

A Midwestern Higher Education Compact Program



2010 Annual Loss Control Workshop



Basics of Property

David Letzelter, Senior Vice President Marsh USA Inc.

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Basics of Property—Major Policy Components

The Six Major Components

- Coverages
- Perils insured
- Limits
- Deductibles
- Valuation
- Territory



Basics of Property

- Owned real and personal property ⁽¹⁾
- Property of others in insured's care, custody, or control ⁽²⁾
- Property in transit ⁽³⁾
- Time element
 - Extra expense
 - Business interruption

Notes:

- 1) Key property exclusions include land, water and money and securities.
- 2) Generally, a client's exposure for property of others is determined contractually.
- 3) Property while in ocean transit is typically excluded.



Basics of Property—Business Interruption (BI)

1) BI Scenario

Insured

Direct Damage
Resulting BI Loss



Customer

2) Contingent BI Scenarios

Supplier

A. Direct Damage
B.



Insured

Resulting BI Loss
Resulting BI Loss



Customer

Direct Damage

3) Service Interruption Scenario

Insured

Resulting Property Damage and BI Loss



Utility

Direct Damage



Basics of Property—Perils Insured (1)

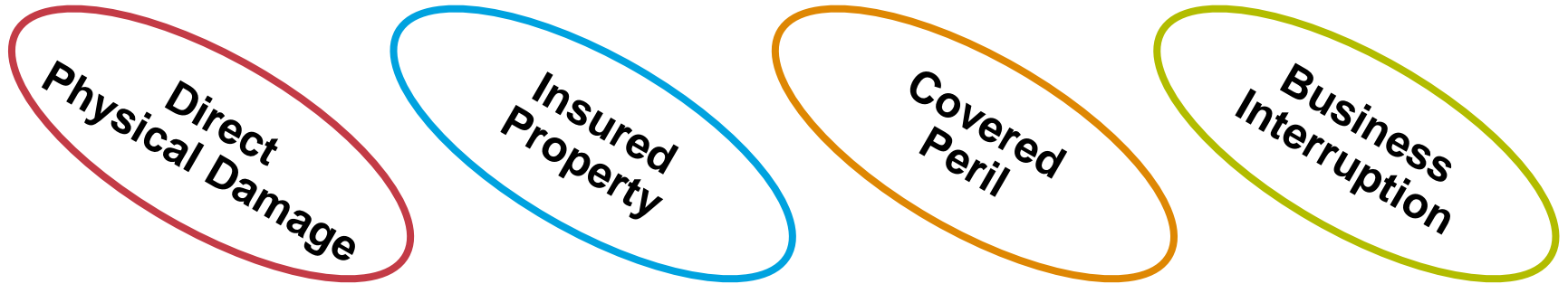
- Named perils or all risk
- CAT perils
 - Flood
 - Earthquake
 - Windstorm

Notes:

- 1) Key peril exclusions include:
- | | |
|----------------------|-------------|
| ✓ Faulty Workmanship | ✓ War |
| ✓ Wear & Tear | ✓ Terrorism |
| ✓ Nuclear | ✓ Pollution |



Property Claims—"Chain" of Coverage





Basics of Property

- Limits
 - Policy limit
 - Sublimits (1)
 - Aggregate limits
- Deductibles
 - Dollar
 - Percentage
 - Time period

Notes:

- 1) Key sublimits include:
- | | |
|--------------|------------------------|
| ✓ Earthquake | ✓ Unnamed Location |
| ✓ Flood | ✓ Service Interruption |
| ✓ Windstorm | ✓ Extra Expense |
| ✓ Transit | ✓ Contingent BI |



Basics of Property

- Valuation
 - Replacement cost or actual cash value for property damage ⁽¹⁾
 - Selling price for finished stock
 - Actual loss sustained for business interruption ⁽²⁾
- Territory
 - Domestic
 - International
 - Global

Notes:

- 1) Actual Cash Value = Replacement Cost—Physical Depreciation
- 2) Actual Loss Sustained = Net Profits and Continuing Expenses



Factors Driving Pricing—Rate x Values = Premium

The Eight Major Rate Factors

- Construction
- Operations
- Loss prevention
- Catastrophe exposure
- Loss history
- Limits
- Attachment point
- Market conditions



Required Underwriting Information

- Description of operations
- Location schedule and values ⁽¹⁾
- Five-year gross loss history ⁽²⁾
- Risk information (**COPE**):
 - C**onstruction
 - O**ccupancy
 - P**rotection (e.g., Sprinklers)
 - E**xposure (e.g., Maximum foreseeable loss)

Notes:

- 1) County and zip code are critical for the underwriter to do their CAT modeling.
- 2) Gross loss history, not paid loss history, is necessary because deductibles may have changed.



Getting The Best Deal

The Four Key Components

- **Analyze:**
Conduct a renewal strategy meeting
- **Personalize:**
Know your business partner
- **Specialize:**
Develop a team of experts
- **Globalize:**
Increase capacity and competition



Getting The Best Deal (cont'd)

Analyze

- Technical focus
 - ✓ Risk assessment
 - ✓ Values determination
 - ✓ Catastrophic evaluation
 - ✓ Deductible analysis
 - ✓ Policy wording

- Industry benchmarking
 - ✓ Rates
 - ✓ Limits
 - ✓ Deductibles
 - ✓ Participating carriers

- Loan covenants



Getting The Best Deal (cont'd)

Personalize

- Engineering
 - ✓ COPE information
 - ✓ Past improvements
 - ✓ Future priorities
 - ✓ Business continuation plan
 - ✓ Top management support
 - ✓ Allocated dollars
- Loss history
 - ✓ Detailed explanation
 - ✓ Corrective action
 - ✓ Current deductible and existing operations adjustment
- Carrier relationships
- Market presentation



Getting The Best Deal (cont'd)

Specialize

- Industry
- Strategy
- Coverage
- Placement
- Engineering

Globalize

- Worldwide market access
 - ✓ Increase capacity
 - ✓ Increase competition



Property Definitions

Coverage Terms

- **Property (PD)**—“First party” insurance of real and personal property against direct physical loss or damage.
- **Boiler & Machinery (B&M)**—Loss to the boiler or machinery itself (including breakdown and electrical injury) and resulting damage to other property.
- **Builder’s Risk**—Covers the unique loss exposure of property under construction.
- **Time Element (TE)**—An indirect loss resulting from an insured direct or “first party” loss. Examples of Time Element coverages are Business Interruption (BI) and Extra Expense (EE).

Valuation Terms

- **Replacement Cost (RC)**—Loss settlement for property damage based on the cost to restore or replace damaged or destroyed property new at the time of loss without deduction for physical depreciation.
- **Actual Cash Value (ACV)**—Loss settlement for property damage based on replacement cost new at the time of loss less physical (not accounting) depreciation.
- **Selling Price**—Loss settlement for finished stock which includes the insured’s profit.
- **Actual Loss Sustained**—Loss settlement for business interruption determined by the loss of net profit plus continuing expenses (e.g., utility services, rent and payroll). It also pays for expenses up to the amount they reduce the BI loss.
- **Extra Expense**—The costs over and above normal expenses (e.g., relocation costs, equipment rental).
- **Coinsurance**—A policy provision requiring the insured to maintain limits at least equal to a stipulated percentage of value in order to collect losses in full.



Property Definitions

Peril Terms

- **Named Perils**—A policy that specifies the exact causes of loss for which the insurer will pay. Typical named perils are fire, lightning, explosion, aircraft, windstorm, hail, strike, riot, civil commotion, vehicles, smoke, vandalism, and malicious mischief.
- **“All Risk”**—A policy which covers all causes of loss, except for specified exclusions. Pay particular attention to exclusions for windstorm, terrorism, flood, earthquake, and mine subsidence.
- **CAT Perils**—The catastrophe perils of flood, earthquake and windstorm.

Policy Territory

- **Domestic**—U.S., Canada, U.S. territories, Puerto Rico, and Virgin Islands
- **International**—Anywhere outside domestic excluding U.S. sanctioned countries
- **Global**—Worldwide excluding U.S. sanctioned countries

Participation Terms

- **Layered**—A horizontal portion of the placement. Examples include:
 - ◆ **Primary Layer**—First placement excess of the deductible
 - ◆ **Buffer Layer**—Placement or placements between the primary and excess layer
 - ◆ **Excess Layer**—Highest attachment point placement
- **Quota Share**—A vertical portion of the placement. For example, a carrier may take a 10% portion of the entire program limit.



Property Definitions

Other Terms

- **Deductible/Retention**—The amount deducted from each loss which is borne by the insured. In property insurance, the deductible is not part of the limit.
- **Extended Period of Indemnity**—Coverage which extends the business interruption recovery until the sales return to the pre-loss level, subject to a time limitation (e.g., 90 days).
- **Limits**—The maximum the carrier will pay per occurrence. Typical exceptions include flood and earthquake which have annual aggregated limits.
- **Maximum Foreseeable Loss (MFL)**—The anticipated maximum fire loss that could result, assuming the worst circumstances with respect to the non-functioning of protective features such as firewalls, sprinklers, and a responsive fire department, among others.
- **Rate**—Underwriting risk factor which is applied to the reported value on a per \$100 basis to develop the premium.

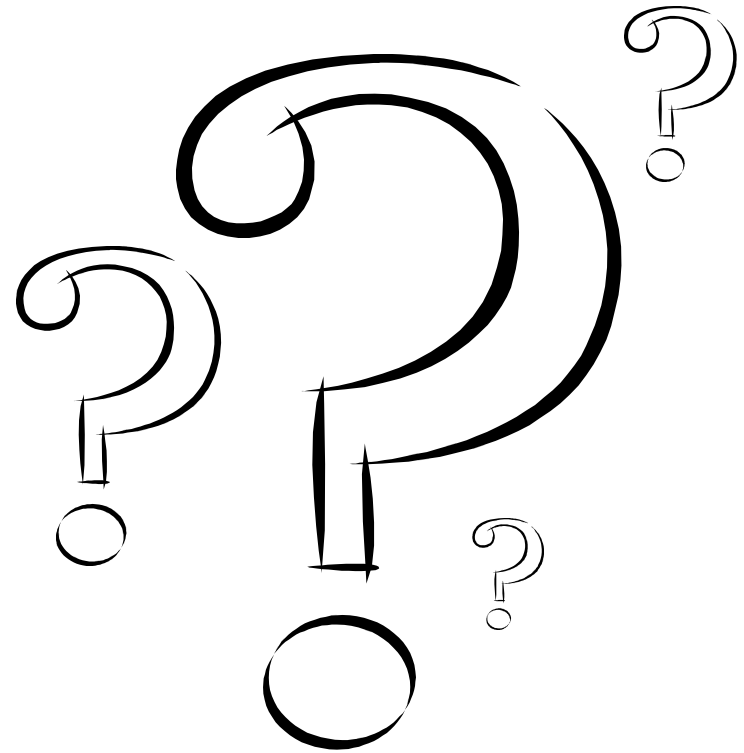


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Basics of Property

Questions





Risk Management 101: Property

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Contact Information

- **David Letzelter**
Senior Vice President
Marsh USA Inc
Six PPG Place, Suite 400
Pittsburgh, PA 15222
412 552 5128
David.L.Letzelter@marsh.com



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Thank you.