PARTNERSHIP FOR COMMERCIAL INSURANCE & RISK MANAGEMENT

MANUSCRIPT POLICY LANGUAGE

THE USI ONE ADVANTAGE®

www.usi.com

MANUSCRIPT POLICY LANGUAGE

Business Issue

USI changes carrier and coverage negotiations on behalf of clients by establishing broad coverage based on our expertise, size, and market leverage

CONTROL + COST + COVERAGE

Why is it Important

- Your property coverage has inherent deficiencies due to misalignment of outcomes between you and the carrier
- Carriers seek to provide less coverage and maximize premium levels
- You look to maximize coverage at the most effective cost
- We commonly see deficiencies in 24 key coverage areas
- 80 – 90% of the policies we review have these deficiencies

Impact and Benefits to Clients

- We fix the misalignment by providing a customized, manuscript solution to mitigate coverage gaps
- Fixing these gaps results in no additional premium or limited additional costs
- Inadequate coverage can create underinsured events in excess of $1,000,000
- Understanding and properly covering exposures leads to faster claim settlement

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Twenty-Four Examples of Overlooked Coverage

	Four Common Examples with the $ Impact				
Property Damage	Loss Valuation Limitations	Land Improvements	Use of Proceeds	Ordinance or Law	Mold
	Flood – Back Up of Sewers and Drains	Demolition	Newly Acquired	Flood Zone Determinations	Vacant Properties
		Tax Credits	Green Coverage	Cyber Property Damage	
Business Interruption	Extended Period of Indemnity	Professional Fees	Service Interruption	Ingress/ Egress	Leader/Attraction Properties
		Tenant Relocation Expense	Crisis Management	Evacuation Expense	
Deductibles	Percentage Deductibles	Tornado/Hail Deductibles	Definition of Earthquake/Named Storm and Flood		

Next Steps

Complete a property policy review to ensure coverage matches actual exposures

- Obtain copy of property policy including all endorsements
- Obtain last 5 years of loss runs
- Obtain Business Interruption valuation method

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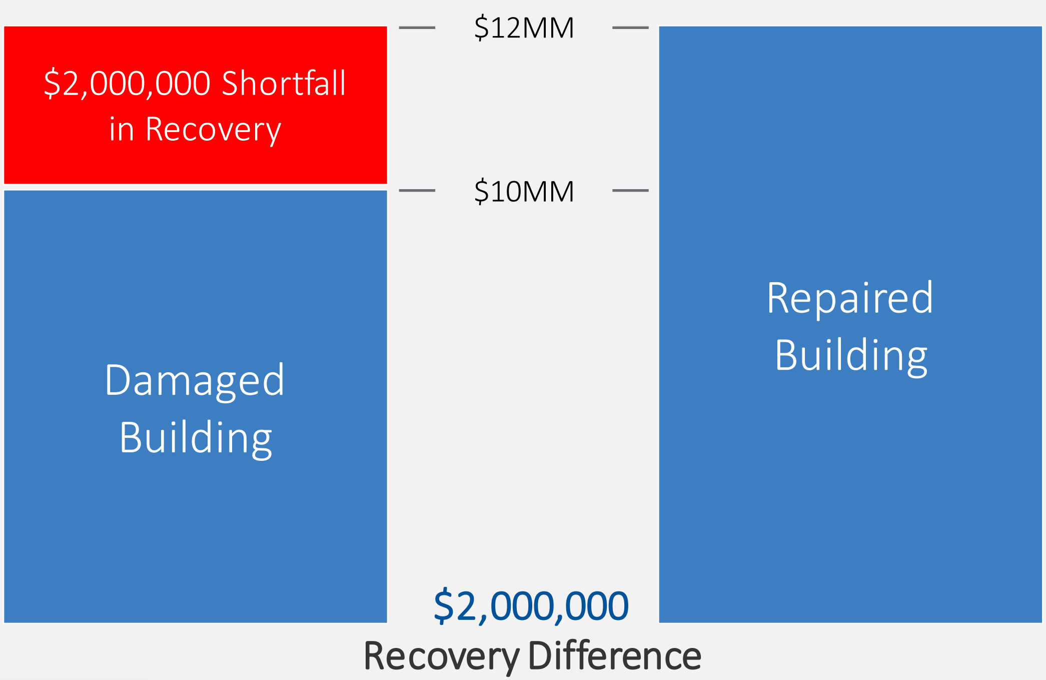
Loss Valuation Limitations

Replacement Cost Coverage Fully Protecting Assets

Declared Value $10,000,000 » **Actual Cost to Replace** $12,000,000 » **Standard Policy Recovery** $10,000,000 » **USI Recovery** **$12,000,000**



Coverages

Key Observations

- A claim resulting in a payment that is less than full replacement value creates a financial loss.
- There are three very common wordings that restrict full replacement by putting limitations on the how much they will pay:
  - Coinsurance (a problem if the replacement cost is greater than the value given to the insurance carrier)
  - Occurrence Limit of Liability – (only pays what is listed on the policy)
  - Margin Clause – (similar to coinsurance, limiting full replacement cost)
- USI solutions – wording that reflects the cost to replace the property as new without restrictions.

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Definition of Flood

The definition of "flood" can result in a lower claim reimbursement and higher out-of-pocket costs for a water loss

Carrier Standard Coverage

Result of Carrier's Definition of Flood for a Sewer Back-Up

- $2,000,000 Damage
- $1,000,000 Flood Limit
- $500,000 Deductible
- $500,000 Recovery

USI Manuscript Coverage

Result of USI's Definition of Flood: "Sewer Back-Up Not Related to Flood"

- $2,000,000 Damage
- Full Policy Limit
- $100,000 Non-Flood Deductible
- $1,900,000 Recovery

Key Observations

- Water/Flood claims are a challenge due to how carriers define a water damage claim vs. a flood claim.
- Carriers attempt to broadly define certain water losses as a flood to lower the limit available (claim reimbursement) and increase the deductible (what the client pays out of pocket).
- USI's wording resolves this issue by using language that narrowly defines flood.
- The difference between the two wordings can be six to seven figures.

Coverages

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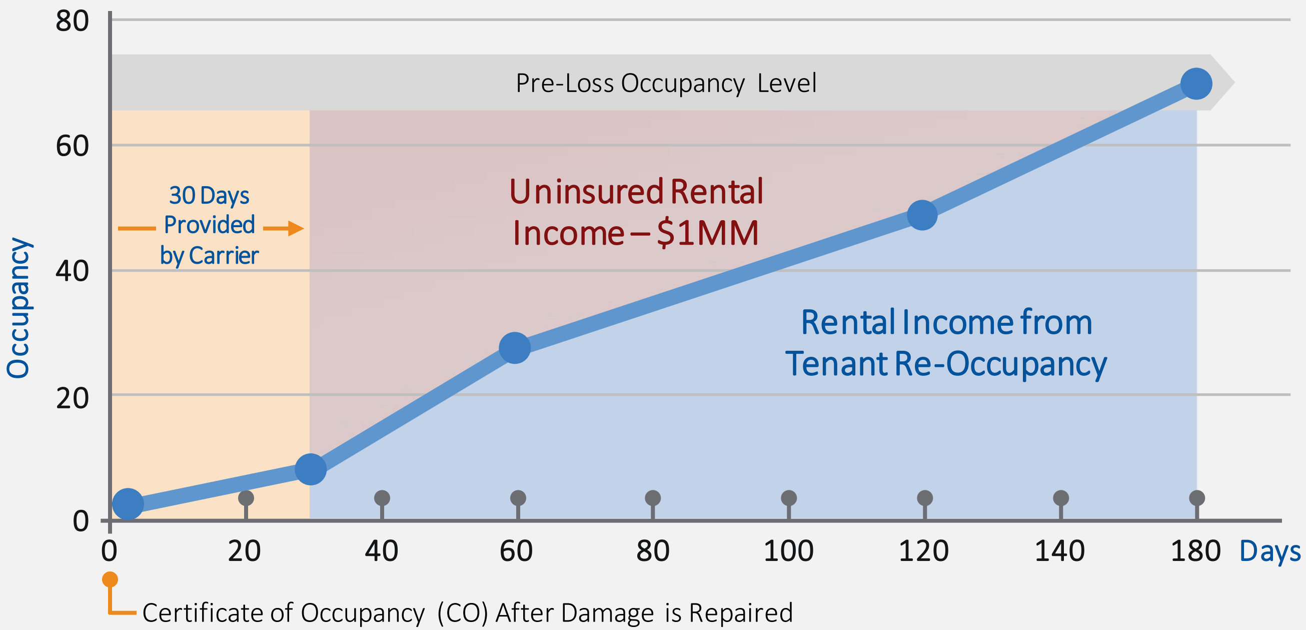
Extended Period of Indemnity

Getting back to normal operations and rental income levels takes time after the location is repaired or rebuilt



30 Days Earnings – $500,000 6 Months to Return to Pre-Loss Levels **Recovery $500,000**	30 Days Earnings – $500,000 6 Months to Return to Pre-Loss Levels **Recovery $1,500,000**

Key Observations

- Most polices **only provide 30 days,** which is insufficient in most cases.
- Most companies are not back to pre-loss rental income after only 30 days resulting in a significant uncovered loss.
- Premier automatically includes **365 days** of Extended Period of Indemnity.

Coverages

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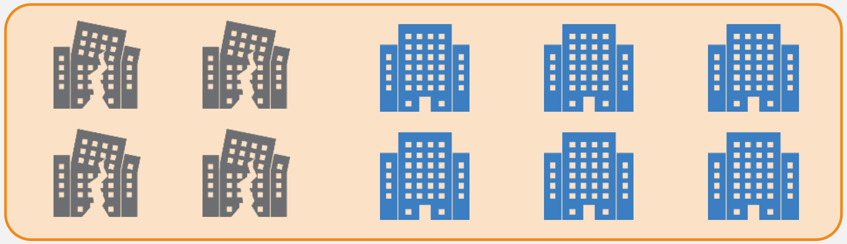
Natural Catastrophe (CAT) Deductibles

Most catastrophe (CAT) deductibles result in significant out-of-pocket costs

One Address with Multiple Buildings

Standard

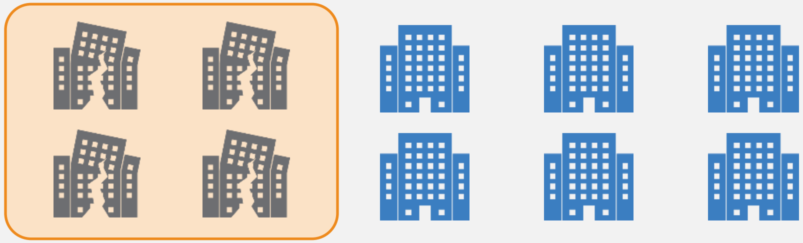
Deductible Applies to All Location Buildings



10 building location @ $2M each • 4 buildings damaged in storm
Deductible 3% X $20,000,000 = **$600,000**

USI

Deductible Applies Only to Damaged Buildings



10 building location @ $2M each • 4 buildings damaged in storm
Deductible 3% X $8,000,000 = **$240,000**

Key Observations

- For those in CAT prone areas, high out-of-pocket costs come from deductibles for damages from a CAT event.
- The default approach is to apply a percentage against all the properties at a location regardless of what has been damaged.
- USI's wording results in the percentage only applying to the actual buildings/units damaged.
- The result can be a high five-figure/low six-figure savings.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Land Improvements

Standard Market Coverage

Excludes land entirely.

USI's Approach

Provide language that includes land improved for the location.

Financial Impact

$50,000

Broaden coverage to avoid gap in coverage and provide insurance for expenditures in moving dirt/soil to improve the land topography.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Use of Proceeds

Standard Market Coverage

Limits the use of claim's funds to replacing with like kind and quality on the same site where damage occurred.

USI's Approach

Expand language so that insured can use the proceeds on another site or for an equal amount of capital improvements elsewhere.

Financial Impact

$100,000+

Broaden coverage to allow for choices in using claim's proceeds.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Ordinance or Law Coverage

Standard Market Coverage

Low sublimit that does not address the potential requirement to rebuild to current code requirements, such as Fire Protection, ADA, etc.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$250,000+

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Mold

Standard Market Coverage

Carriers typically provide very low sublimits for mold, i.e., $25,000.

USI's Approach

Review potential mold exposure and negotiate appropriate levels of coverage.

Financial Impact

$100,000+

Increase mold sublimit to address exposure.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Demolition

Standard Market Coverage

Low sublimit that does not address the potential cost to demolish both the damaged and undamaged portions of buildings, i.e., $50,000.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$150,000

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Newly Acquired

Standard Market Coverage

Low sublimit that does not address the potential value of and timing of newly acquired locations, i.e., $1M and 90 days notification.

USI's Approach

Negotiate coverage levels and notification timing that address the client's acquisition values and administrative timing.

Financial Impact

$1,500,000+

Increase sublimit to address acquisition average value and increase notification timing to 180 days.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Flood Zone Determinations

Standard Market Coverage

Flood zones can change during the course of the policy year and can negatively impact the deductible and limit available for flood.

USI's Approach

Establish policy inception Flood Zones for each location and if the Flood Zones change during the policy year, coverage does not change.

Financial Impact

$1,000,000+

Eliminate coverage changes during the policy year that can result in underinsured flood losses.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Vacant Properties

Standard Market Coverage

Many carriers will exclude locations that are vacant.

USI's Approach

Three Step Approach

1. All Risk coverage for 90 days.
2. Limited peril coverage for the next 90 days.
3. Remove location and cover elsewhere after 180 days.

Financial Impact

Location Value

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Tax Credits

Standard Market Coverage

Very few carriers address the need for Tax Credit coverage for locations that qualify for Tax Credits and are damaged by a covered peril.

USI's Approach

Negotiate coverage levels commensurate with the Tax Credit annual exposure after reviewing with client.

Financial Impact

$100,000+

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Green Coverage

Standard Market Coverage

No coverage or a very low sublimit that does not address the potential requirement to rebuild to Green Standards.

USI's Approach

Negotiate coverage levels commensurate with the Green Standard requirements after reviewing with client.

Financial Impact

$250,000+

Broaden coverage to allow for appropriate coverage levels, e.g., debris removal, lighting, HVAC.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Cyber Property Damage

Standard Market Coverage

Silent on coverage or a very low sublimit that does not address the potential of a cyber attack causing property damage.

USI's Approach

Establish carrier's position on cyber property damage; increase property coverage levels or address in a cyber insurance policy.

Financial Impact

$500,000+

Coordinate coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Professional Fees

Standard Market Coverage

Low sublimit that does not address the potential requirement to engage a forensic accounting firm on behalf of the client.

USI's Approach

Negotiate coverage levels to allow for thorough forensic accounting following a claim.

Financial Impact

$100,000

Increase sublimit to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Service Interruption

Standard Market Coverage

Low sublimit that does not address the exposure to losing power due to a covered event and the resulting property damage and business interruption.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$250,000 – $1,000,000

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Ingress/Egress

Standard Market Coverage

Low sublimit that does not address the potential business interruption when a location or locations are not accessible due to a covered event.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$250,000 – $500,000

Increase coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Leader/Attraction Properties

Standard Market Coverage

Coverage for Leader Properties is not common or granted in standard property policies.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$250,000+

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Tenant Relocation Expense

Standard Market Coverage

Coverage for Tenant Relocation is not common or granted in standard property policies.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$50,000 – $75,000

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Crisis Management

Standard Market Coverage

Coverage for Crisis Management is not common or granted in standard property policies and is especially applicable to the hospitality industry.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$250,000 – $1,000,000

Broaden Business Interruption coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Evacuation Expense

Standard Market Coverage

Coverage for Evacuation Expense is not common or granted in standard property policies and is applicable to locations exposed to hurricanes.

USI's Approach

Negotiate coverage levels commensurate with the exposure after reviewing with client.

Financial Impact

$50,000 – $75,000

Broaden coverage to allow for appropriate coverage levels.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Tornado/Hail Deductibles

Standard Market Coverage

Many carriers are now using a percentage deductible for Tornado/Hail events, creating significant retention burdens on clients.

USI's Approach

Negotiate a % cap on the deductible; provide option to buy down the deductible to an agreed level.

Financial Impact

$250,000 – $1,000,000+

Provide deductible options to allow for a risk-based decision.

Coverages

Expands and Optimizes Core Coverage Provided by Standard Market

Definition of Earthquake/Named Storm and Flood

Standard Market Coverage

Standard wording defines an event within 72 hours as the same event. This can impact a deductible as well as an aggregate limit.

USI's Approach

Determine the best alternative based on the peril and negotiate the appropriate time limitation.

Financial Impact

Varies by Peril

Based on deductible or aggregate limits.

Coverages