

When a catastrophic loss forces you to close your doors, the process of getting your business back up and running can be overwhelming. This guide will help you through the process.



Field Guide

to Navigating a Large Commercial Property Loss



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Introduction

When a catastrophic loss forces you to close your doors, the process of getting your business back up and running can be overwhelming. It's especially tough when you must manage everything on your own. Eventually you will find the right repair professionals and your restoration process will become the focus of a joint effort. You will be responsible for keeping the process moving forward, but your repair contractors, material suppliers, and restoration services will handle many of the ongoing tasks.

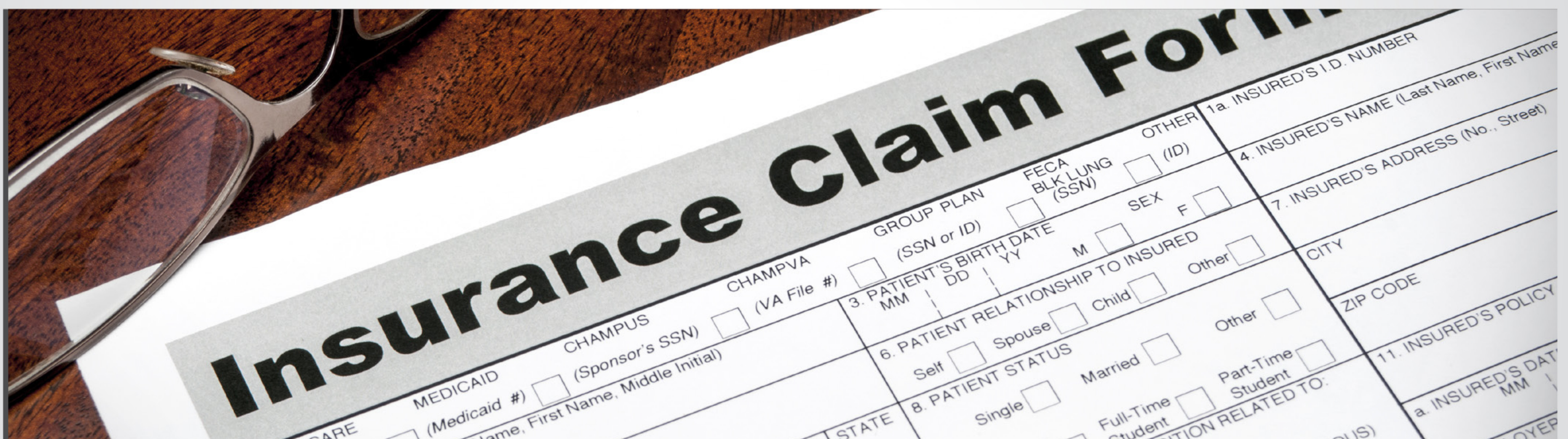
You will also work with your insurance company's adjuster or other claim representative. While most adjusters have the expertise to ease your concerns and make your claim experience easier, their primary responsibility is to the insurance companies that pay them. Instead of making things easier, an adjuster's ongoing efforts may become an obstacle to your recovery from the loss.

When an adjuster inspects your damage and investigates your claim, the focus is often on a narrow range of outcomes:

- Documenting covered damages and final repair costs
- Determining cause and origin
- Ruling out arson, intentional acts and other coverage issues
- Settling quickly and economically to get the claim off the books and conserve claim dollars

Your Property Claim

is Crucial to Keeping Your Business Afloat



When your business suffers damage, there are many financial issues to consider. If you are a sole proprietor operating a small factory, even a short-term closing can affect your personal financial situation. Shutting your doors temporarily can create a hardship for employees who rely on your business as their only

source of income. For your suppliers and businesses that rely on the goods you supply, your downtime could cause additional complications.

With so much at stake, it's important to take a proactive approach. Before a major loss occurs, you should develop a basic knowledge of your commercial coverage and become familiar with building restoration issues and insurance claim procedures. Although catastrophic losses are seldom predictable, it's important to understand the potential and be prepared to take action

First Steps to Limit Your Damages

It's not necessary to memorize your entire insurance policy, but you should have a basic understanding of the coverages and the steps you must take to preserve your rights and understand coverage for your property. Fortunately, commercial policies explain these in detail.

Commercial insurance contracts outline the duties your insurance company deems important. In the Businessowners policy, these are explained in Section I - E 3, "Duties In The Event of Loss or Damage." The list of critical responsibilities includes filing a claim, mitigating your damages and preserving your property.



Filing Your Claim

If your claim involves a loss that should be reported to the police, that should be your first action. Otherwise, your number one priority is giving your insurance company "prompt notice" of the loss and a description of the property and damage. Your initial report can be to your agent, your insurance company's local office, or a toll-free claim reporting number. It may contain only the basics, but you must notify your insurance company "as soon as possible..."

Mitigating Your Damages

The “Neglect” exclusion eliminates coverage for damage caused by your failure to “...use all reasonable means to save and preserve property from further damage...” It’s a no-excuses exclusion as your policy pays the expense of accomplishing these tasks. Your insurance company may decline coverage for those items you fail to protect.

Before you begin your protection efforts, it’s important to make certain your building is safe to enter. Check with your utility companies and the fire department to make certain your property is free from electrical, fire, and other hazards. If your interior is water-soaked, be cautious with fans, heaters and other electrical devices. Here are a few additional recommendations for mitigating your damages:

- Immediately hire an emergency contractor to tarp open holes in your roof or perform emergency repairs to prevent rain from entering
- Dry out floors, walls, machinery, and water-soaked business personal property
- Separate damaged from undamaged items to prevent further damage
- Protect carpeting from soot damage tracked room-to-room
- Hire a restoration professional to deal with any of the property damage



Preserving Your Property

Undamaged Property

If you operate a small business office, protecting undamaged property could mean moving your computers, phone system, furnishings, and other business personal property to an alternate location or storage until it's safe to bring them back. Failure to take the appropriate measures may expose your undamaged property to contamination by damaged items.

As a damaged building is vulnerable to trespass, vandalism, and other illegal activities, property left in place can remain at risk. Relocation may be your most prudent option. Section I - "5. Additional Coverages," item b. provides coverage for expenses related to "Preservation of Property."

Damaged Property

If your first impulse for handling destroyed property is to rent a dumpster, fill it up and send it to the local dump, your actions could lay the groundwork for a coverage battle with your insurance company. When you expect them to pay for damaged and destroyed business personal property, your insurance company reserves the right to inspect it and/or dispose of the salvage. In the BOP, a. (4) under "Duties in The Event of a Loss" cautions, "...if feasible, set the damaged property aside and in the best possible order for examination."



Inventory

What Your Businessowners Policy Covers

The language in your Businessowners policy and similar commercial insurance contracts is far simpler than in past commercial policies. Interpreting commercial coverage can still be challenging for a non-insurance professional. It's important to have a basic understanding of key policy provisions or have access to an insurance professional who can explain the terms and phrases you don't understand. Your agent may not be your best source of knowledge and unbiased opinion.



Coinsurance Requirements & Penalties

The Businessowners policy requirement that you maintain a certain dollar amount of coverage is your policy's coinsurance clause. It's located in the E 3, "Loss Payment" section and requires that you insure your building to an amount equal to or greater than 80% of your building's replacement cost.

If your policy does not meet the 80% requirement, your claim is subject to a coinsurance penalty, making you a co-insurer of your damages. Your payment may be reduced based on whichever of these two is greater: the property's actual cash value (ACV) or a proportion of your loss based on the ratio of your actual insurance limit to the 80% requirement.

Commercial Building Coverage

Your BOP declarations page provides a snapshot of all the coverages you purchased. It outlines your policy period, policy limits, named insured, property descriptions and locations, lien holders and mortgagees, deductibles, optional coverages, and endorsements. It also shows whether you have coverage for your business premises, your business personal property, or both.

BOP Section I - A, "Coverage" explains that the policy insures the "...premises described on the "Declarations Page." The "Covered Property" provision enhances the description to include

- Completed additions
- Indoor and outdoor fixtures
- Permanently installed machinery and equipment
- Certain classes of property belonging to others while on the insured premises.

"Additional Coverages" and "Coverage Extensions" in your policy provide coverage for property claim-related expenses such as "Debris Removal," and "Fire Department Service Charges."

When you elect to pay an additional premium, your policy can also provide optional coverages for outdoor signs, fences, pools, and other structures which may otherwise be excluded from coverage.



Business Personal Property

Section I, Coverage A - I - b describes “Covered Property” as “...property you own that is used in your business...” Certain limits, conditions, restrictions, and exclusions apply, but business inventory and stock are included by virtue of this broad description and they are not otherwise excluded. Business Personal Property is further defined by provisions in your policy’s “Coverage Extensions” and “Additional Coverages” sections.

Below is a list of additional categories of business personal property covered by the BOP and similar package policies:

- Leased personal property for which you are responsible, such as office equipment
- Glass if you are a tenant/owner or tenant and the glass is in your care, custody or control
- Business personal property off premises, up to 10,000.
- “Electronic Data” destroyed or corrupted by a “Cause of Loss”
- Personal effects up to \$2500
- Valuable papers - 10,000 - 5,000 off premises





Business Interruption Coverage Overview

You can better understand your business interruption coverage by reviewing key definitions and concepts. Here are a few things to consider.

- Key exclusions and time limitations define and limit your coverage.
- Instead of a dollar deductible, business interruption “deductibles” are time-based, such as the 72 hour waiting period before coverage applies.
- To avoid claim disputes, document every related expense and maintain every receipt.
- Remember, your property adjuster’s final business interruption figures are based on the “...length of time it would have taken to resume ‘operations’ as quickly as possible.” If the adjuster believes you didn’t resume business quickly enough, it could mean a reduced claim payment.
- Consider temporarily locating your business to another site. This will enable you to keep your employees working, retain your customers, and maintain a flow of income. The added expenses are covered by your policy and your actions will show that you made a good faith effort to reduce your losses by keeping your business running.
- Business interruption coverage does not pay the profit you would have made on unsold merchandise.
- Unless your policy is endorsed to cover a longer business interruption period, coverage is usually limited to a 12-month “period of restoration,” as defined by policy definitions.

Avoid Common Claim Mistakes & Delays

When you are trying to get your business back up and running, it's easy to become frustrated with the claim process. Sometimes it's best to step back and proceed with caution. The sense of being overwhelmed can lead to common mistakes and delays.



Failure to Protect Your Property

No matter how busy you are, you must arrange for temporary repairs or risk having parts of your claim denied. For example, if your restaurant equipment is ruined because rain entered a hole in the roof that was caused by a fire, your claim for damages will likely be denied due to your failure to protect your property.



Failure to Submit a Timely Proof of Loss

Even if you can't submit a perfectly executed proof of loss, you must still get it in on time. It can be a form or a single typed page as long as it contains the information outlined in "Your Duties In the Event of a Loss" and is supported by documentation. Failure to file a timely proof of loss can cause unnecessary payment delays.



Settling Because You are Tired of the Process

Never accept a quick, cheap settlement because the claim process has worn you down. If necessary, postpone negotiations until you are in a better frame of mind and you are ready to fight for a fair settlement.



Accepting a Claim Denial

If your property insurance adjuster tells you that you have coverage issues, ask for a detailed coverage opinion letter. The adjuster might be using coverage as a talking point. When coverage issues are truly a concern, insurance companies decline coverage outright. Don't except a denied claim as final. Always get a second opinion from a qualified insurance professional.

Actual Cash Value Negotiation Tips



When your building or business personal property is subject to depreciation, it's important to negotiate a fair offer. Adjusters rely on programs and property life expectancy tables to establish depreciation factors. They may show the math and explain the calculations (Replacement cost - depreciation = Actual Cash Value) but that doesn't mean the amount offered is fair.

No matter how an adjuster makes a case for depreciation or ACV, it's still just an opinion. It's up to you to develop enough information to establish a reasonable value for your property. Here are a few arguments to consider.

- If your property is rarely used, depreciation shouldn't be typical.
- When property is well cared for, it's worth more.
- Your property values are higher when you can establish a higher market value via research, want ads, trade websites, expert opinions, even eBay.
- Photos show your property's excellent condition.

Hidden Damage

When a covered loss causes hidden damages that may be initially overlooked, it can cause more damage, increase your recovery costs down the road and trigger a dispute with your insurance carrier. As it's your duty to protect and preserve your property, it's in your best interests to hire a professional to detect and resolve hidden damages as soon as possible.

Lead & Asbestos

These hidden substances can remain undetected until a catastrophic loss uncovers them. Lead can be found in pipes and aging paint. Asbestos may be located within walls and in attics and crawlspaces. Both can cause serious injuries and may require specialized abatement procedures before other building repairs can begin.

Mold

Mold grows in dark conditions, thrives when moisture is available and can be difficult to detect. If left unabated, it continues to grow, destroying fabric, wood, drywall, and other organic materials. Certain types of mold can cause serious illnesses. The BOP covers mold but there is usually a low coverage limit.

Smoke & Soot

During a fire, smoke and soot travel throughout your business premises. They leave behind an acrid odor and a dark residue. When they soil furnishings, carpeting, flooring, and walls, it's easy to recognize the need for immediate cleaning and treatment. If smoke and soot enter vents, ducts, interior walls and crawlspaces or they settle into the inner-workings of machinery or equipment, they might be overlooked.

A fire restoration professional can inspect areas of concern and determine if soot and smoke-damaged property can be salvaged or must be pitched. They rely on a variety of techniques to clean away smoke and soot and neutralize odor.

Electrical Wiring & Insulation

When damage is extensive, it's easy to miss problems that are hidden within your walls. Damage in one location of your building can affect the wiring in other areas. Insulation can be damaged by a fire department's efforts to extinguish your fire.



Professional Help Options

You need to know what's going on with your commercial property claim, but you also need to work toward restoring your business operations. When your time and energy are being stretched to the limit by an extensive to-do list, you should consider hiring a professional to assist you in managing your claim.

Public Adjuster

Public adjusters are insurance professionals who are trained in insurance coverage, building damage, personal property damage, restoration issues, and all other facets of commercial insurance claims. They perform many of the same tasks as a company insurance adjuster, but everything a PA does is designed to protect your interests on behalf of the policyholder and work on:

- Investigate your claim
- Appraise building damages
- Work to resolve coverage issues
- Maintain contact with repair contractors
- Help with business personal property documentation

- Provide valuable guidance for Business Expense and Business Income claim requirements
- Help you meet claim deadlines
- Assist you in completing a timely proof of loss
- Negotiate a fair settlement

Appraiser

If you have confidence in your ability to handle most aspects of your claim, you will still need a professional to help you document damages and values. An independent appraiser can help you establish your damages and perform other claim tasks as needed.

- Evaluate your building damage
- Calculate your contents claims
- Analyze your business income and other claim expenses

An appraiser's role is limited to determining damages and submitting a report. You must still deal with your insurance company, negotiate your claim and finalize your settlement. The appraiser's documentation can support your position.

Make an Informed Choice



It's important to have enough information to make the right claim choice for your business. The more proactive you are about commercial property losses and related insurance coverages, the better informed you will be if your business is sidelined by a catastrophic loss.

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