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Risk Manager

Volume 15, No. 1



When disaster strikes, business income insurance provides protection!

Recent disasters such as Hurricane Katrina have prompted many business owners to evaluate their disaster preparedness, risk management, and insurance programs. If a natural disaster were to force you to temporarily suspend daily business operations, how would you meet your payroll obligations or cover other fixed costs without a continuing income stream from your business?



Business income insurance, also called **business interruption coverage**, is designed to replace the

income your business would generate under normal circumstances in the event of a disaster or other covered peril. It can help your company get back on its feet by providing funds to help cover critical expenses and lost profit until the business is up and running again. Without business income coverage, some companies are never able to reopen after a crisis.

Policy Limits

Most policies restrict coverage to business interruptions that cause *direct* physical damage to or the loss of property at the insured site. Special coverage is needed for boiler and machinery breakdowns and off-premises power failures.

Apart from covering critical fixed costs during a shutdown, you may also require funds to help accelerate your recovery after a loss. For instance, you may need to hire temporary help, rent or purchase new equipment, or rent or move


into a substitute facility. These are referred to as "extra expenses." Does business income insurance cover extra expenses? That depends on the policy. Some policies cover these costs, while others do not. You may also purchase **extra expense insurance** separately.

To determine the appropriate amount of coverage, estimate the maximum probable time operations could be suspended by a covered loss and assess the level of lost profit and continuing expenses that would accrue during the interruption. If continuing your operations after a loss is essential, determine the cost beyond normal expenses (air freight, cost of equipment, overtime pay for construction workers, cost of moving and temporarily operating elsewhere, and the like) to keep operating during reconstruction.

Be Prepared

It is important to realize that business income coverage is limited

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Did You Know?

Pull the plug on electrical fires

Devastating fires at businesses can be traced to a number of causes, such as cooking equipment, cigarettes, and other negligence. However, fires originating in a building's electrical distribution system, which includes wiring, switches, receptacles, and outlets as well as light fixtures, lamps, light bulbs, cords, and plugs, can cause some of the costliest property damage. Routine maintenance that includes regularly inspecting your property for hazards, such as overloaded electrical circuits, frayed or cracked cords, improperly installed outlets, and loose connections, may be the key to preventing an electrical fire at your place of business. Other safety tips include the following:

- Do not place computers or other electronic equipment in cabinets without ample airflow.
- Use power strips with their own circuit breakers instead of over-

loading outlets with multiple devices or lights.

- Do not cover extension cords with rugs or run them behind curtains.
- Make sure light bulbs are the correct wattage for their fixtures.
- Keep space heaters, lamps, and other heat-producing items away from walls, curtains, and furniture.
- If the cover plates on wall outlets are warm or if lights are flickering, contact an electrician.

Even if a faulty electrical distribution system does not cause a fire, it may result in damage to your company's electrical devices or even cause electrical shocks to your employees. Be aware of electrical hazards and install a smoke alarm on every level of your building. To ensure your business is fully protected from fire and other disasters, stop by or call us today for a review of your insurance program.

Taking on a risk management role

There may not be anything unusual about your day today, but you never know what tomorrow holds in store. A theft, natural disaster, fire, or lawsuit could affect your business dramatically overnight. Therefore, risk management deserves a top spot on your list of priorities.

What Exactly Is Risk Management?

Risk management involves being aware of your business's exposures, knowing what you need to do to protect your business from those risks, and having the *right types* and *amounts* of insurance coverage. Risk management is a constant process that could make the difference between

overcoming a disaster and having to close down your business. Of course, no one can eliminate risk entirely, but it may be possible to *reduce* it greatly.

Risk Management Basics

- 1. List Your Assets.** Note everything you need to protect in your business, including your building, machinery, other equipment, vehicles, computer data, cash, etc.
- 2. Identify Your Risks.** What might expose your business to loss? It could be anything from irresponsible employees to mechanical problems, such as faulty machinery. Don't forget about universal risks, including fire, theft, and natural disaster.

Small Business Growing

Small business in the United States continues to grow and drive the economy. According to the latest figures provided by the Office of Advocacy of the U.S. Small Business Administration (SBA 2006), in 2005, small businesses made up 99.7% of all the nation's employer businesses. Data also showed that these small businesses employed 57.4 million Americans (50.6% of the non-farm private sector workforce).

Workers Want Benefits and Incentives

According to a 2006 survey conducted for workforce management software firm Kronos Inc., over 80% of Americans said they consider programs intended to motivate employees to be important; however, just 36% of respondents indicated their employer invests in these incentives. Among the benefits respondents said they value were competitive salary, 100% coverage of health care costs by the employer, company matches of 401(k) contributions, bonus programs, flexible schedules, and compressed workweeks.

Employee Stress Sources

Over half of workers report they feel a great deal of stress at work, and 77% experience burnout on the job, according to a 2006 survey by CareerBuilder.com. Difficult co-workers are the most commonly cited source of workplace stress, reported by 16% of those surveyed. Other noted stressors include an unrealistic workload (15%), tight deadlines (11%), last-minute projects (10%), and an overbearing or interfering boss (9%).

For Your Information



ADA Requirements

The Americans with Disabilities Act (ADA) prohibits discrimination against people with disabilities in everyday activities, such as shopping at a store, going to the bank, eating at a restaurant, or visiting a museum. All businesses, even those that do not serve the public, must comply with ADA Accessible Design Standards when constructing or altering their business facilities. For more information on how to meet these standards, visit www.ada.gov/business.

Security for Your Workplace

The Protect Your Workplace campaign, sponsored by the Department of Homeland Security (DHS), provides guidance on physical and Internet security for your business and on how to identify and report to the authorities suspicious behavior, activity, and cyber incidents. Posters and brochures covering these topics are available for download through the United States Computer Emergency Readiness Team (US-CERT) website at www.us-cert.gov.

Small Business Advocacy

The U.S. Small Business Administration's (SBA) Office of Advocacy is the voice of small business in the federal government and a source for small business statistics. In addition to learning about newly passed legislation, small business owners can also access a forum through the SBA website to learn about and comment upon proposed federal rules that have the potential to affect small businesses. Visit www.sba.gov/advo for more information.

Sprinklers to the rescue!

A fire can engulf a home or a business in a flash. Searing heat and blinding smoke could make it difficult or impossible to reach doors, windows, or stairways that might otherwise allow a hasty exit. Sometimes, people do not respond quickly enough to smoke detector alarms, or they may even regard them as false alarms when suddenly...it's too late! Smoke detectors are there to alert people to a fire, but they do not put out a fire.

Fire sprinklers are designed to control and extinguish fires quickly so that people may escape or avoid the threat altogether. Sometimes, if the fire is easily doused, people caught inside may have little cause for alarm. While smoke detectors provide the initial warning signals, sprinklers can intercept a fire in its early stages.

Technology at Work

Commercial fire sprinkler systems, such as those used in offices, manufacturing facilities, warehouses, malls, and hotels, utilize heavy-duty sprinkler heads capable of spraying water over large areas. Because quick-response sprinkler systems can put out a fire long before it spreads, they may minimize water damage, releasing only a fraction of the water normally used by firefighters to extinguish a blaze.

Adequately installed and maintained automatic sprinkler systems represent a sound loss reduction technique and result in reduced fire insurance costs. Feel free to talk to us about how to manage fire risks and about relevant discounts that may apply should you install safety equipment, such as sprinklers. Protective measures can pay in more ways than one!

Taking on a risk management role

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3. Focus on Loss Prevention.

Loss prevention is the key to risk management. This could mean improving workplace safety habits, training workers on how to use equipment properly, creating tougher hiring procedures, and rewarding employees for their work to create higher morale. Also, always have an emergency plan ready for sticky situations so you can curtail your losses.

4. Spend Insurance Money

Strategically. Put your premium dollars where they will do the most for your business. For example, you may want to increase deductibles wherever possible and put the *leftover* money

toward an **umbrella liability policy** for a potential loss of catastrophic proportions.

5. Evaluate the Big Picture

Regularly. Things change over time. A regular review of your overall risk management program allows you to acknowledge new risks, brainstorm more loss prevention solutions, and update your insurance coverage to better address your needs.

Your ability to think like a risk manager is necessary for the survival of your business. We encourage you to take on this role, but we don't expect you to do it alone. We're always here to help you with your risk management program. Please stop in or call us for assistance.



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to the period of time it takes to restore damaged property. Since time will be of the essence if disaster strikes, it is worthwhile to identify your exposure *in advance* so you will be able to take action immediately. Here are a few tips to help you prepare:

- Create an action plan noting everything that must be done to resume operations on a full- or part-time basis after a disaster.
- Identify all machinery and equipment critical for business operations, and develop a plan to provide backup coverage, if needed.
- Locate alternate sources for the materials and supplies you rely on, in case something should happen to your major supplier. If a supplier is responsible for a sizable portion of your revenue, consider **contingent business income** coverage for pro-

tection should the supplier sustain a catastrophic property loss.

There are many things to consider when it comes to helping your business survive a crisis. Business income insurance can help provide a critical source of funds during a temporary shutdown. For more information, and to address your specific circumstances, give us a call. We would be glad to discuss your coverage options with you.

Brushing up on everyday insurance terms

You've heard time and again how important it is to be familiar with your insurance policies. However, we understand that this isn't as easy as it sounds. The insurance business, like most industries, has its own often confusing jargon. To help you gain a better understanding of your policies, and of insurance in general, here are some common insurance terms and their definitions:

Deductible—a specified dollar amount that is deducted from the amount of loss payable for a claim made on the policy. For example, if an auto insured on a policy with a \$500 deductible sustains \$800 worth of damage, the policyholder pays the first \$500 and the insurance company pays the \$300 balance.

Endorsement—an amendment to an insurance policy that provides or restricts coverage for special circumstances not included in the basic contract, usually for an additional premium. An endorsement is generally printed on a separate page or pages and attached to the main policy document.

Floater—an endorsement to an insurance policy that provides additional coverage for property (not real estate) beyond the limits or terms of the basic policy. A floater is used especially when the policyholder has property of unusual value or mobile property.



Exclusions—provisions of an insurance policy that specify what will *not* be paid for by the company.

Limits—the largest total amount the insurance company will pay for covered losses. Many policies have *multiple* limits—a certain amount per person, another amount per incident, and, sometimes, an aggregate limit for all losses paid during the policy term.

Declaration (Declarations Page)—a summation of the facts as “declared” by the insured. Normally the first page of a policy contract, it includes the insured's name, how much insurance is being provided, and how long the coverage is in effect.

Schedule/Scheduled Property—a separate listing of specific items of property covered by endorsement to an insurance policy, stating the exact dollar value of each.

Liability Insurance—insurance that covers a person or company against losses for which they are held legally responsible to another party or parties. It usually also provides for expenses the insurance company incurs to defend the policyholder in court.

Umbrella Policy—a type of liability insurance that provides coverage for large losses that are in excess of the limits of standard liability policies.

Feel free to give us a call or stop by anytime. We are always here to offer detailed explanations of your policies and to answer any questions you may have.