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Risk Manager

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Additional insured—not just a name

As a business owner, from time to time, you may enter into relationships with businesses, government agencies, other entities, or individuals. These relationships may expose you to risk, such as liability arising from another party's negligence or faulty/hazardous products. **"Hold harmless" agreements**—provisions where one party assumes liability by indemnifying the first party—are a popular way to protect your company against potential liability; however, in many situations, it may be best if you are also covered as an **additional insured** by an insurance policy owned by that party.

For example, suppose you are doing business as Murray's Contracting Company, a *general contractor*, and you enter into a contract with Homestead Development, a high-end building development company, to build 15 new homes. You hire J.J. Electrical Company, a *subcontractor*, to provide the necessary wiring and other electrical work for the project. To protect you from any claims that

may arise from J.J. Electrical Co.'s negligence while working for you, you may want to require J.J. Electrical Co. to list you as the additional insured on its insurance policy.

Remember that your original contract is with Homestead Development. If negligent wiring by J.J. Electrical Co. results in a home fire, Homestead Development would most likely turn to *you* for compensation. You may possibly be protected from this claim if you are the additional insured under the policy of J.J. Electrical Co., the **named insured**.

Potential Concerns

As the additional insured under J.J. Electrical Co.'s insurance policy, you may want to be aware of the following four potential concerns:

1. Policy Cancellation. J.J. Electrical Co., or its insurance company, can cancel, adversely change, or refuse to renew the insurance policy at any time without notice to you as the additional insured. To ensure you are properly notified of these

types of events, consider requesting an insurance certificate that provides a notice period—generally 30 days. If such notice will not be granted, it makes sense to request that a new certificate is presented periodically until the project or contract is complete.

2. Inadequate Liability Coverage. J.J. Electrical Co.'s liability limits may be insufficient to protect your exposure as the additional insured. Consider requesting limits that will help safeguard your interests. In addition, review your own insurance policy to ensure you have adequate liability coverage. Your status as an additional insured on another's policy is an extra level of protection; it should not be considered a substitute for the protection you have arranged with your own insurance provider.

3. Excess Policy. An insurance company may deem your coverage as the additional insured under J.J. Electrical Co.'s policy to be *in excess* of the coverage under your own insurance policy. Thus, your insurance

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Did You Know?

Filling the gaps with endorsements

Companies may be hard-pressed to find affordable insurance policies that meet all of their business needs and objectives. Businesses concerned with stretching coverage over a wide array of possible risks could potentially broaden those policies by obtaining **endorsements**. Endorsements address **exclusions** and **limitations** under a basic insurance program. There may be many choices available for filling gaps in coverage.

Let's review a few options that, if applicable to a business's needs, may help provide some additional protection:

- **Contingent Business Income Insurance.** If a company depends on other businesses, such as manufacturers, suppliers, or distributors, its revenue stream could be seriously affected if those businesses were to suddenly shut down in the event of a fire, storm, or other disaster. Contingent business income insurance covers a business for losses that occur under such circumstances.
- **Accounts Receivable Endorsement.** Suppose a business's accounts receivable records are destroyed by fire or other calamity. An accounts receivable endorsement covers a business for any amounts that are uncollectable as a result of the loss, as well as for the costs of collecting the accounts and recreating the records.
- **Peak Season Limit of Insurance.** During a company's most productive season(s), higher levels of inventory may need to be maintained to cover increased sales. However, if a catastrophe were to occur, the losses sustained could exceed the amount of insurance carried. A peak season limit of insurance endorsement offers a higher amount of coverage during a business's particular period(s) of high demand.
- **Spoilage Coverage.** Businesses that handle perishables must often maintain controlled conditions to prevent spoilage. A spoilage coverage endorsement protects a business against losses caused by power and equipment failure or general contamination resulting from incidents that are beyond the company's control.
- **Ordinance or Law Coverage.** If a covered peril—such as a fire or tornado—damages a business's property to the extent that the law requires its demolition or complete renovation, ordinance or law coverage insures for the loss, providing coverage to rebuild or repair a building in compliance with the most recent local building codes. Individuals who own large stakes in real estate may be particularly interested in this endorsement because of the potential for strict building codes and other safety requirements.
- **Hired and Non-Owned Auto Liability.** Hired auto coverage protects against claims arising out of the use of vehicles leased (on a short-term basis), hired, rented, or borrowed by your business. Employers whose employees use personal vehicles for business purposes, such as driving to a sales meeting or the office supply store, could be held legally responsible for an employee who is involved in an accident. A non-owned auto liability endorsement helps protect businesses against this risk.

Employee Satisfaction with Benefits

Workers tend to value exceptional health care coverage and generous 401(k) plan matches, a study by human resource software provider Kronos Inc. concluded. When asked to identify the compensation and benefits programs most likely to contribute to workplace satisfaction, comprehensive health care coverage was cited by respondents as a top factor, followed by a competitive salary, bonus programs, compressed work weeks, 401(k) plan matches, and full tuition reimbursement.

Who Will Follow?

A survey by executive staffing agency Robert Half Management Resources revealed that few chief financial officers (CFOs) have identified their successor—just 16% of 1,400 respondents. Of those who had not found a successor, 74% indicated they have no plans to leave their position in the near future. Further, 12% feel there are no qualified candidates, 6% are too busy focusing on other concerns, and 5% feel finding a successor is not a priority because they would no longer be with the company.

Union Workers Earn Higher Wages

Among workers in traditionally low-paying occupations, union members earn higher wages than their non-unionized counterparts, according to a study by the Center for Economic and Policy Research (CEPR). Even after controlling for characteristics associated with higher wages, such as age and formal education, union workers in low-wage occupations earned an additional 16.4%, or about \$1.75 an hour. The CEPR estimates that about 13.6% of U.S. workers are unionized.

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For Your Information



Employee Plan News

The Internal Revenue Service (IRS) offers a periodic e-mail newsletter to keep business owners informed about issues involving retirement plans. Specifically, *Retirement News for Employers* highlights new rules affecting retirement plans, retirement plan forms and plain language publications, retirement seminars geared toward employers, and developments concerning retirement plans from other federal agencies. To subscribe to the newsletter, visit www.irs.gov.

Online Safety Training

The National Safety Council (NSC) provides a number of resources to help business owners educate their employees on safety issues. In addition to print resources, the NSC also offers online training through Workplace Webinars. Presenters guide participants through desktop presentations, typically lasting between 60 to 90 minutes, and answer questions directly, just as they would in a traditional live course. Visit www.nsc.org for more information on courses about emergency care, defensive driving, and workplace ergonomics.

Government Payments Online

Pay.gov is a free, secure, government-wide financial transaction portal managed by the U.S. Department of the Treasury. Through the website, businesses and consumers can complete forms, make payments, and submit queries electronically to a number of federal agencies, including the Small Business Administration (SBA). Pay.gov is available 7 days a week, 24 hours a day, and from any locale around the world. To enroll for the service, visit www.pay.gov.

Assisting employees with childcare concerns

Family responsibilities don't disappear once working parents leave their homes and head for work. Childcare, in particular, is a workplace concern that could affect an employer's bottom line if employees are unable to find reliable care for their children. When employees feel torn between their work duties and their family obligations, employee productivity declines, absentee rates increase, and accidents are more likely to occur. The more time working parents spend worrying about daycare, the less time and energy they are likely to focus on their work.

Family-Friendly Options for Business Consideration

On-site daycare facilities are not a feasible solution for all employers. However, there are several less expensive alternatives business owners could consider when grappling with the issue of childcare. These options include the following:

- Provide information and referrals to available childcare resources in the local community. Gathering and updating information, and disseminating it to employees in a timely manner, could be your least expensive option.

- Offer flexible and part-time work schedules, especially during school hours. Part-time work opportunities can allow you to tap into a pool of reliable employees who are unable to work full-time.
- Offer assistance with childcare costs. This alternative is obviously more expensive than providing flextime, but it could be an option in a flexible benefit plan where employees choose from a menu of benefits.
- Provide a conveniently located daycare facility, perhaps arranged in conjunction with other employers in the area. Start-up costs could be borne by the employer, with employees paying only for the service.

Family dynamics have changed tremendously in recent years. The need for good childcare—and its effects on dual income families—cannot be ignored. The productivity losses and safety hazards resulting from employees unable to focus their full attention on their jobs could mean substantial hidden costs for an employer. For most businesses, providing family-friendly options to employees in the workplace may lead to more efficiency and a healthier bottom line.

Filling the gaps with endorsements

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- **Coverage for Injury to Leased Workers.** Contract or leased workers are a major segment of today's workforce for many businesses. A coverage for injury to leased workers endorsement on a **workers compensation** policy protects these workers for injuries sustained while on the job.

Gaps in a company's business insurance coverage can potentially create

significant risks to its operations and employees. Obtaining additional endorsements helps provide an added measure of protection in the event of an unforeseen catastrophe.

To help ensure that you and your business are properly covered, please give us a call. One of our qualified professionals would be happy to assist you.



Additional insured—not just a name

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policy would be considered the primary policy for settling claims, and J.J. Electrical Co.'s policy would take effect only *after* your own policy limits have been exhausted. To limit your exposure, consider requesting an insurance certificate that specifically states J.J. Electrical Co.'s policy is *primary* with respect to your status as the additional insured.

4. Other Exclusions. Coverage for hazards, such as underground con-

struction, landfill operations, or explosives, may be excluded from J.J. Electrical Co.'s policy and could therefore negate your coverage as the additional insured. To help ensure your interests are properly safeguarded, consider reviewing J.J. Electrical Co.'s policy for inclusion of this type of coverage.

Naming you or your business as the additional insured on another party's insurance policy can help shield you

from liability due to negligence or faulty products. However, it may not necessarily provide you with *all* the coverage you need. So, if you are listed as the additional insured on another party's insurance policy, confer with one of our insurance professionals to evaluate your risks and to familiarize yourself with how the policy will respond under various scenarios. Please contact our office with any questions you may have.

The preferred course for business continuation

It takes years of hard work to build a successful and profitable business. To protect your investment, it is important to consider how you will keep the business running smoothly if something should happen to you or one of your business partners. Death, disability, or retirement of key shareholders can threaten the survival of your company if proper planning is not in place.

For example, who will take over your interest in the company, and do they have the expertise to run your business? Will overwhelming estate taxes force your heirs to sell their interests at an undesirable price? To avoid conflicts involving these issues, it is a good idea to establish a business succession plan that includes a **buy-sell agreement**, if appropriate. Such an agreement is often funded by **life and disability insurance**. In the event of death or disability of a key shareholder, the remaining partners, key employees, or the company itself can purchase the

outgoing shareholder's interest with policy proceeds.

Buy-Sell Advantages

- Helps prevent disputes by establishing a dollar value for the insured's interest and setting a price in advance.
- Reduces financial strain by providing money that can be used to purchase the insured's interest or cover operational costs due to changes in the business.
- Prevents competitors from purchasing the interest of a retired, disabled, or deceased business partner.
- Allows the remaining business partners to maintain control of the company, ensuring that it will continue to be managed by those with the necessary expertise.
- Helps prevent loss of profits, estate tax liability, forced liquidation, or sale.

- Maintains the confidence of those involved with the business by implementing a smooth transition from owner to owner.

To help ensure the successful continuation of your business, you will obviously need to make sure it remains in good hands. A buy-sell agreement can provide a definite course of action at the time of a crisis, but it must be properly arranged and funded to be effective. Please stop in or call us for assistance in securing your company's future.

