

WHAT KINDS OF INSURANCE COVERAGE SHOULD YOU CARRY?

SUMMARY

Hopefully, insurance is an expense that the small business owner will always pay - and never collect. But the complexities of the insurance business can baffle the unsuspecting business person who is looking to hold costs to a minimum. Knowing what types of insurance coverage are most appropriate for your business is probably a question you should not tackle yourself. What questions should you ask? What are the typical types of coverage that should be carried by a metalworking firm?

This BMA, one of two on this key subject, will help you take the first steps in determining how to proceed in assessing your business insurance needs.

Every precision metalworking manufacturer should make a careful check once a year of all applicable types of insurance. The owner not only needs to make sure that there is adequate coverage but also that there is insurance against all hazards - or at least understands the risks involved. Many avoidable losses occur each year because of inadequate insurance coverage.

A GOOD APPRAISAL IS ESSENTIAL

It is very important that every business have an appraisal every two or three years so it can justify and prove the amount of a claim in the event of a loss. If the owner doesn't want to retain an appraisal company to make the appraisal, members of the company staff or the insurance company may serve the purpose if the job is done carefully and is accompanied by supporting data. A copy of the appraisal should be placed in the hands of the insurance company and a copy kept in a safe deposit box at the bank.

CONSULT A SPECIALIST

Although many owners search for the best person they can find to help run their business, they are easily satisfied when it comes to selecting an insurance specialist to handle the technical aspects of their insurance problems.

The best place to begin an analysis of your insurance needs is by consulting the best industrial insurance broker, agent or company representative you can find. Just as you are a specialist in the manufacture of tools and dies, this person is a specialist in insurance. Such services are available to you without charge. Ask him or her to survey the insurance needs of your business establishment. Since there are many types of coverages, your insurance program will be tailored to meet the particular needs of your business.

FIRE INSURANCE AND EXTENDED COVERAGE

The first fundamental insurance coverage which every owner should have is fire insurance with extended coverage. When you think of fire insurance, don't think just of fire, but think of all the hazards which can cause a catastrophic loss. Attached to the fire insurance policy is the extended coverage endorsement which covers losses from perils of windstorm, explosions of certain kinds, riot, civil commotion, falling aircraft, etc. In recent years it has become possible for manufacturers to buy insurance against all risks not specifically excluded. This is the safest way to insure, and usually costs not much more. Fire insurance can be written not only to reimburse you for loss of your own property but also can be obtained under a separate item of your fire insurance policy for loss to property of others.

BUSINESS INTERRUPTION INSURANCE

The hazard of a fire or other loss serious enough to prevent you from continuing operations can be covered by business interruption insurance. This policy is generally written so that it will pay your expected profits until you are back in operation. The salaries of your executives, foremen and other key people are also usually covered. Although the salaries of other employees are generally not covered, your policy can be written to include them as well. Business interruption insurance takes care of the idle shop's fixed overhead ex-

penses too, such as taxes, rent, energy, phones and so on. It is quite important that every owner weigh carefully the advisability of business interruption insurance. In the event of a catastrophe, even though the physical property and equipment may be adequately covered, the necessity of having to suspend operations for several months while waiting for deliveries of machine tools or reconstruction of the building may force a firm to close its doors permanently.

CHECK THOSE EXCLUSIONS

There are many variations of the kind of property covered by fire insurance and extended coverage. In its simplest form, it is all property, real and personal in your plant. There are, however, certain exclusions and limitations which cannot be included in that general definition. For instance, money and securities are standard exclusions.

When discussing proper insurance with your insurance salesperson, ask that you be told what the policy does not cover. When you see clearly what it does not cover then you can decide whether you need to do anything about arranging other coverages for any excluded items.

Make sure that your insurance amount is high enough to cover the equipment in your plant. Most people in business have a tendency to believe that the depreciation of their equipment takes care of many things. Actually, replacement of a piece of equipment often costs five to six times the amount at which the machine to be replaced is carried on the books. Prices on machinery have gone up so tremendously during the past few years that many plants find their insurance is inadequate.

CRIME COVERAGES

Generally speaking, most insurance salespersons do not think of crime coverages as a package. They think of them in terms of individual policies - fidelity and forgery bonds, burglary, theft, larceny and robbery insurance - but there is a package policy. The trade name for it is the 3-D policy and as a basic policy, it may be endorsed to cover a great multitude of these miscellaneous crime coverages.

Fidelity and forgery bonds deal with guaranteeing the reliability of human beings in business relationships. Forgery bonds protect you against loss resulting from forgery or alteration of checks and other securities. Fidelity bonds protect you against loss caused by employee dishonesty.

Many types of burglary, theft and robbery insurance are available. However, the comprehensive Broad Form Dishonesty, Disappearance and Destruction Policy - the 3-D Policy - provides all risk coverages on money, securities, cutting tools, gages, micrometers, industrial diamonds, etc. for the perils of safe burglary, robbery, larceny, theft or employee dishonesty. If you feel the need for this type of insurance, have your insurance salesperson give you a complete proposal for crime coverages and determine which ones are most applicable to your business.

TRANSPORTATION INSURANCE

Some shops that do stamping or manufacturing often find that the purchase order calls for insurance on customers' tools and dies while in the shop. The shop owner may wish to cover his or her own property, that of the customer's which has been shipped on the shop owner's own truck or a common carrier, or property which is out for processing. Losses from such risks can be covered by transportation insurance.

OTHER MISCELLANEOUS COVERAGES

There are other types of insurance which the shop owner may find a need for such as: Insurance During Construction, Steam Boiler Insurance, Machinery Insurance, Glass Insurance, Sprinkler Leakage Insurance, Credit Insurance. After making a thorough analysis of your operations and a survey of your premises, a competent industrial insurance person can tell you the types of risks you should cover, and which risks it will be best to self insure.

This BMA was reviewed by NTMA Staff.