

## ***Insurance Coverage:***

### ***Property Risk in Avionics Business***

Commercial property insurance protects your business from loss or loss of use of company property, both tangible (buildings, computers, etc.) and intangible (lost revenue). Property insurance policies can provide coverage for an array of items.

What can be covered? Buildings, office equipment, furnishings and fixtures, mobile equipment, tools, parts, inventory, equipment breakdown, business income, extra expense, among other things. A \$1,000 deductible per occurrence is standard.

Exclusions: Losses arising out of wear and tear, nuclear disaster, war, flood, and earthquake are typically not covered (flood and earthquake coverage may be purchased as separate policies). Riots and civil commotion, however, are covered by property policies.

Here are some property coverages available to business owners.

#### **Business Income (Business Interruption)**

**What is it?** If your office building is damaged or destroyed, your moneymaking operations are halted. You lose income. Business income coverage reimburses you for revenue lost during suspension of business operations as a result of a covered loss. More specifically, Business Income coverage includes the net profit the business would have earned had there been no interruption, as well as expenses that continue despite the interruption (i.e. rent, insurance, contracted services, taxes, mortgage payments).

**What about payroll?** Payroll is included for business owners and managers. It is not automatically included for employees. Coverage for employee payroll can be added by endorsement to retain your most valuable employees.

**Deductible:** The deductible for Business Income coverage is not monetary – it's a length of time; for example, 72 hours. Business Interruption coverage does not begin until 72 hours have passed since the loss occurred. For the first three days after a loss occurs, the insured foots the bill.

**Example:** You own a successful aircraft avionics business, and your workplace is severely damaged in a storm. You're unable to continue your business operations because of the damage. With Business Income (Business Interruption) coverage, you'd be reimbursed for the net profit (before taxes) that your business would have earned had there been no loss as well as expenses that continue despite the loss (management payroll, rent, etc.).

#### **Considerations for Business Interruption Insurance**

Business Interruption Insurance cannot be purchased on its own; it must be added to a Property Insurance policy or included in a Business Owner's Insurance policy.

Policy limits should be sufficient enough to cover a large amount of time to rebuild the permanent business space. Generally the business must be closed for several days before coverage begins, and it does not pay for those days retroactively.

Price of coverage depends on the risk of disaster to the premises. This may depend on the business location, nature of the business and how easily the business could function at an alternate location on a temporary basis.

### **Extra Expense**

**What is it?** Extra Expense coverage reimburses you for costs over and above your business' normal operating expenses that are necessary to keep your business running following a covered loss. Items such as moving costs for setting up shop in a new location, rent for your temporary location, advertising expenses to notify clients of your temporary location, etc. would be covered items under Extra Expense.

Example: In the aircraft avionics business scenario above, you decide you'd like to try to keep the business up and running while your building is being repaired. In order to do this, you'd need to rent a temporary building in which to work, rent basic office equipment as well as tools necessary for aircraft avionics repair and installations, and let your clients know about your temporary location. Extra Expense coverage would reimburse you for these additional expenses incurred to keep your business running at near normal operations.

Insurance experts estimate that Business Interruption Insurance is one of the most, if not the most, valuable coverage available, yet it is often overlooked by business owners. Since Property Insurance only covers the cost of physical loss or damage and contents of a business in the event of a disaster, Business Interruption coverage is invaluable in covering the loss of income while the permanent business location is being repaired. Consult your agent to learn about business continuity resources.

### **Ordinance or Law Coverage**

**Why you need it:** If your older building suffers a substantial loss, you may have to meet higher construction standards when you rebuild. Over time, municipal codes, laws and ordinances are amended to reflect new benchmarks in building construction. The consequence? The cost to rebuild is greatly increased. Ordinance or Law insurance covers the following:

- Loss of value to undamaged portions of the structure
- Cost to demolish these undamaged portions
- Increased construction costs to replace or repair the structure so that it meets current building, zoning, or land use laws or ordinances

Example: You're a Fixed Base Operator (FBO) with a lobby/pilot lounge and a hangar. Both buildings were constructed in the late 1960's. A hurricane comes through town,

damaging just about everything, including your two buildings. Roads are cleared, cleanup begins, and it's time to assess the damage. You have extensive physical damage to the buildings, which your property policy will cover. But your hangar has no sprinkler system, and new codes require you to install one. Is that covered?

In the course of rebuilding your lobby area, you discover that since the buildings were constructed prior to 1990's Americans with Disabilities Act (ADA), they're not ADA compliant. To get them up to code, you'll need to outfit them with ramps, wider doorways and hallways, handicap accessible restrooms, etc. While you have no problem complying with these regulations in theory, they are expensive. How are you going to pay for all these renovations? Ordinance or Law coverage will help cover the cost to get your building(s) in compliance with the most current regulations.

### **Equipment Breakdown Coverage**

**What it covers:** The cost to repair or replace equipment that is critical to your business, and has failed as a result of a mechanical breakdown. Coverage includes:

- Electric arcing of motors and boxes (service panels)
- Explosion of compressors
- Heating units and air conditioners
- Fax machines and phones

**Example:** Your avionics shop has experienced a power surge resulting in a destroyed electrical panel and no power. It is pretty hard to install and test navigation and communication equipment without power, right? Equipment Breakdown insurance will pay to repair or replace your electrical panel. You'll be installing transponders again in no time.

### **Transit Coverage**

**What it is:** Coverage for physical loss or damage to insured property or property in the care, custody and control of the insured while in transit from one location to another. This provides protection when property is shipped with a common or contract carrier, by aircraft, vessel, railway, or in the business owner's vehicle.

**Why you need it:** Property policies usually provide coverage only at locations that are identified in the policy. Transit coverage protects your property while it's en route from point A to point B.

**Example:** You own an engine repair shop and are working on an engine. You've boroscope it and discover the stators are bent and the engine must be shipped off to the manufacturer for further repair. You put the engine on a common trucking carrier and think no more about it, until you get a call alerting you to the jackknife accident the truck was involved in. All of a sudden, the \$250,000 engine has A LOT more damage than bent stators. Who's responsible for the repair or replacement now? It may not be covered under your transit agreement. Transit coverage ensures that your property, or

property in your custody, is covered not only at the insured location (i.e. your repair shop), but also while en route to another location.

This list of coverage is in no way a comprehensive list of all available insurance for business owners. In most cases, if it can be bought, it can be insured (for a price). These are some of the more common coverage options, ones that can save you money and a lot of headaches if your property suffers substantial damage. Check with your insurance agent about your potential for property damage losses, and make sure you're adequately covered.

Don't forget to include not only property you own but also what others may own which has been entrusted to you. This may include avionics inventory owned by a supplier or customer being held in your possession. This inventory can be included on your property policy as property of others.

A few common business practices used to protect or preserve property may include:

Risk Prevention measures such as Alarm systems for fire and theft. Many alarm systems are now very cost effective and can earn favorable insurance credits to help offset their expense. Employee theft, (embezzlement) can be prevented through inventory controls and financial audits conducted regularly. Insurance should also be considered for "employee dishonesty" coverage discussed later in the article.

Risk Transfer through contractual agreements and "holding companies" can serve to protect and preserve property. Property that is owned by another and leased back to a company can be immune from seizure, bankruptcy or possible litigation measures. Risk transfer to insurance is most common and often required when bank financing in business is required for funding business acquisitions.

Property of others such as non-owned aircraft in the care, custody and control of the avionics business is a large property risk and is most often protected by "Hangar Keepers" insurance. (see Hangarkeepers coverage summary later in this article) Many avionics shops chose to avoid risk by maintaining a policy not to fly non-owned aircraft for any reason without the owner or owner's pilot on board. This eliminates the need for "In-Flight Hangarkeepers" insurance coverage also called "Non-owned Aircraft".

### **Employment Practices Liability (EPL)**

Business owners must make difficult decisions every day. Sometimes the results of these decisions are good. Sometimes they're not. Employment Practices Liability coverage relates to business decisions and their effects, both real and perceived.

#### **What it does:**

This coverage offers protection for employers if a current, former or prospective employee sues the employer for discrimination, sexual harassment, wrongful termination and other employment-related issues. EPL coverage responds in two ways:

- Pays the cost to defend the lawsuit. Even if the employee's claim is groundless or fraudulent, defending the suit can be very expensive.
- Pays the settlement if the employer is found liable for discrimination, sexual harassment, wrongful termination or other employment-related issues.

**Example:** You own an avionics service and repair facility and employ several Certified Technicians. You discover that one of your technicians is in the habit of drinking alcohol before coming to work. You terminate the technician. The safety of the operation, people on the ground, and the business is jeopardized when the technician is working while intoxicated. Sounds like a valid reason for dismissing someone, right? Well, the technician thinks he's been wrongfully terminated ("I wasn't that drunk!") and files suit against you. Even if the technician doesn't have a leg to stand on, your Employment Practices Liability will pay for defense costs.

### **Employee Dishonesty**

On the flip side, it may be an employee's actions that result in financial or property loss for the employer. Losses due to employee dishonesty can be minimized by implementing internal controls and having Employee Dishonesty coverage to protect company assets.

**What it is:** An employer's financial loss of money, securities and property due to fraudulent activity of employees. Examples of employee dishonesty include altered invoices, pocketed cash sales, falsified expense reports, and physical theft of property.

**Example:** Your company test pilot is responsible for a high value piece of equipment. What happens if your test pilot really "takes off" in your airplane – never to be heard from again? Think its simple theft, and would be covered by the aircraft policy? Think again. Most aircraft insurance policies state "We will not pay for physical damage if anyone to whom you give possession of the aircraft embezzles converts or secretes it." In other words, if your employee pilot flies off in your aircraft and disappears, it is not a theft. It is conversion by a permissive user and it is not covered under an aircraft policy.

Risk management and controlling costs for employment-related practices

Employment-related lawsuits are a growing concern for employers of all sizes. In 2007, the U.S. Equal Employment Opportunity Commission (EEOC) reported 82,792 charges filed for harassment, and harassment charge receipts filed and resolved were \$251.7 million.

As costs for litigation and damage awards climb, experts predict that employment liability will only become more complex. As a result, it is critical for employers to understand their exposures and options to manage the risk.

## **How to reduce your company's exposure**

Two effective risk management strategies include preventative management through solid human resources practices and transfer of risk through employment practices liability (EPL) insurance coverage, a policy used to cover your risk due to the ever-changing legal and employment environment. →