

Connecting the Dots

Last weekend I helped my 4-year-old granddaughter connect the dots in her new workbook. This was supposed to magically reveal the picture of an animal or toy. Her lines were often straight when the dots were close, then wiggled a bit when farther away. Once or twice we had to count again and make a u-turn to get back on track. Some of the finished pictures weren't all that obvious.

I find this is typical when clients try to connect their key risks to their insurance coverage and prevention plans. This process is fundamental to finding the gaps and overlaps in their protection program. If these connections are haphazard, messy or incomplete, the final picture of gaps and overlaps won't be very helpful.

What kinds of dots need connecting?

- The basic risk-to-coverage connections might be pretty clear: fire to property and business income, accidental bodily injury to general, auto or products liability, and employee injury to workers' compensation are often self-evident.
- Significant problem areas I find are with contracts, leases, and sales agreements. They are usually teeming with insurance requirements and indemnification clauses.

Recently a client negotiated a 20-year lease on a building in a 'perfect' location. Only later did the CFO learn they were responsible for earthquake insurance. Worse, the lease required the generic 'full replacement cost,' and this left the huge burden of determining the right value on the client.

- Another example of a risk-to-coverage connection is when you have workers at different locations needing state-specific workers' compensation coverage.

A client forgot to tell his broker when he hired a salesperson working from home in another state. The Workers' Compensation policy was never amended nor the salary declared. We got this fixed before the worker had an injury (a lawsuit would have been certain) and avoided any fines and penalties for breaking the law.

- "New" emerging risks and coverages are other dots needing connections.

One client had data with identifying personal information about customers and employees. They were quickly made aware that a Network Security policy could help pay to recover or replace their lost data, as well as protect them from the skyrocketing costs of identity theft – both excluded in standard policies.

Directors & Officers Liability and Employment Practices Liability are two other increasingly costly risks that confront mid-sized and smaller businesses in today's litigious world. A simple business decision gone wrong – such as hiring a new salesperson who brings along customer lists – can trigger a lawsuit from a competitor. Other gaffes can result in government regulatory action. And unless you have these specialized policies, these risks are not covered anywhere else.

What dots do you need to connect? Sometimes they aren't apparent. If your connection lines are squiggly or have u-turns, the picture at the end won't be clear.

Make sure your broker knows about all your operations, plans, products, services, suppliers and territories. Ask what could go wrong and what coverages you don't have. If you're not comfortable handling this yourself, get outside expertise to help connect the dots.