SMART® TALK
AN INTERNATIONAL ASSOCIATION
CURRENT NEWS & INFORMATION

April 2007

Representing The Wiping Materials, Recycled Clothing, New Textile By Products and Fiber Industries

President's Column

Bill Schapiro, SMART President

More Results From The Laboratory

In past columns, I have shared experiences from our operations in Miami that I hope have been helpful to members on issues such as state sales and use tax and waivers of subrogation in landlord-tenant leases.

On February 19th, our little learning laboratory in Florida provided more educational material for my column. Material I wish I had obtained by different means.

I was awoken that morning with the news that we had a fire and the inventory was declared a total loss. I was shocked and just feeling lost as I contemplated the struggle ahead with a powerful insurance institution. Then I remembered that a boyhood friend, Randy Goodman of Goodman Gable and Gould Adjusters International, was a noted public insurance adjuster. A call was made and within minutes, as my anxiety dissipated, I felt empowered and ready to face the challenges ahead.

The period after a major property loss is very stressful time for a business owner. But the use of a qualified and skilled public adjuster is a terrific tool because within minutes you have an expert who is your exclusive agent, knows exactly how to prepare your proof of loss and has the confidence of the insurance company since he or she is held to a high level of professional conduct and ethics.

I learned many lessons. First, an insurance policy is a complicated document. I know many insurance agents are decent people and are concerned about their clients. But let's face it, their major concern is selling as much insurance as possible. It makes perfect sense for businesses to have their policies reviewed by an independent insurance consultant to be sure coverage is adequate. Many public insurance adjusters will also provide this service. I know from now on, Randy will be reviewing all of my policies relating to property and business interruption insurance.

For example, I was surprised to learn we had a coinsurance requirement in our policy that required us to carry 80% of the "insurable value" of the company's property. There is a nasty equation involved, one which we all should memorize: what is collectable is "insurance carried divided by insurance required (80 % of insurable property) times the loss."

An Example

A business carries a limit of liability on business personal property in the amount of $800,000.00, with an 80% co-insurance requirement. The overall value of the business personal property being insured is $1,000,000.00. The insured suffers a loss to his property of $500,000.00. In this instance the insured would collect the entire $500,000.00 loss. The formula would be: numerator - $800,000.00, denominator - $800,000.00 (80% of $1,000,000 value) times the loss of $500,000.00 = $500,000.00.

But consider the devastating effects if the limit of liability on business personal property was $400,000.00, rather than the $800,000.00 in the first example. In the second instance, the denominator to the 'formula" changes, and everything else says the same. The effects are financially devastating – reducing the recovery from $500,000.00 to $250,000.00. The formula would be: numerator - $400,000.00, denominator - $800,000.00 times the loss of $500,000.00 = $250,000.00.

The only component that changed was the amount of insurance purchased pre-loss. In the first instance the amount of insurance purchased met the stipulated requirement of the co-insurance provisions, while in the latter example the amount purchase did not meet the stipulated requirement of the co-insurance provisions.

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Therefore, it is extremely important to make a regular accounting of your assets at replacement cost and carry enough insurance to cover 80 % of that amount. Otherwise when our little equation is applied, what is collectible could be significantly less than the actual loss. Purchasing the proper amount of insurance will also protect the business and insure recovery in the unfortunate event of a total loss.

The concept of this coinsurance equation is also often applied to many business interruption policies. So, it is important to be sure that a growing business regularly updates the amount of insurance it carries to cover its expansion and therefore not be subject to the coinsurance penalty. Very important to note is that many policies define **insurable business income as business income for a 12 month period after the loss.**

Therefore if one has a gross profit of $1,200,000 per year, it is necessary to have business interruption insurance of 80% of $1,200,000 in order to avoid the penalties from the application of our very pesky coinsurance equation. Some policies offer and require that the insured carry a smaller percentage of its business interruption value (50% is often offered). Be careful to know the amount of the requirement when placing the insurance, and remember that when purchasing a smaller amount of insurance, you risk the possibility of exhausting the policy in a shorter period of time in the event your business is suspended for many months.

It is a great comfort to know that when you hire a capable public insurance adjuster you gain parity of knowledge with any large insurance institution. It is also a great protective measure to employ a third party to review your current policies to be sure you enter the fray with all the ammunition you need to survive the disaster and fully recover from property loss and business interruption.

Many thanks to my friend and adjustor Randy Goodman of Goodman, Gable and Gould Adjustors International (www.gggai.com) for his assistance with my emergency and the writing of this article. For additional information, please visit the web site of the national association of public adjusters www.napia.com.

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