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# Insurance Basics 101: Demystifying Your Insurance Program

RLI Design Professionals  
Design Professionals Learning Event

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# Course Description

As a design professional you know you need **insurance to protect your business**, but finding the time to understand how the pieces of the insurance puzzle fit together is often the last priority in your busy schedule. During this course we will use **common claim scenarios to illustrate how a well-integrated insurance program works**, giving design professionals a concise resource for understanding insurance.



# Learning Objectives

## Participants will:



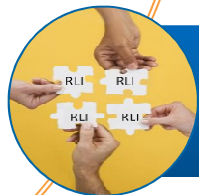
Learn about professional liability, property, casualty, and other insurance coverages design professionals need to know about;



Review claim scenarios;



Evaluate where insurance coverage exists for a wide array of claims; and



Understand how a holistic insurance program fits together.



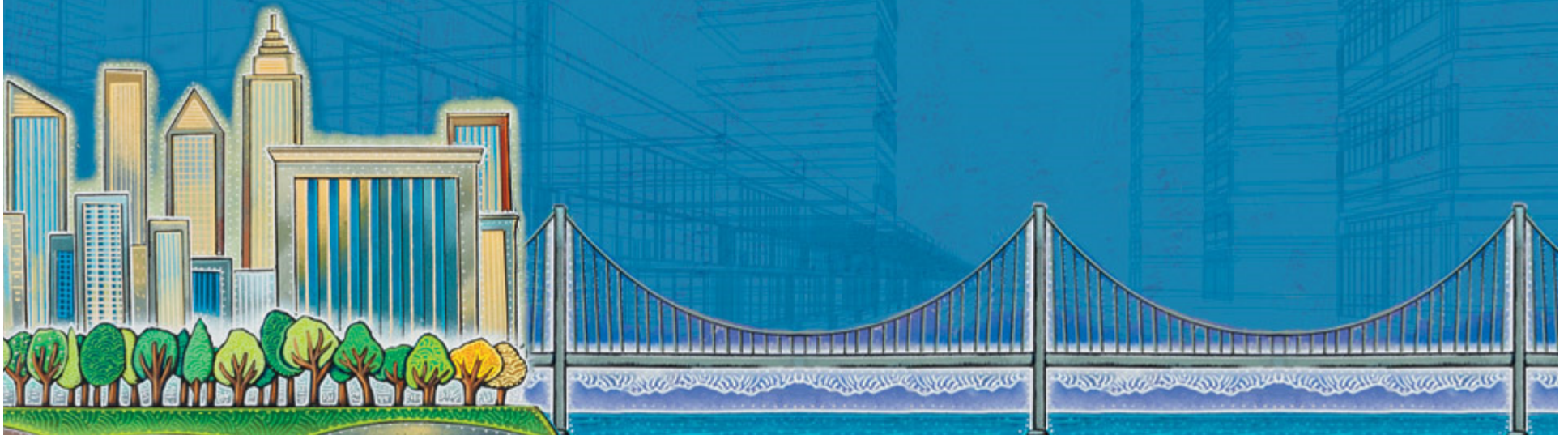
# Insurance Coverage

Insurance



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# Professional Liability Coverage



# Claim Scenario

An Architect designed a new roof for an apartment complex. He failed to take into account a prior roofing project that added another layer of roofing (and weight) to the structure, so the Architect's design unknowingly added a third layer of roofing, which overstressed the structure and required all 3 layers of roofing to be removed and replaced.





# Where Do You Find Coverage?



# Professional Liability Insurance

"Wrongful Act" means a **negligent** act, error, or omission, in the performance of Professional Services by **an Insured** or any person or entity for which **the Insured is legally liable**.

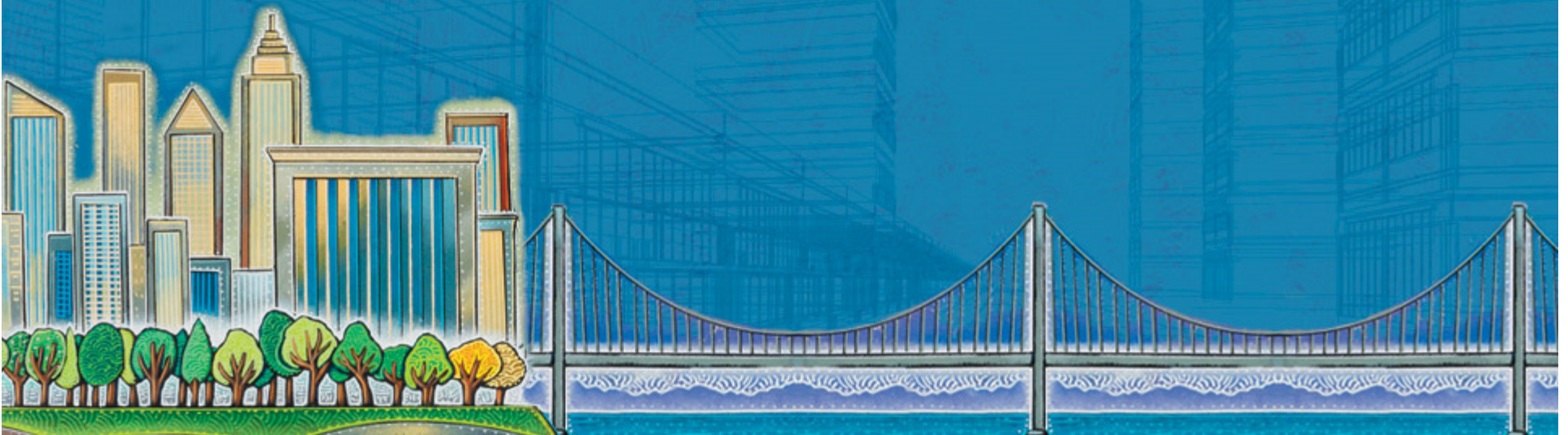
“Wrongful Act” also means:

- an act, error or omission in the performance of Professional Services by an Insured or any person or entity for which the Insured is legally liable and that results in **Personal Injury**; or
- **Pollution Incident**.



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# General Liability Coverage



# Claim Scenario

A civil engineer at a construction site gets frustrated with the mud surrounding their trailer. He trudges around the site, finds a hose, goes back to the trailer, and begins hosing it down. He leaves this task before completing it to take a phone call.

A bicycle messenger making a delivery to the site travels over the hose at an accelerated speed, is thrown from the bike, and suffers numerous broken bones and other serious injuries.



# What Coverage Might Be Found in a General Liability Policy?



# General Liability Insurance

## Common General Liability Risks for Design Professionals:

- Bodily injury and property damage NOT arising out of professional services
- Tenant legal liability
- Written on an **occurrence** basis

## Other Risks—Possible Insurance Coverage Enhancements:

- Hired and non-owned auto liability coverage
- Hired auto physical damage coverage



# What Is Not Covered By General Liability Insurance?

## Professional Services Exclusion

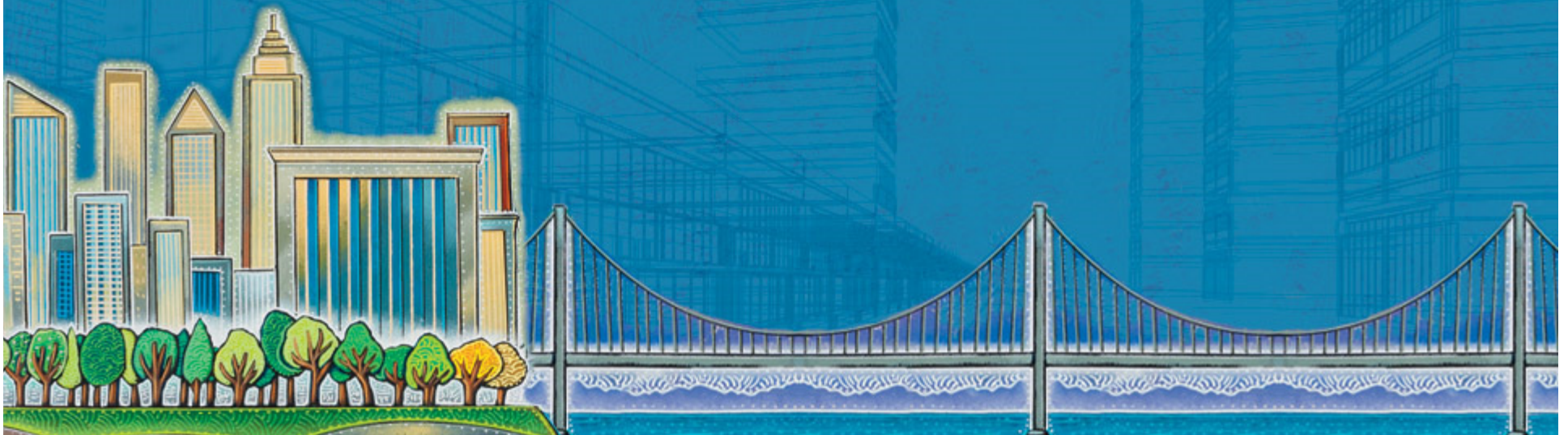
“Professional services” means **any service requiring specialized skill or training** including but not limited to the following:

- a. Preparing, approving, or failing to prepare or approve** any map, shop drawing, opinion, report, survey, field order, change order, design, drawing, specification, recommendation, permit application, payment request, manual or instruction;
- b. Supervision, inspection, quality control, architectural, engineering or surveying activity or service**, job site safety, warning or failure to warn, construction contracting, construction administration, construction management, computer consulting or design, software development or programming service, or selection of a contractor, subcontractor or subconsultant;
- c. Monitoring, testing, or sampling service necessary** to perform any of the services included in a. or b. above....



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# Property Coverage





# Major Property Exposures For Businesses

- Buildings
- Business Personal Property
- Computers and Electronic Data/Records
- Revenue



# Property Valuation

- **Replacement Cost:** property is replaced at today's costs; no deduction for depreciation
- **Actual Cash Value:** property is covered at replacement value less depreciation
- **Coinsurance:** insured carries property coverage equal to a specified percentage (e.g., 80%) of Actual Cash Value in return for a reduced rate

**Most property coverage is provided by RLI at full replacement cost with no coinsurance**



# Property- What Can Happen?

## Top Causes of Property Loss for Businesses

- Natural Events – Windstorm, Lightning, Floods, Earthquake
- Fire/Smoke
- Theft
- Employee Theft
- Automobiles
- Water Damage



# Business Personal Property (BPP) Coverage

What is covered?

- Property you own that is used in your business
- Property of others in your care, custody or control
- Tenant's Improvements & Betterments
  - made part of the building or structure you occupy but do not own; and
  - you acquired or made at your expense but cannot legally move
- Leased personal property which you have a contractual responsibility to insure



# Computers And Electronic Data

## What can happen?

- Theft
- Lightning/Power Surge
- Virus/hackers
- Fire
- Equipment Breakdown
- Loss of Power
- Loss of Internet Service



# Computers And Electronic Data Coverage

## What is covered

- Hardware
- Peripheral equipment such as printers
- Computer programs
- **Any electronic record or data-** your designs, project documents, and customer, employee and accounting information

## Coverage can vary significantly from carrier to carrier

- Separate Electronic Data Processing Limit
- Included in the Business Personal Property Limit
- May have expanded perils and coverage territory



# Loss of Income Exposures

## What can Happen?

A loss to your building, Business Personal Property (BPP) or computers causes a partial or full suspension of your business operations

## Business Income Loss:

Loss of revenue due to the suspension of operations

## Extra Expenses:

In order to avoid or minimize the suspension of business and to continue your operations you incur expenses outside of normal expenses.

- Relocation expenses
- Cost of a temporary location
- Cost of temporary equipment



# Business Income and Extra Expense(BIEE) Coverage

## What does it cover?

- Net income that would have been earned if a loss had not incurred
- Extra expenses incurred that help minimize the net income loss

## Limits

- Dollar Limit- Paid up to a max dollar limit
- Time limit- actual loss sustained
- Wait period

## Sub limits for certain losses

- Interruption due to data loss
- Electronic Vandalism
- Utility Services- loss of power, internet, phones

## Billable Hours Option

- Short duration losses- makes BIEE calculation easier





# Employee Theft Claim Scenario



In September 2014, the Secret Service announced the investigation of a woman suspected of embezzling nearly \$500,000 during the past three years from a prominent architectural firm

Internal Audit uncovered 83 checks made out to one employee over almost 3 years

Employee was responsible for:

Handling accounts

Making bank deposits

Distributing petty cash

Charitable contributions

Investigation appears to be ongoing



# Employee Dishonesty Coverage

## What is it?

Covers your loss of Money, Securities and Business Personal Property due to the fraudulent activities of an employee or group of employees

## Sample Limits

**\$50,000** maximum for loss or damage in any one occurrence unless a higher Limit of Insurance is shown in the Declarations

## Best Practice controls

- Background checks for new employees
- Annual audits done by someone outside the firm
- Separation of duties for the person making deposits, withdrawals, making payments and the person reconciling the accounts
- Countersignature required on checks
- Employees who handle financial duties and records required to take an annual vacation



# Typical Property Coverage

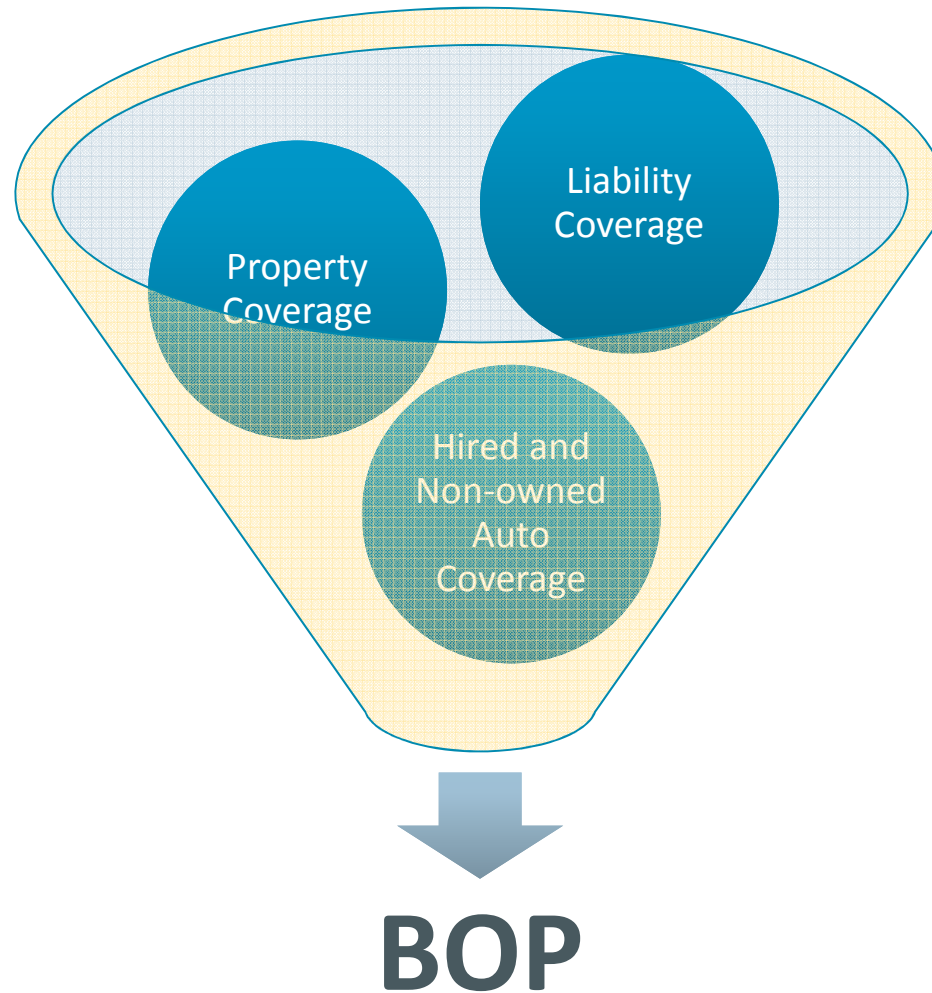
- \$100,000 valuable papers
- \$250,000 accounts receivable
- \$100,000 fine arts
- \$2,500 outdoor property
- \$100,000 off premises computers and electronic data
- \$25,000 money and securities
- \$25,000 contract penalty
- \$25,000 identity fraud
- \$50,000 employee dishonesty
- \$100,000 ERISA



*\*Optional property coverage endorsements available*

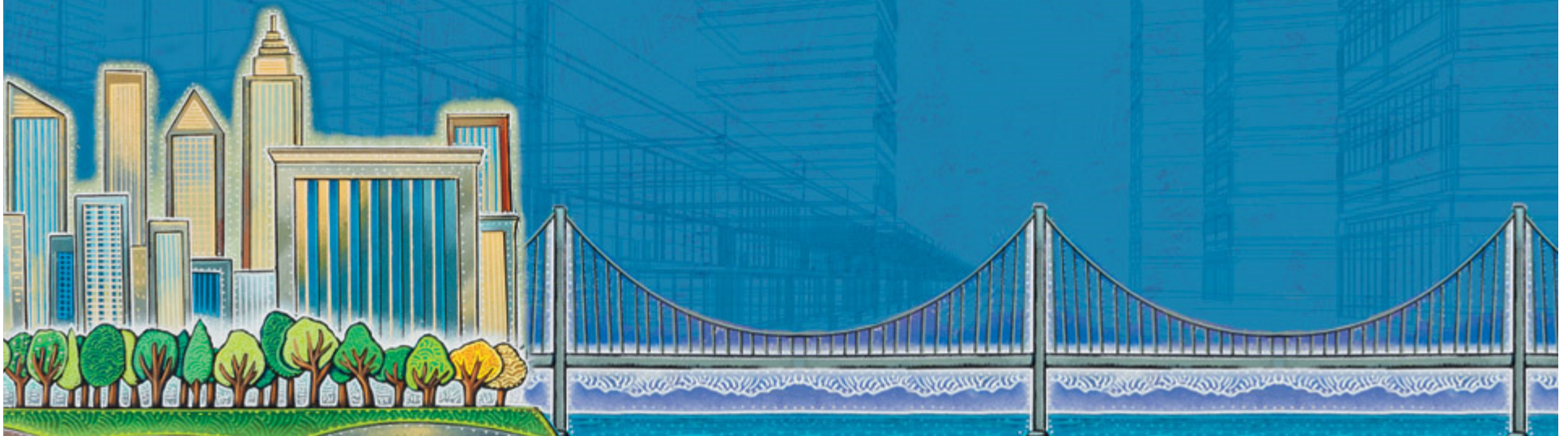


# Business Owners Policy (BOP)



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# Privacy Protection Coverage



# Claim Scenarios

## Example of Enterprise Privacy Liability

- An employee loses his company laptop. The laptop contains copies of customer information. A class action lawsuit was filed against the company for damages resulting from their failure to protect personal and confidential information.

## Example of Network Security Breach

- An employee's company laptop was stolen from a bar during Happy Hour. The laptop contains private financial information of its customers. The employee did not have proper network security protection in place for the laptop and the information was leaked to the public. The customers sue the Company for damages resulting from the employee's failure to protect their private financial information.

## Example of Electronic Media Liability

- While preparing a services brochure posted on the Company's website, an employee includes pictures and diagrams taken from a competitor's marketing material. The company is subsequently sued for copyright infringement.



# Where Do You Find Coverage?

## Privacy Protection Policy

Enterprise Privacy  
Liability

Network Security  
Liability

Electronic Media  
Liability

Crisis Management

Network  
Interruption  
Business Income &  
Extra Expense (BIEE)

Data Loss

Cyber Extortion



# What Does it Cover?

1. **Enterprise Privacy Liability** –Liability as a result of a privacy breach (lost/stolen laptop, dumpster diving, paper theft)
2. **Network Security Liability** –Liability as a result of a network security breach (virus, denial of service attack, etc.)
3. **Electronic Media Liability** – Liability as a result of information posted on the Insured's website
4. **Crisis Management** – Costs associated with responding to a network security or privacy breach – Public relations, Legal, Notification, Credit monitoring, Forensics
5. **Network Interruption Business Income & Extra Expense (BIEE)** – Business income and extra expense as a result of a network security breach
6. **Data Loss** – costs to replace, restore, or recollect corrupted data
7. **Cyber Extortion** – costs and expenses associated with an extortion attempt





# Typical Cost of a Data Breach



## Notification Cost Calculator

- ? How many notices do you need to send?
- ? How many different versions of the notification letter will you need?

### Notices

- ? Setup
- ? Address List Management
- ? Notice Printing
- ? Postage
- Total Cost for Notices**

### Call Center

- ? Setup
- ? Fielding In-bound Calls
- Total Cost for Call Center**
- Total Notification Cost**

Reset

Assumptions

NetDiligence in partnership with Immersion



# But What If...

## Data Breach Cost Calculator

Total Number of Affected Records?

Type of Data Breached?

Number of Years for Credit Monitoring?

Data is in a centralized system/location?  Yes  No

Actual Fraud is expected already?  Yes  No

Is PCI compliance an issue?  Yes  No

Federal Class Action Lawsuit filed?  Yes  No

### INCIDENT INVESTIGATION

Forensics Investigation

Security Remediation

Data Breach Law Legal Guidance

eDiscovery Litigation

**Subtotal**

### CUSTOMER NOTIFICATION / CRISIS MANAGEMENT

Customer Notification

Call Center

Credit Monitoring

ID Fraud Remediation

Public Relations Service

**Subtotal**

### REGULATORY AND INDUSTRY SANCTIONS

FTC Fines

State AG Fines

HHS Fines

PCI Fines

**Subtotal**

### CLASS ACTION LAWSUIT

Legal Defense & Damages

Bank Card Reissuance Liability

**Subtotal**

**Total Cost**

**Per Record Cost**

**Important Information:** The numbers presented in the NetDiligence® Data Breach Cost Calculator are estimates and provided for education and illustration purposes only. Actual expenses and liability exposures due to identity theft or data breach incident may vary based on variables not considered in this calculator. Numerical results presented in the Data Breach Cost Calculator are based on a proprietary formula developed by NetDiligence and its insurance industry partners. This formula takes into account information available in the public domain and information obtained through various websites that track breach statistics. Please note: This calculator is not intended to predict insurable perils or related costs and has no bearing on any insurance policy.



# We Already Have Coverage, Don't We?

## General Liability - Significant coverage issues

### Likely no coverage for:

- Bodily Injury
- Property Damage
- Personal/advertising injury

### Exclusions may apply:

- Electronic data
- Professional Services
- Contractual Liability
- Care, custody & control



# Are You Sure We Don't Have This Coverage?

## Property- Potentially Some Coverage

### Limited Coverage:

- Business Income/Extra Expense due to electronic vandalism
- Data Loss due to electronic vandalism

### No Coverage:

- Crisis Management Expenses (notification, credit monitoring, forensic)
- Cyber Extortion (ransom)



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# Auto Liability Coverage



## Claim Scenario

An employee was driving on company business running errands. The employee was stopped at a red light waiting to turn right on red. There was a person on a bicycle waiting on the sidewalk to cross the road in front of the employee. As the employee proceeded forward to begin his right turn, he did not see the bicyclist begin to cross the road. The employee rolled forward 3-5 feet and bumped the bicyclist knocking him down. There were witnesses who confirmed that the employee's light was red and that the bicyclist was in the crosswalk when struck. There were also allegations that the driver was on his cell phone. The employee admitted to seeing the bicyclist before striking him. Whether cell phone usage was a factor or not, it is clear the inattentiveness of the employee resulted in the collision with the bicyclist. While it appeared to be a minor bump, the bicyclist had to have extensive medical treatment.



# Definitions

- ❖ **Owned Automobile-** a company owned vehicle.
- ❖ **Hired Automobile-** a particular type of auto included as a covered auto under the policy. With certain exceptions, the term refers to autos the named insured leases, hires, rents, or borrows.
- ❖ **Non-owned Automobile-** an auto that is used in connection with the named insured's business but that is not owned, leased, hired, rented, or borrowed by the named insured.



# Where Can You Find Coverage?

## Non-owned Auto Coverage

- Covers the company's exposure for employee owned vehicles used on company business
- Can be endorsed onto the GL or included in an owned auto policy
- Standard Coverage - does not cover the employee driver
- Does not cover damage to employee's auto





# Where Can You Find Coverage?

## Hired Auto Coverage

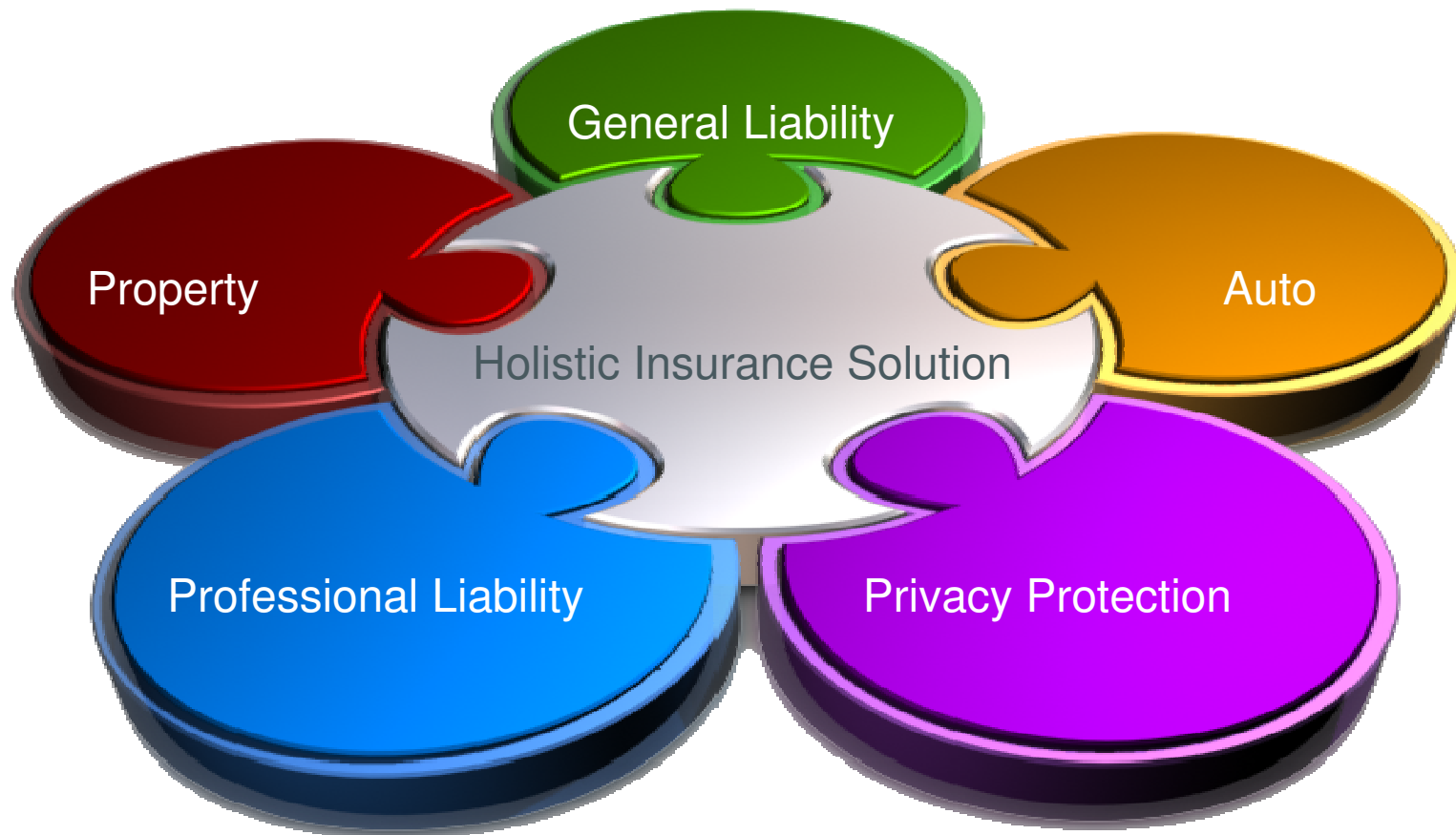
- Liability to third parties- excess unless rental contract requires primary
- The rental company's loss of use- stipulated in the contract
- Basic Coverage- Liability only. **No coverage if an employee is renting under a contract in their own name!**
- Enhanced Coverage
  - Employee Hired Coverage
  - Physical damage to the rental car- after deductible



# Owned Autos



# How Does Your Insurance Program Fit Together?



**Thank you for your time!**

**QUESTIONS??**

This concludes The American Institute of Architects  
Continuing Education Systems Program

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