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The Corcoran & Havlin Insurance Group has been awarded the 2013 Reader's Choice Award for the 10th consecutive year! Not only did we win as a local favorite, but because of customer's like you, we were awarded the title of this years Regional Favorite!



Risk Advisor

Fall 2013

Corcoran & Havlin Insurance Group

MANAGING YOUR RISKS, PROTECTING YOUR INTERESTS

An Often Overlooked Critical Coverage- Business Interruption

By Alan Heinlein



Alan Heinlein
C&H Claims

When determining which insurance coverages are needed for their businesses, owners easily identify the need for commercial property and commercial liability coverages. However, many owners overlook the need to have coverage that will cover the loss of income caused by the temporary closure of their business due to a direct physical loss at their insured property. If the business' revenue streams are not properly insured when such a loss occurs, the results could be catastrophic to the owner of the business as well as many other contingent parties including, but not limited to, employees, customers, vendors, suppliers, and mortgagees.

This possible gap in coverage can be filled by purchasing Business Interruption (BI) Insurance – which is also commonly referred to as Business Income Insurance. The aim of BI insurance, which is not a stand-alone policy but can be added to the property insurance coverage, is to provide a business, whose operations have been interrupted by a loss, with operating expenses as well as income equal to what the firm would have earned if the loss had not occurred.

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Proposed Legislation to Delay the Biggert-Waters Flood Insurance Reform Act

FEMA announced starting Oct. 1st they would implement the first phase in the Biggert-Waters Flood Insurance Reform Act. The reform, passed by Congress in July 2012, will make significant changes to the way the National Flood Insurance Program is run. The act could require thousands of home and business owners to buy flood insurance for the first time as well as raise the average premiums of existing customers as much as 25 percent annually.

According to The Standard, a bipartisan coalition of U.S. Senators introduced a bill to “fix flood insurance” by delaying for two years many of the premium increases that have created havoc for many property owners, businesses, and policy makers. If passed it would delay parts of the Biggert-Waters Act until FEMA completes a required study on the affordability of flood insurance. The Bill would still need to be approved by both the full Senate and the House in order to pass.



“Biggert-Waters reauthorized for five years reforms to the National Flood Insurance Program (NFIP) mandating FEMA to charge full actuarial flood insurance premiums on individual properties, resulting in sharp increases affecting millions. Adversely affected property owners will include senior citizens on fixed incomes who have lived in the same homes for decades, property owners who purchased or built before Flood Insurance Rate Maps (FIRMs) existed, and others who played by the rules, elevated their homes when maps were released decades ago, only to find that they need to elevate yet again when FEMA redraws their maps. For some Americans, these premium rate hikes will force them out of their homes and could even erode entire neighborhoods or communities,” the senators wrote.

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Managing your risk,
protecting your interests.

Common Questions About Fire Sprinkler Systems

Automatic fire sprinkler systems can save lives and property in both residential and commercial settings. There are several common questions that arise when people consider installing these systems. This guide provides answers to most questions, but those who have further questions should discuss concerns with an agent.



Question: Are fire sprinklers really effective?

Answer: According to the National Fire Protection Association, there are no records of fires resulting in more than two fatalities in areas that had adequate sprinkler coverage. In cases where fatalities resulted in buildings with sprinklers, the people who died were usually in direct contact with flames before the sprinklers were activated.

Question: Is there risk of accidental discharge with sprinklers?

Answer: The likelihood of a fire sprinkler being activated as a result of manufacturing defects is only about one in 16 million. Research shows that these devices have been consistently dependable. It is possible to activate sprinklers by accidental or intentional damage, but the likelihood of that happening is small.

Question: Does research prove the effectiveness of sprinklers?

Answer: A study conducted in 2001 showed that these devices were effective and useful. The entire report is available from the National Fire Protection Association. Experts also point out that a city in Arizona has required residential buildings to have fire sprinklers for more than 15 years.

Question: What is the cost of a fire sprinkler system?

Answer: The cost of these systems is usually determined per square foot, and the price per unit can vary widely. Climate classification also affects the cost of a system, and both water supply and water pressure play roles in determining the overall cost of use. For example, a system installed in a cold climate with low water pressure and an undependable water supply will cost more than a system installed in a warm climate with a good water supply and water pressure. It is also cheaper to have new systems installed instead of having retrofitted components installed. The cost difference is about \$1 per square foot.

Question: After a fire sprinkler is activated, does excessive water damage follow?

Answer: Fire sprinklers are designed to eliminate fires in earlier stages, and the majority of fires can be controlled with only a few sprinklers. These devices use much less water than the fire hoses use, so any water damage caused by a sprinkler will not be as bad as the water damage that would likely follow after a call to the local firefighters.

Question: Do fire sprinklers have to be professionally installed?

Answer: Sprinkler systems must be installed in compliance with local and state ordinances or codes. In some cases, homeowners may be permitted to install their own systems. In some areas, local codes may prohibit the average person from installing his or her own system. Many states require contractors who are licensed to install these systems.

Question: Do federal laws require fire sprinklers?

Answer: There was an act passed in the 1990s to protect the property and lives of people staying in motels and hotels from fires. The law requires federal employees traveling on business to stay in public places that are in accordance with fire safety standards. In addition to this, federal meetings and conferences must be held in places that meet these standards.

Disasters that Insurance Policies do not Cover

Every year, many home and business owners discover there are certain disasters their policies do not cover. It is important to consider these issues before they happen and cause damage that will have to be paid for out of pocket. Earthquakes, floods and acts of terrorism are three types of disasters that a policy will not cover.

Flood Damage Protection

Every home and business owner needs to know if his or her property is located in a flood zone. If it is, it is crucial to purchase a flood policy. Business owners should also find out how often floods have happened in that particular area in the past. To purchase a flood policy, discuss options with an agent.

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Disasters that Insurance Policies do not Cover Continued from page 2...

Flood insurance is provided by the National Flood Insurance Program. If a building is in a flood zone and its floor plans do not conform to plain building codes, the government requires it to be torn down after damages are more than 50 percent of its market value. People may purchase ordinance or law coverage, which is helpful for covering the costs of tearing down a building. Business owners should also make sure their properties are compliant with any coinsurance clauses in their policies. Flood insurance is provided by the National Flood Insurance Program. If a building is in a flood zone and its floor plans do not conform to plain building codes, the government requires it to be torn down after damages are more than 50 percent of its market value. People may purchase ordinance or law coverage, which is helpful for covering the costs of tearing down a building. Business owners should also make sure their properties are compliant with any coinsurance clauses in their policies.



Earthquake Protection

Homeowners and business owners do not have earthquake protection in their policies. People who live in areas that are prone to earthquakes should purchase this coverage. Even if most earthquakes are small, history has shown that any areas prone to quakes will eventually have ones that are large enough to cause significant damage. For homeowners, there are special earthquake insurance policies, and there are endorsements available for commercial properties. There are different types of deductibles for earthquake policies. They are calculated on a percentage of the coverage instead of a specific dollar amount. For example, a building owner who insures a property at five percent for \$200,000 would have to pay for the first \$10,000 of damages. It is important for business owners to remember that interruption protection only applies for losses that occur due to covered disasters or incidents. If a business does not have earthquake protection and has to shut down for a while, there will be no compensation for lost income. However, businesses with an endorsement may make claims for earthquake damage.

Acts Of Terrorism Protection

In 2002, the Terrorism Risk Insurance Act was passed. It ruled that only businesses purchasing special coverage would be compensated for losses resulting from acts of terrorism. The only exception for this type of insurance is workers' compensation, which only provides coverage for deaths and injuries resulting from acts of terrorism. Nearly every business or home needs one or more of these types of coverage. Homeowners and business owners who are not protected could end up paying thousands out of pocket for damages. The premiums for these types of policies or endorsements are affordable, so it is important to discuss options and review coverage with an agent as soon as possible.

Critical Coverage - Business Interruption Continued from page 1....

The specific coverages provided by BI insurance vary from carrier to carrier. However the following additional coverages are typically provided by the BI insurance form:



- Gross Profits – Gross Profits that would have been earned (based on prior months' financials);
- Fixed Costs – Operating expenses (salaries, rent and other costs) still being incurred by the property (based on historical);
- Temporary Location – Some policies cover the extra expenses for moving to, and operating from, a temporary location;

- Extra Expense – Reimbursement for reasonable expenses (beyond fixed costs) that allow for the business to continue while the property is being repaired;
- Civil Authority – Policy pays for loss of business income and extra expense (if included) caused by civil authorities that prohibits or prevents access to the premise due to a covered peril.

From a claims perspective it is important to keep the following issues in mind when considering the submission of a BI claim to your carrier:

- Because BI coverage is added to and becomes a part of the business' property policy a BI claim is only paid out if the cause of loss is covered by the overarching property policy.
- Typically there is a 48 hour deductible or waiting period with any applicable benefits paid following this period.
- Payments are made until the restoration of the damaged property is complete and the business resumes or the limits of the policy are exhausted.

Many industry analysts view business interruption insurance as the most valuable coverage your business can have. Few business owners would ever consider opening a business without buying property insurance to cover physical loss or damage due a fire or windstorms but many fail to think about how they would manage if a fire or other disaster damaged their business premises so that they were temporarily unusable. Hence, having business interruption coverage included in your business' strategic and financial plans is essential.

Biggert-Waters Continued from page 1...

“Biggert-Waters will result in dramatic rate increases at the time of sale of properties built before FIRMs were available, which is driving down property values,” the senators wrote. “The Act also calls for excessively high premiums for properties that purchased a new policy after the date of enactment. While we support the intent to improve the solvency of the NFIP, this provision penalizes people for being responsible by creating a disincentive for property owners without federally- backed mortgages to voluntarily purchase flood insurance.”

Additionally, Massachusetts Attorney General Martha Coakley has filed state legislation to cap the amount of flood insurance required on property as a result of the Act. Coakley’s proposed legislation would require banks to provide a notice to property owners, before paying for federally-mandated flood insurance. Coakley requested that the new bill be delayed until FEMA complies with Congress’s mandate to undertake an affordability and peer review of the new flood zone maps. The Massachusetts attorney general’s office says that “By eliminating various federal subsidies in the NFIP and requiring the redrawing and expansion of flood zone maps, Biggert-Waters will pose harsh economic consequences for many homeowners and small businesses in Massachusetts and across the country.”

“It’s understandable, from a political perspective, that elected officials don’t want to be seen as the reason for higher flood insurance premiums, and no one wants to see homeowners face a true hardship,” said Jimi Grande, senior vice president of federal and political affairs for the National Association of Mutual Insurance Companies. “At the same time, however, there are millions of policyholders who rely on the NFIP for flood insurance and who deserve a program that will be able to meet its obligations. As it stands, that cannot be said of the NFIP, which owes roughly \$28 billion to the taxpayers and is why these reforms were passed in the first place. Delaying the reforms adopted under the Biggert- Waters Act means a return to the days of the NFIP needing taxpayer funded bailouts. The reforms passed last year enabled the NFIP to start down a path toward fiscal viability. Just one year in, it doesn’t make sense to put those reforms on hold, and it especially doesn’t make sense to push it back as far as the next expiration date four years from now. Many lawmakers who voted to extend the NFIP last year did so because of these reforms, and if reform is shown to be nothing more than empty promises, in four years those same lawmakers will be less inclined to vote to maintain the NFIP again.”



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