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Risk Manager

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Protecting your company from disaster

Recent catastrophic events, ranging from natural disasters to terrorist attacks, have clearly demonstrated that the homes, businesses, and communities Americans have invested in over many years can be wiped out in a matter of hours. While there is little you can do to prevent a disaster from striking, there are steps you can take to protect your business from ruin should you be faced with an emergency.

Know Your Risks

The first step toward protecting your business from disasters involves knowing and understanding the risks you may face. Consider how your business and its operations are vulnerable to disaster situations and investigate what can be done to minimize exposure to these threats. For example, steps may be taken to mitigate potential damage to your facilities caused by certain natural disasters. Depending on the type of disaster likely to strike in your area, you may want to anchor the building's foundation and roof, add

fire-resistant siding, move electrical panels and furnaces to upper levels, install smoke detectors, and clear



brush from around the building. If you are uncertain about what improvements might be most effective, ask a building inspector to recommend structural or other types of changes.

Obtain the Necessary Insurance

Even with adequate time to prepare for a disaster, significant damage to your business and the resulting disruption may be unavoidable. Considering this, insurance

has become an invaluable means of protection in light of disasters.

In order to evaluate your insurance needs, conduct a thorough inventory of your offices and equipment. Keeping up-to-date, detailed information about your company's buildings, furniture, and equipment, including quality of materials, original purchase prices, and serial numbers, enables you to prove the value of your business property should it be destroyed or otherwise damaged. This may allow for fast, fair payment from your insurance provider and supply proper documentation for tax deductions claimed on losses.

In addition to standard property and liability insurance policies, business owners may be able to customize an insurance program according to their needs through endorsements, which are provisions that can be added to an insurance policy, at an additional cost, in order to alter or expand the policy's conditions or terms of coverage. In some



Did You Know?

Electronic commerce and communication: a few insurance tips

Business opportunities in the virtual world of electronic commerce continue to grow, but this technology comes with exposure to risks and possible losses. In today's Internet economy, business owners who operate in cyberspace may be subject to risks that are not necessarily covered under their insurance policies.

The insurance industry is currently addressing liabilities associated with electronic commerce and communication by offering a mix of **errors and omissions** and **commercial general liability policies**. If you are operating in cyberspace, you may want to evaluate your own exposure to Internet liabilities in order to properly determine the extent of your insurance needs. Identified below are three main risks facing many of today's Internet businesses:

Intellectual Property Risks.

Currently, the Internet allows you to reproduce logos, trade names, and other copyrighted material through software and downloads. This technology could infringe upon the rights of other parties. Also, losses could arise if the enabling technology fails to perform as projected or guaranteed.

Media Liability Risks. As you surf the Internet to provide and promote your products and services, you may want to consider risks associated with the creation, manipulation, or dissemination of content found in cyberspace. Some issues to consider are copyright and trademark infringement claims resulting from the use of published material, defamation suits caused by the broadcasting of libel and slander throughout global chat rooms, and invasion of privacy claims

stemming from tracking files that monitor user visits (i.e., "cookies").

Breaches of Security Risks.

Information that is provided by you online could expose you to risk of loss if that information is stolen, damaged, or released without your authorization. Security breaches or loss of data could occur through error (e.g., system malfunction) or malicious intent (e.g., computer hackers).

What to Do?

As you conduct business using the Internet, your risks and your exposure to associated risks may undoubtedly change. Here are a few tips concerning insurance coverage for online activities that may help you navigate through the web of potential liabilities:

- Review your **liability, property,** and other **insurance** policies for coverage in those geographic locations where you intend to work. Generally, insurance policies limit coverage to specific geographic regions, so you may not be protected against claims instigated in other states and countries.
- Consider purchasing specialized insurance policies that are similar to those purchased by media and communications professionals. Generally, companies using the Internet to provide or promote products and services are subject to the same risks as companies in the media industry.
- Attempt to obtain **business interruption insurance** that is not specifically tied to a physical event or occurrence. For example, loss of Internet service that could prevent you from conducting business could

Green Building Increases

In 2005, the number of home builders constructing environmentally friendly homes increased by 20%, according to a study by McGraw Hill Construction and the National Association of Home Builders. Of those surveyed, 92% consider building green "the right thing to do." Other influences for environmentally friendly building include energy-efficiency and productivity (87%), market demands (82%), and liability concerns (78%). The study estimates that new green building will increase by another 30% in 2006.

Executive Cash Bonuses Tied to Profits

Cash bonus awards to executives are becoming increasingly aligned with company financial performance, according to a study released in 2006 by the Society for Human Resource Management (SHRM). While not all executive cash bonuses were shown to be contingent upon financial performance, 59% of bonuses were affected by gross/net revenue, 54% by profit growth, 40% by cost containment, and 35% by customer satisfaction levels.

Companies Outsource Customer Contacts

Almost 30% of customer contact centers currently outsource customer contacts to an outside agency or service bureau, according to a survey by the International Customer Management Institute (ICMI). Very few, however, use outsourcers to handle most or all of their contacts, with under 8% outsourcing 81–100% of these functions. Common interactions handled by outsourcers include basic requests, overflows, after-hours contacts, foreign language contacts, and contacts resulting from special promotions.

For Your Information



Extended Section 179 Expensing

The Tax Increase Prevention and Reconciliation Act (TIPRA), which became law on May 17, 2006, extends higher Section 179 expensing limits through 2009. Section 179 expensing allows business owners to take an upfront deduction on qualified equipment purchases. In 2006, business owners can write off up to \$108,000 of qualifying purchases. For purchases over \$430,000, the deduction is reduced dollar for dollar, and any amount over \$538,000 must be depreciated.

Resources for Minority Business Owners

The Minority Business Development Agency (MBDA), a division of the U.S. Department of Commerce, is the only federal agency devoted exclusively to the establishment and growth of minority-owned businesses in America. Their Phoenix Database, an online bid matching system, helps minority-owned businesses access contract opportunities and seek business partners. For more information, visit their website at www.mdba.gov.

Government Program Assessments

By the end of 2006, the federal government expects to complete assessments for all federally-sponsored programs, and their findings can be viewed online at www.expectmore.gov. Using a questionnaire called the Program Assessment Rating Tool (PART), each program is evaluated and classified as to its effectiveness. In addition, each assessment contains an action plan for improving the performance and management of the program.

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result from system viruses and other technological breakdowns.

- Develop and maintain a formal, written business Internet and intranet policy, a policy for responding to and remedying complaints, and procedures for dealing with independent contractors and consultants. Be sure to train your employees accordingly.

As you conduct business in cyberspace, consider your company's online liability risks and the insurance you may need to protect your interests. Our insurance professionals can assist you in obtaining the proper coverage before a virtual malfunction becomes a real world loss.

Ensure operational continuity in the face of disaster

In addition to facing large-scale disasters such as hurricanes and floods, businesses can be particularly vulnerable to operational breakdowns due to more mundane—but still potentially catastrophic—events like a crashed server, a robbery, a burst water pipe, or the unexpected death of a key employee. Here are some precautions business owners should consider to ensure operational continuity in the face of a business standstill:

- Draw up a step-by-step disaster response and recovery plan for your company, including workplace evacuation procedures. Publicize emergency procedures within the company through a memo or as a manual.
- Ensure that more than one manager or staff member has access to essential accounts, legal documents, and client information in case of emergency.
- Invest in power protection systems, such as uninterruptible power supply (UPS) systems, surge protectors, and line conditioners, that protect data and equipment in instances of

power failure or spikes in electrical current.

- Invest in up-to-date security software to shield your computer network from those trying to access your data via the Internet. Programs include firewalls and antivirus and anti-spyware software packages.
- Back up data on a daily basis using a tape backup or other replication system, and burn extra copies of licensed software. Store these at an offsite location.
- Plan to set up your operations in an alternate location, such as a branch office or the home office of a partner, in the event that your building is unusable.

The best time to deal with disaster is before it happens. Knowing your risks and obtaining the proper insurance are essential steps to preparing your business. In addition, having a plan to handle any damage and quickly resume service to clients following a major disruption to operations may help protect your business from major financial losses.



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cases, separate policies may need to be purchased in order to secure proper protection. Consider customizing your business insurance program with the following:

- **Business interruption insurance** generally provides you with coverage for loss of profit and continuing expenses after a business has been wholly or partially disabled by a natural or man-made disaster.
- For organizations that must continue to operate after a disaster (e.g. hospitals, newspapers, and insurance agencies/companies), **extra expense insurance** covers the extraordinary costs of continuing operations. Covered expenses may include overtime wages, extra travel, the costs of working with substitute or makeshift facilities, and the extra costs necessary to expedite repair or replacement of the damaged or destroyed premises.
- Certain natural disasters, including flooding and earthquakes, are not usually covered under property insurance. To be protected in the event of a flood, you must purchase a separate **flood insurance** policy through your insurance agent in conjunction with the National Flood Insurance Program. Coverage for earthquakes can usually be obtained through a separate endorsement.
- If a covered peril, such as a fire or tornado, damages your building to the extent that the law requires its demolition or complete renovation, an **ordinance or law endorsement** provides coverage to rebuild or repair your facilities in compliance with the most recent local building codes.

- An **accounts receivable endorsement** insures you for any amounts that are uncollectable due to a covered loss, as well as for the costs of collecting the accounts and recreating the records.
- If your business handles perishables, a **spoilage coverage endorsement** protects you against losses caused by power and equipment failure, or general contamination resulting from incidents that are beyond your control.

Disasters often occur without warning, but taking the steps to understand your risks and evaluate your insurance needs can help you prepare your business for the unexpected. It is important to periodically review your insurance program in light of your changing business needs. Give us a call for more information.

Report claims immediately

We are constantly looking for new and better ways to help control your insurance costs and improve our service to you. You can help us achieve both of these goals by immediately reporting any claims you may have or incidents that could possibly result in claims. We can then offer suggestions on what steps to take next and promptly notify your insurance company of the details.

Your insurer needs the opportunity to conduct an adequate and timely investigation of all circumstances surrounding your claim. Prompt notification of a loss allows your insurance provider to act



on the claim quickly, resulting in better service and, in the long run, reduced insurance costs.

In the case of **workers compensation** claims, timely notification demonstrates your concern for your employees. Reporting claims immediately may also help you avoid late penalties and fines enforced in some jurisdictions.

We are striving to help control your premiums and ultimately improve the quality of your overall insurance program. We hope you never experience a loss, but if you do need to file a claim, we are here to assist you.