pay for the difference between what they did collect and what they should have collected after a covered cause of loss destroyed their records.

Outdoor structures or property

There is a whole slew of items that are not considered covered property: fences, radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers, trees, shrubs or plants (other than trees, shrubs or plants which are "stock" or are part of a vegetated roof).

However, the coverage form does provide $1,000 coverage. Still, no more than $250 for any one tree, shrub, or plant, and they only provide coverage for damage caused by fire, lightning, explosion, riot or civil commotion, or aircraft.

Some of the items that would fall into this category of not covered property are signs that are not attached to your building and parking lot lights. As happened to one business, imaging having a tornado take out 141 of your parking lot light posts that cost almost $1,500 apiece in addition to a $183,000 sign for a shopping center that displays the most prominent tenants and even has LED screens for changing displays. How would you feel only receiving $1,000 instead of $394,500?

Animals

Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings, are not covered. So, if you are caring for others' pets or are in the business of selling animals or pets, animals can be included in your BPP or PPO coverage.

Autos

Anything that is auto is not covered, other than auto parts. This also excludes automobiles held for sale. Autos are not just licensed road vehicles; autos are anything with wheels and a motor. Bicycles are not autos; however, electric bicycles can fall into a gray area: are they self-powered or power assist? Does the state that they are sold in require them to be registered? This is also where ATVs, UTVs, and quads become not covered, as most states require them to be registered for use. Therefore, you would want to use the CP1410 Additional Property Covered to clarify that your property policy covers them. Otherwise, you will need to address coverage with an Inland Marine coverage form for mobile equipment or Dealer Equipment coverage programs, and you may even have to turn to your Automobile Insurance Policy if they have to be licensed. So, please discuss your situation with an insurance expert.

Surfaces you walk or drive on

Not covered are bridges, roadways, walks, patios, or other paved surfaces. Any businesses that need a bridge to access their entire property or a portion of the property should be concerned. These can collapse due to the weight of a vehicle or be washed away in a flood.

A local business had an enclosed elevated walkway so that employees can walk to the building from the rather long and large lot without fear of being hit by a vehicle or soaked by rain (or pelted with snow). More importantly, that parking lot was on the other side of a highway. The elevated walkway was built with a multi-million-dollar state grant to have the manufacturer move into the facility. An oversized, over-height truck damaged it while trying to go under it, and the trucking company did not have enough liability coverage to pay to replace it. The manufacturer could not receive a new grant and faced having to pay $3,140,000 to repair the bridge over the highway.

Over the past 30-plus years, I have seen dozens of businesses that have had a vehicle catch fire in their parking lot. Such fires can cause the pavement to melt and blister or the concrete to crack to a point where one event caused over $180,000 of damage to a parking lot as the fire spread to four vehicles.

With Kirsopp, they used the CP1415 Additional Building Property form to include the paved front parking lot and added the cost of paving into the building value. The $120,000 estimate cost of paving added only $33 per year to his premium. Yes, most of the parking lot was damaged to gain access to the utilities and foundation. The shortage scoreboard is at $924,000.

Illegal Stuff

Sort of self-explanatory, but contraband or property in the course of illegal transportation or trade is not covered. However, please keep in mind that some products may be legal in a state, such as medical marijuana, but only where a state decriminalized it. In other states, it could still be technically illegal, and marijuana would not be covered. So, this restriction of coverage needs looked at on a case by case (or state by state) basis.

Computer Data

The physical computer can be considered Covered Property. However, the electronic data and programs on the hard drive, thumb drive, or the cloud are not. The hard drive is covered, but the 1's and 0's that represent that data on it are not. There is a limited give-back of $2,500 of coverage for data destroyed by a covered cause of loss, but this does not apply if you are programming or selling software. Long story short, if you are looking to protect your data and have insurance coverage for cyber claims, there are better coverage forms and programs are available from specialty insurance programs other than the ISO coverage form. Especially look towards a robust Cyber Insurance Program.

Valuable Papers

Paper itself is covered property, but much like data is to computers, what is on the paper is not Covered Property. Many businesses need to purchase coverage to replace or restore the information on valuable documents and records, including those that exist as electronic data. Valuable papers and records include but are not limited to proprietary information, books of account, deeds, manuscripts, abstracts, drawings, and card index systems. The ISO form includes limited coverage of $2,500, but you should review and determine your needs once again.

However, with today's imaging capabilities, large copier/printers, and cheap computer data storage of pennies per Gigabyte, the coverage is becoming less important. You should still discuss if your operations need such coverage.

Motorized Things that Fly, Float, or Move on Wheels, Treads or Tracks

Vehicles or self-propelled machines (including aircraft or watercraft) licensed for use on public roads, or are operated principally away from the described premises, are not covered. Simply put, if you put a registration plate on it or license it, it is not covered.

This exclusion does not apply to vehicles or self-propelled machines, or autos you own that you manufacture, process, or warehouse. However, autos held for sale are excluded, even if you store them in a "warehouse." If you make it and sell it to others, which sell your product to the end consumer, it is your inventory.

Other items that the property policy can still cover, but you should verify for your particular situation are:

- Vehicles or self-propelled machines, other than autos, you hold for sale;
- Rowboats or canoes out of the water at the described premises; or
- Trailers, but only to the extent provided for in the Coverage Extension for Non-owned Detached Trailers.

Crops

Grain, hay, straw, or other crops located outside of your building are not covered property. In other words, if growing in the field, not covered. But if harvested and brought inside to process for delivery, covered.

WORDS OF CAUTION

As you can now clearly see, and will even learn more in later chapters, Building does not mean what you think it does when it comes to insurance coverage. Unfortunately, insurance agents have taught business leaders over the years to ask for “apples-to-apples” quotes or focus on the core coverages (Building, BPP, or PPO) and then look over the XYZ Insurance Company Property Enhancement Endorsement. The problem is that insurance companies cannot possibly list every meaning and alteration in their Enhancement Endorsement Summary Schedule. A few insurance companies alter the core Building & Personal Property Coverage form itself to add their own limits and additional coverages.

For example, a few insurance companies include within the definition of covered building property the building and equipment foundations, grading, and backfilling in their core policy. These alterations are not listed on an Enhancement Endorsement. And then there are insurance companies that list foundations as “Covered” on their enhancement endorsement summary, but when you read the coverage form itself, it pertains to foundations production equipment only. This is why you should be careful when you share your current policy declaration pages with an agent to quote. We have seen essential coverages become lost, and this highlights why you need to read your policy’s language as Enhancement Endorsement descriptions can sometimes be misleading.

The Devil is in the Details…

You also know the mock meaning of the word *assume*, so please do not assume anything. You should request copies of the policy and endorsements to read yourself. If you do not read them, you must make sure that the agent you are using is doing so and prove to you that they did.

Remember, an insurance contract is between you and the insurance company. The insurance company will only pay what it is legally obligated to pay. It is the insurance program design that is critical. The issue is that insurance companies do not design the specific policy coverages that your business buys to protect itself. Insurance companies take the specifications from someone who has made recommendations about what coverages and limits you want. Then that person requests the insurance company to issue a quote or a policy to meet those specifications.

You may also want to know that an insurance agent is not a party to that insurance policy contract.

TAKEAWAYS/LESSONS LEARNED

As you now can see from the definitions, what is Covered Property and what is Property Not Covered. There are a lot of things that you have to consider and address to make sure your insurance program respond the way you want it to:

- Take a walk around your property. Take a lot of pictures of the items you see throughout your property and look inside and outside. You should also make notes as to what is underground. Remember, digital “film” is cheap, and then, later on, those same photos will help you in settlement of your loss as it is proof of what you have.
- Then assess each of your locations: what structures? Installed equipment inside & outside? Outdoor property? Property outside? Storage sheds & containers? What items do you see that are not physically part of the building’s structure (signs, towers, processing equipment, air handling systems)?
- What property do you have in the open or stored in trailers, cargo containers, sheds, bins, etc.?
- Determine what leaves the property.
- Look for the property you do not own: Is it leased or rented? And if so, read your contract. Or is it customer goods?
- Ask if anyone is holding any of your property at another location. Or if you are storing any property at temporary locations. Determine if you own or lease any of those sites and how long you have done so.
- Create a Master List of all the items you identified and uncovered.
    - Split into the categories Building, BPP, and BPPO
- Determine if you want them covered or not:

    - Note for each if they need to be added to your policy using CP1415 Additional Covered Building or CP1410 Additional Property Covered.
    - Determine if you need Personal Property of Others or other coverage endorsements or even separate coverage policies to address.
    - Determine if you need coverage for any unique items or structures.
- If you do not want something covered that is typically included, then use CP1420 Additional Property Not Covered to remove it from the coverage list. Not doing so could affect how much the insurance company pays out on a claim due to the Coinsurance Clause (see Chapter 3)

FEMA states that 48% of businesses never reopen their doors following a disaster; another 25% fail within one year. The US Small Business Administration states over 90% of companies fail within two years of being struck by a disaster. These failures have devastated business owners, employees, and communities.

DON'T LET YOUR BUSINESS BE A STATISTIC!

This is the most comprehensive book for business leaders to prepare for a disaster and have the proper insurance program design to get you through the disaster. David Leng utilized decades of first-hand client experience and years of research, including interviewing over 100 business leaders on why their businesses survived, or more importantly, failed to survive their disaster – *despite being insured!*

"David Leng was one of the primary speakers for our recently held Annual Meeting. In addition to being incredibly knowledgeable about what wood products manufacturers require to properly insure their business and manage their risks, David also understands the industry, which is critical to helping companies remain in business should they suffer a major loss."

– Philip Bibeau, Executive Director, Wood Products Manufacturers Association

"I am so glad I met with David Leng and the team of professionals at the Duncan Financial Group. David put together a Risk Improvement Plan to address our issues. He also overhauled our insurance program to a point where it looked nothing like my old policies, and they reduced my insurance costs as well. The outcome was beyond belief. Because of David's efforts, not one of my employees or myself missed a paycheck. In its beautiful new facility, my business is thriving, and I can now hand this company over to my daughter and eventually my grandson."

– Jack Kirsopp, Owner, Kirsopp Auto Body

David R. Leng, CPCU, CIC, CBWA, CRM, CWCA

David Leng, author of the International Best Sellers, *The 10 Laws of Insurance Attraction* and *Turning Premiums Into Profits*, and one of the top-selling workers' compensation books for employers, *Stop Being Frustrated & Overcharged*, is the Executive Vice President of the Duncan Financial Group in Irwin, PA. A 30-year veteran of the Risk Management and Insurance industry, he is regarded as one of the brightest minds in the industry. Since 2004, David has saved his clients well over $60,000,000 in premiums and overcharges, all while helping seven businesses survive a complete disaster, and dozens that survived significant ones. David serves on the National Technical Affairs Committee for the Independent Agents and Brokers of America and is a frequent contributor to *Environmental Health & Safety, Workers' Compensation, Construction Executive*, and numerous other periodicals and association magazines. He also has been a keynote speaker for multiple association conferences and business groups across the country.