

Insurance Buyers' News



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Risk Management

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Credit Risk Insurance – Key Tool for Growth

The annals of business are filled with great companies with brilliant leadership and fantastic products that failed because of one simple reason: their trusted customers failed to pay them for services or goods rendered.

Credit risk insurance is a cost-effective way to prevent this business nightmare. But it is also a custom-tailored financial tool that helps businesses and organizations achieve other financial goals.

There are four main benefits of credit risk insurance. Each of them can pay for the cost of the premium on its own.

1. Catastrophic loss protection:

Research shows that for most businesses, the top 20 percent of accounts represent about 80 percent of the company's revenue. This credit exposure means that just one sudden, unexpected loss could devastate many businesses. Credit insurance mitigates

this catastrophic risk.

2. Safe sales expansion:

Customers both old and new often request large amounts of credit as a condition for their purchases. Many vendors limit their sales to avoid taking on too much credit risk. For a small percentage of the deal, credit risk insurance can allow these companies to expand sales and be sure they will be paid. In today's global economy, cred-

it risk insurance also allows businesses greater opportunity to expand abroad.

3. Improved credit decisions:

Credit risk underwriters generally conduct credit evaluations on the accounts you wish to insure and approve them for specific credit limits. Their detailed analysis *CREDIT RISK—continued on Page 3*



This Just In

As this issue went to press, Congress was considering the Terrorism Risk Insurance Revision and Extension Act of 2007 (TRIREA), introduced by Rep. Michael Capuano (D-Mass.) and House Financial Services Committee Chairman Barney Frank (D-Mass.). The Act would extend the Terrorism Risk Insurance Extension Act, which expires at the end of the year.

A federal terrorism insurance backstop has been in place since 2002, when Congress created the Terrorism Risk Insurance Act (TRIA) in response to the terrorism events of 9/11. Before that date, most insurance policies did not exclude terrorism coverage, effectively providing "free" coverage for this exposure. After 9/11, many insurers deemed terrorism an uninsurable exposure and stopped writing coverage. However, because many mortgages require terrorism coverage, property owners were unable to obtain coverage. TRIA requires the federal government to provide assistance after participating insurers pay out a certain amount in terrorism-related claims on U.S. soil.

The Bush administration opposes the TRIREA, saying it doesn't meet its three criteria for a federal terrorism backstop: it must be temporary and short-term; private-sector retentions must be increased (in other words, private insurers must pay out more than the current limits of TRIA before the federal backstop kicks in); and the program should not be expanded.



Protecting the Environment and Your Business

Once considered a niche business, the insurance industry has developed a wide range of environmental liability coverage. In the U.S. alone, written premiums are estimated at up to \$3 billion dollars per year, with a growth rate of 10-15 percent. With a wide variety of nonstandard policies to choose from, which is best for your needs?

Pollution is not just bad PR. With increasingly robust legislation, maturing catalogs of hazardous materials and stricter interpretations by the courts, pollution risks are one of the greatest hazards facing any company, easily capable of sending even the strongest firms well on their way to bankruptcy.

Reflecting this change, the insurance industry has developed a wide range of environmental liability coverage. In the U.S. alone, written premiums have reached an estimated \$3 billion dollars per year, with a growth rate of 10-15 percent.

While environmental liability insurance was once considered something of a niche market, the scene is now dominated by major players in the industry, such as AIG, Kemper, Zurich-American, Chubb and Liberty. Rates and terms are competitive and offer policyholders the flexibility to overcome the fallout from a wide range of environmental problems.

Pollution liability exposures can arise from many different sources and are not limited to particular industries. Environmental risks can arise from on- and off-site conditions, waste disposal and transportation exposures, merger and acquisition activities, historical and current operations and storage tank releases, to name but a few.

No standard environmental policies exist; however, the policies offered by major insurance companies generally fall into these categories:

Pollution legal liability: Covers claims from unknown pollution conditions at specific locations. Generally, these policies cover both on- and off-site pollution conditions and include claims for bodily injury, property damage and cleanup costs. Often, business interruption and transportation claims will be covered, but costs of an ongoing cleanup or existing, known contamination are not.

Property transfer: Offers coverage similar to pollution legal liability policies when property ownership is transferred.

Cleanup cost cap or stop loss: Covers cost overruns for remediation due to the discovery of additional amounts or newly discovered contaminants, or from changes in regulatory requirements at a site. Coverage is limited to cleanup costs; claims for bodily injury, property damage or legal defense are not covered. Policies may also exclude coverage for radioactive matter, asbestos, contractual liability and regulatory fines and penalties.

Brownfields restoration and development: Covers urban development projects with known contamination. These policies combine pollution legal liability and cost cap insurance and generally cover bodily injury, property damage, cleanup costs for unknown pollutants, and cost cap coverage for cleanup.

Asbestos abatement: Covers bodily injury and property damage that results from asbestos abatement operations conducted by the remedial contractor.

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*Occurrence vs. Claims-Made Coverage?

Liability policies can have one of two types of "coverage triggers"—occurrence or claims-made. An occurrence policy will cover events that occur during the policy period, regardless of when the claim is filed. A claims-made policy only covers claims that are made during the policy period.

An occurrence policy is considered the broader type of coverage, as there can be a long delay between the time the damage occurs and the time a claim is filed. However, as with everything, this has its pluses and minuses. An occurrence policy will only pay up to the limits in place when you bought the policy; if someone files a claim against you 20 years after the fact, the limits you had then might not be enough to cover your claim costs.





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Asbestos containment: Covers building owners if a release of asbestos occurs. Policies cover sudden/accidental release of asbestos, which results in bodily injury/property damage (BI/PD), on an occurrence basis.* (see previous page)

Transporter insurance: Covers a transporter for off-site spills and liability for disposal of waste at a non-owned location. Coverage is included for oil, asphalt, sand and gravel, construction material, chemicals, and other toxic materials. Bodily injury, property damage and cleanup costs are covered, but known conditions, completed operations, and deliberate acts are commonly excluded.

Storage tank pollution liability: Covers releases from scheduled storage tank systems for corrective action on-site and off-site. Bodily injury and property damages are covered, and these policies can be used to meet Environmental Protection Agency and state financial responsibility requirements.

Owner's spill liability: Policy provides coverage for bodily injury, property damage and cleanup costs resulting from an incident occurring when a carrier transports the named insured's product or waste.

For more detailed information on any of these coverages, please contact us. ■

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financial assets. Survey your premises for vulnerable points and secure them. This can be anything from loose roof tiles, to inventory lying around the yard.

Review your insurance policy with your agent to determine whether you have adequate protection. What is your deductible? Are you covered for windstorm? And what about flooding and mold? Is your coverage high enough to take into account the higher costs of raw materials that follow disasters? Do you have coverage for building upgrades and debris removal? What about business interruption coverage? When will it kick in and how long will it last?

It may take a few hours to address these issues, but it will probably be the most valuable few hours you spend this year. ■



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represents a highly professional evaluation of your customers' credit that you can use to make better decisions about clients.

In addition, credit risk underwriters continually monitor accounts, ensuring that you get early indications of any problems arising in their creditworthiness.

4. Better borrowing:

If the company borrows against its receivables, credit risk insurance lowers the risk for the lender. Lenders might therefore lower their rates, increase the volume of available funding or allow previously unsuitable accounts into the borrowing base.

Credit risk insurance is tailored to each individual business and its clients. Therefore it's important to find a broker or agent who is experienced in this field and who displays a genuine interest in understanding your business operation to get you the policy most suited to your needs.

Before you talk to a specialist in this field, you should take a look at your business – what is the nature of your customer base, how robust are your credit practices, what is your appetite for risk and how aggressively do you want to expand? Think about how you want the policy to work for you and where it can bring value. With this accomplished, you'll be better prepared to have a productive dialog with a specialist who can help you find the ideal solution.

Of course you will want to discuss what type

and level of risk you wish to cover. But you will also have to decide the level of premium you can afford and the amount of risk you wish to retain via a deductible or co-payment. Generally it is sound practice to make sure the deductible is less than your gross margin. That way you can be sure that you are covering your cost while avoiding paying additional premium to insure your profit. A deductible can be used to reduce the premium to a certain point. You can maintain a small reserve to cover the deductible or take it out of your cash flow at the time of the first loss.

Another golden rule is to submit all your accounts for underwriting and let the professionals decide the specific coverage for each account. This is important because a credit risk policy is designed to protect against unexpected losses – and that includes those accounts that you've never experienced problems with.

A broker or agent will also be an invaluable resource for evaluating the different proposals you receive. Carriers all differ widely in how they structure and administer their policies. The three key categories to focus on are the carrier's financial strength, their contract wording and the policy terms and coverages they propose.

Keep all these factors in mind when comparing premiums and deductibles to get the right policy to help move your business forward. For assistance or more information, please call us. ■



Business Survival in the Face of Disaster



Experts predict a worse-than-average hurricane season this year. But despite the dangers of hurricanes and other perils, 71 percent of businesses do not have a disaster plan, according to a recent “Disaster Preparedness” survey conducted for Home Depot. Planning ahead can mean the difference between your business’s survival and its demise. Here’s a simple step-by-step on what to do.

It’s scary to think about, no doubt. But after last year’s predictions of a dire hurricane season failed to materialize, many people are suffering from what experts call “hurricane amnesia” and have failed to take even elementary precautions.

“More than 50 percent of people in hurricane prone areas don’t have a plan,” said Dennis Feltgen, meteorologist at the National Hurricane Center. “It’s alarming.”

“Fifty-three percent of the U.S. population lives within 50 miles of a shoreline. That number increases by 7 million residents every year. A vast majority have never experienced even a minor hurricane,” he said. “You can’t rely on the local, state or federal government. You’ll be on your own for one to two weeks.”

Surprisingly, businesses are just as complacent and undisciplined as homeowners in the face of disaster. According to a recent “Disaster Preparedness” survey conducted for Home Depot, 71 percent of businesses do not

have a disaster plan and more than half of the small-business owners surveyed are not worried about the impact a disaster can have on their business.

Such nonchalance is even more surprising given the relatively simple steps that can help ensure a business’ survival. Of those businesses that experience a disaster, those that plan ahead have a better than 75 percent chance of survival, according to the Small Business Administration. Of those that don’t, only 43 percent survive.

“Companies that prepare for disaster have a tendency to survive them,” said Jon Toigo, chief executive of research firm Toigo Partners International and the author of several books on disaster recovery.

Getting your business up to speed doesn’t have to be expensive. “Most of the preparations are very simple and very affordable, so don’t let cost deter you,” Toigo said.

The top priority is ensuring the safety of

employees, he says. Create a contact list and a telephone tree so you can easily communicate with staffers in the case of a hurricane or other disaster. Make sure your place of work is equipped with a first-aid kit, flashlights, batteries, bottled water and a battery-powered radio. Generators only cost a few hundred dollars and at the least can give you the ability to charge laptops and cell phones if grid power is unavailable.

Make another contact list with the details of key suppliers and vendors, and any other partners that are key to the future of the business. Protect data and store it in a safe and remote place. Toigo recommends backing up contracts, orders and inventories onto a flash drive and sticking it in your pocket at the end of each day or week. Even better is to develop an automatic back-up facility that stores the key information online.

Make sure you have a full and detailed inventory of all your business’ physical and

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Seven Steps for Surviving Catastrophe

1. Create and distribute a contact list. List should include phone, cell, email and physical addresses of employees, key business partners, emergency services and utilities.
2. Stock up on emergency supplies: First-aid kit, flashlights, batteries, bottled water and a battery-powered radio. A generator and fuel are also advised.
3. Make inventory of physical assets: Knowing exactly what you have will make it easier to work with your insurer to get replacements.
4. Identify and protect vulnerable points on premises: Ensure roof, windows and doors are sturdy and that material that could be caught in windstorms is not left lying outside.
5. Protect and back up data: Make sure your computer system is backed up to a portable or offsite location that you can access even if your main premises are destroyed.
6. Create recovery plan: Even a rudimentary plan can help you run a business in emergency situations and give you the best chance of recovery.
7. Review insurance policies: Meet with your agent to check policies and limits. Know what is covered and what isn’t. Make sure your limits will compensate for the higher prices that usually follow catastrophes, and make sure you have business interruption coverage to reimburse you for income lost due to a covered disaster.

What do you need to know about business interruption insurance?

- * A business package policy can contain business interruption insurance (BI) coverage. If not, you can buy it as an additional coverage (endorsement) or separate policy.
- * BI covers income lost when your property is damaged by a “covered cause of loss,” as listed in your property policy.
- * BI coverage kicks in after a waiting period, usually at least 48 hours.