Managing Risk

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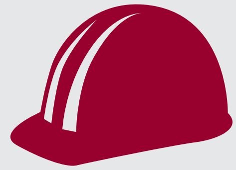

Post Office Box 36219 Birmingham, AL 35236
Toll Free: 888.204.4364 or Fax: 205.444.3035
www.mediaplusins.com

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Credit Risk Insurance - Key Tool for Growth

In 2006, 19,695 businesses went bankrupt. Business debts, leases and guaranties are dischargeable debts under bankruptcy law, meaning that bankruptcy can erase the debtor's responsibility for paying these debts. For more information on protecting your company from bad debt, read on.

Credit risk insurance is a cost-effective way to protect your company from bad debt. There are four main benefits of credit risk insurance. Each of them can pay for the cost of the premium on its own.

1 Catastrophic loss protection: Research shows that for most businesses, the top 20 percent of accounts represent about 80 percent of the company's revenue. This credit exposure means that just one sudden, unexpected loss could devastate many businesses. Credit insurance mitigates this catastrophic risk.

2 Safe sales expansion: Customers both old and new often request large amounts of credit as a condition for their purchases. Many vendors limit their sales to avoid taking on too much credit risk. For a small percentage of the deal, credit risk insurance can allow these companies to expand sales and be sure they will be paid. In today's global economy, credit risk insurance also allows businesses greater opportunity to expand abroad.

3 Improved credit decisions: Credit risk underwriters generally conduct credit evaluations on the accounts you wish to insure and approve them for specific credit limits. Their detailed analysis represents a highly professional evaluation of your customers' credit that you can use to make better decisions about clients.

In addition, credit risk underwriters continually monitor accounts, ensuring that you get early indications of any problems arising in their creditworthiness.

4 Better borrowing: If the company borrows against its receivables, credit risk insurance lowers the risk for the lender. Lenders might therefore lower their rates, increase the volume of available funding or allow previously unsuitable accounts into the borrowing base.

Credit risk insurance is tailored to each individual business and its clients. Therefore it's important to find a broker or agent who is experienced in this field and who displays a genuine interest in understanding your business operation to get you the policy most suited to your needs.

Before you talk to a spe-

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This Just In

In 2006, the number of individual and business bankruptcies filed dropped to a 20-year low due to changes in bankruptcy law. Still, 19,695 businesses went bankrupt that year. Business debts, leases and guaranties are dischargeable debts under bankruptcy law; meaning that bankruptcy can erase the debtor's responsibility for paying these debts. For more information on protecting your company from bad debt, please see the article on this page.

The theme of this year's National Fire Prevention Week, October 7-13, will be "Plan Your Escape." Each year in the U.S., more than 80,000 serious workplace fires occur, killing nearly 200 employees and injuring another 5,000. Estimated property losses exceed $2 billion annually, a figure that does not take into account business interruption losses.

Protecting the Environment and Your Business

Once considered a niche business, the insurance industry has developed a wide range of environmental liability coverage. In the U.S. alone, written premiums are estimated at up to $3 billion dollars per year, with a growth rate of 10-15 percent. With a wide variety of nonstandard policies to choose from, which is best for your needs?

Pollution is not just bad PR. With increasingly robust legislation, maturing catalogs of hazardous materials and stricter interpretations by the courts, pollution risks are one of the greatest hazards facing any company, easily capable of sending even the strongest firms well on their way to bankruptcy.

Reflecting this change, the insurance industry has developed a wide range of environmental liability coverage. In the U.S. alone, written premiums have reached an estimated $3 billion dollars per year, with a growth rate of 10-15 percent.

While environmental liability insurance was once considered something of a niche market, the scene is now dominated by major players in the industry, such as AIG, Kemper, Zurich-American, Chubb and Liberty. Rates and terms are competitive and offer policyholders the flexibility to overcome the fallout from a wide range of environmental problems.

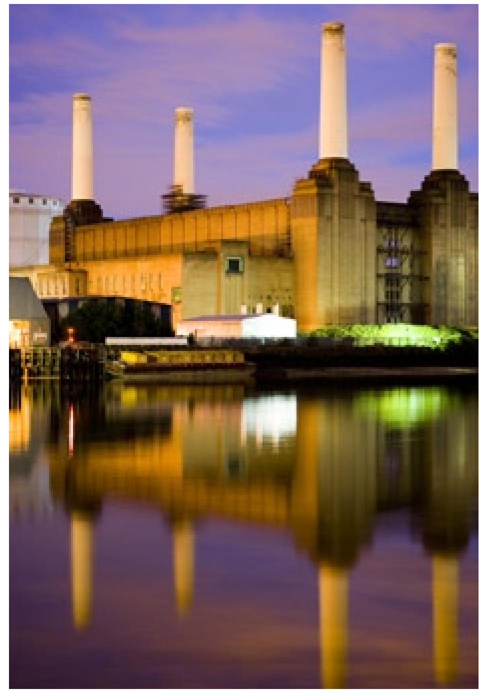
Pollution liability exposures can arise from many different sources and are not limited to particular industries. Environmental risks can arise from on- and off-site conditions, waste disposal and transportation exposures, merger and acquisition activities, historical and current operations and storage tank releases, to name but a few.

No standard environmental policies exist; however, the policies offered by major insurance companies generally fall into these categories:

Pollution legal liability: Covers claims from unknown pollution conditions at specific locations. Generally, these policies cover both on- and off-site pollution conditions, and include claims for bodily injury, property damage and cleanup costs. Often, business interruption and transportation claims will be covered, but costs of an ongoing cleanup or existing, known contamination are not.

Property transfer: Offers coverage similar to pollution legal liability policies when property ownership is transferred.

Cleanup cost cap or stop loss: Covers cost overruns for remediation due to the discovery of additional amounts or newly discovered contaminants, or from changes in regulatory requirements at a site. Coverage is limited to cleanup costs; claims for bodily in-



jury, property damage or legal defense are not covered. Policies may also exclude coverage for radioactive matter, asbestos, contractual liability and regulatory fines and penalties.

Brownfields restoration and development: Covers urban development projects with known contamination. These policies combine pollution legal liability and cost cap insurance and generally cover bodily injury, property damage, cleanup costs for unknown pollutants, and cost cap coverage for cleanup.

Asbestos abatement: Covers bodily injury and property damage that result from asbestos abatement operations conducted by the remedial contractor.

Asbestos containment: Covers building owners if a release of asbestos occurs. Policies cover sudden/accidental release of asbestos, which results in bodily injury/property damage (BI/PD), on an occurrence basis.*

Transporter insurance: Covers a transporter for off-site spills and liability for disposal of waste at a non-owned location. Coverage is included for oil, asphalt, sand and gravel, construction material, chemicals, and other toxic materials. Bodily injury, property damage and cleanup costs are covered, but known conditions, completed operations and deliberate acts are commonly excluded.

Storage tank pollution liability: Covers releases from scheduled storage tank sys-

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*Occurrence vs. Claims-Made Coverage

Liability policies can have one of two types of "coverage triggers"—occurrence or claims-made. An occurrence policy will cover events that occur during the policy period, regardless of when the claim is filed. A claims-made policy only covers claims that are made during the policy period.

An occurrence policy is considered the broader type of coverage, as there can be a long delay between the time the damage occurs and the time a claim is filed. However, as with everything, this has its pluses and minuses. An occurrence policy will only pay up to the limits in place when you bought the policy; if someone files a claim against you 20 years after the fact, the limits you had then might not be enough to cover your claim costs.

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With evidence like this it's not surprising that most countries in the world, including almost all the western industrialized nations, have banned the use of cell phones while driving. In the U.S., only New York, New Jersey, the District of Columbia, Connecticut, Washington and (beginning in 2008) California have outlawed the dangerous practice.

But for companies, having a safe cell phone policy is not just a matter of legislation — it's just sound business practice, says safety consultant Steph Marr. "It's an obvious danger, and allowing employees to engage in dangerous practices that could result in their death or serious injury is clearly a bad policy," he says.

Still, according to the Society for Human Resource Management, only 40 percent of companies have policies restricting use of mobile devices in the car. Some allow employees to conduct business over the phone as long as they pull over to the side of the road or into a parking lot. Others have completely banned the use of all wireless devices while in the car.

Companies that don't ban the use of cellphones while driving also face potentially massive lawsuits from victims of an accident caused by their employees. Though juries are still voting both ways on such cases, there have been enough major damages awards to make such a policy a "no-brainer."

For example, in a Miami-Dade County, Florida case, *Bustos v. Leiva,* a 78-year-old woman was awarded $21 million in damages when a lumber driver talking on the phone rear-ended her vehicle, causing her severe injuries.

According to Braun Consulting, workers who use cell phones while on the job have begun to file workers' compensation claims and lawsuits based on the theory that radio frequency radiation from cell phones may lead to various forms of brain cancer or other maladies. This is happening even though the science appears inconclusive and contradictory.

According to a report issued by the U.S. General Accounting Office (GAO) in 2001, "The consensus of FDA, the World Health Organization, and other major health agencies is that the research to date does not show radiofrequency energy emitted from mobile phones to have adverse health effects but there is not yet enough information to conclude that they pose no risk.

"Although most of the epidemiological and laboratory studies conducted on the issue have found no adverse health effects, the findings of some studies have raised questions about possible cancer and noncancer effects that require further investigation."

Although the question of whether cell phone use causes illness will only be resolved by scientific study to come, the popularity of the class action suit by the plaintiffs' bar means there will probably be litigation before there is solid science.

Employers concerned about liability for exposure to radiofrequency energy can recommend that their employees limit cell phone use and take the following precautions when using a cell phone:

- ✔ Use a hands-free headset.
- ✔ Use a phone that places the antenna as far away from you as possible.
- ✔ Extend the antenna during use.
- ✔ Limit calls inside buildings.
- ✔ Use the phone in open spaces as often as possible.
- ✔ Limit use by children.

Source: www.howstuffworks.com

For more information on reducing this and other safety-related exposures, please call us. ■

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cialist in this field, you should take a look at your business – what is the nature of your customer base, how robust are your credit practices, what is your appetite for risk and how aggressively do you want to expand? Think about how you want the policy to work for you and where it can bring value. With this accomplished, you'll be better prepared to have a productive dialog with a specialist who can help you find the ideal solution.

Of course you will want to discuss what type and level of risk you wish to cover. But you will also have to decide the level of premium you can afford and the amount of risk you wish to retain via a deductible or co-payment. Generally it is sound practice to make sure the deductible is less than your gross margin. That way you can be sure that you are covering your cost while avoiding paying additional premium to insure your profit. A deductible can be used to reduce the premium to a certain point. You can maintain a small reserve to cover the deductible or take it out of your cash flow at the time of the first loss.

Another golden rule is to submit all your accounts for underwriting and let the professionals decide the specific coverage for each account. This is important because a credit risk policy is designed to protect against unexpected losses – and that includes those accounts that you've never experienced problems with.

A broker or agent will also be an invaluable resource for evaluating the different proposals you receive. Carriers all differ widely in how they structure and administer their policies. The three key categories to focus on are the carrier's financial strength, its contract wording and the policy terms and coverages it proposes.

Keep all these factors in mind when comparing premiums and deductibles to get the right policy to help move your business forward. For assistance or more information, please call us. ■

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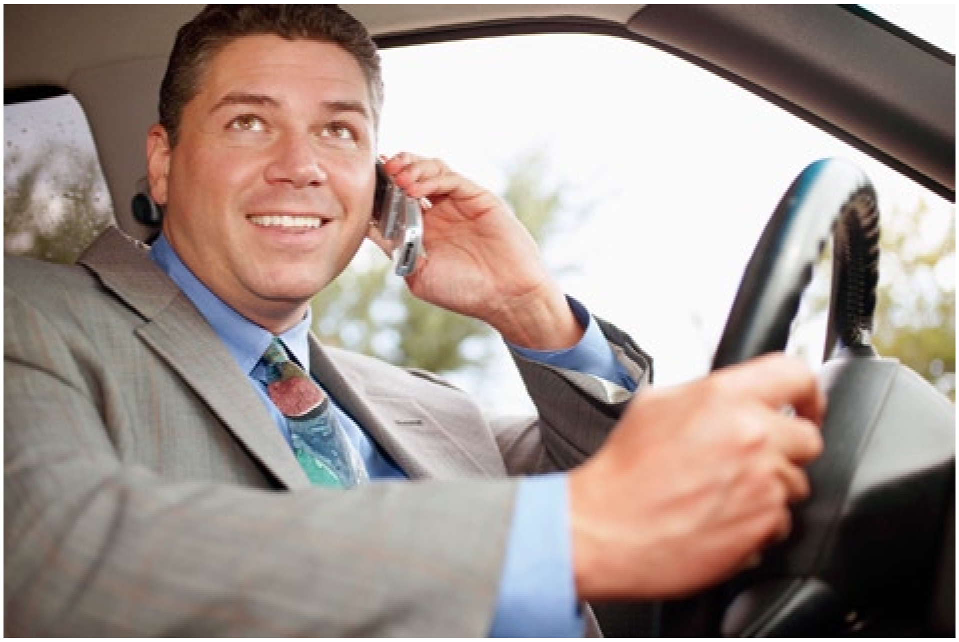
tems for corrective action on-site and off-site. Bodily injury and property damages are covered, and these policies can be used to meet Environmental Protection Agency and state financial responsibility requirements.

Owner's spill liability: Policy provides coverage for bodily injury, property damage and cleanup costs resulting from an incident that occurs when a carrier transports the named insured's product or waste.

For more detailed information on any of these coverages, please contact us. ■

Don't Let Employees Talk and Drive



They have their iPhones, BlackBerries and Treos to stay in touch even when they're on the road. But could they also have the most dangerous tool in the modern business world?

The answer is probably yes – at least if your workers use their devices to speak, or even worse to text message or email while they're driving. According to recent figures from the Cellular Telecommunications & Internet Association, more than 236 million people owned cell phones in the U.S. as of May 2007. Though research has shown that the devices are not the worst distraction while driving, their sheer prevalence makes them by far the most common danger.

A study released in April 2006 found that almost 80 percent of crashes and 65 percent of near-crashes involved some form of driver inattention within three seconds of the event. The study, conducted by the Virginia Tech Transportation Institute and the National Highway Traffic Safety Administration (NHTSA), found that the most common distraction was the use of cell phones, followed by drowsiness.

A 2005 study by the Australian Insurance Institute for Highway Safety found that motorists who use cell phones while driving are four times more likely to get into crashes serious enough to injure themselves than those who don't. A University of Utah report in 2006 concluded that talking on a cell phone while driving is as dangerous as driving drunk, even if the phone is a hands-free model. An earlier study by researchers at the University of Utah found that motorists who talked on hands-free cell phones were 18 percent slower in braking and took 17 percent longer to regain the speedthey lost when they braked than drivers who weren't talking on the phone.

"As a society, we have agreed on not tolerating the risk associated with drunk driving," said researcher Frank Drews, an assistant professor of psychology at the University of Utah. "This study shows us that somebody who is conversing on a cell phone is exposing him or herself and others to a similar risk — cell phones actually are a higher risk," he said.

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Terrorism Risk Insurance Revision and Extension Act of 2007

As this issue went to press, Congress was considering the Terrorism Risk Insurance Revision and Extension Act of 2007, introduced by Rep. Michael Capuano (D-Mass.) and House Financial Services Committee Chairman Barney Frank (D-Mass.). The Act would extend the Terrorism Risk Insurance Extension Act, which expires at the end of this year.

A federal terrorism insurance backstop has been in place since 2002, when Congress created the Terrorism Risk Insurance Act (TRIA) in response to the terrorism events of 9/11. Before that date, most insurance policies did not exclude terrorism coverage, effectively providing "free" coverage for this exposure. After 9/11, many insurers deemed terrorism an uninsurable exposure and stopped writing coverage. However, because many mortgages require terrorism coverage, property owners were unable to obtain coverage. TRIA requires the federal government to provide assistance after participating insurers pay out a certain amount in terrorism-related claims on U.S. soil.

The Bush administration opposes the TRIREA, saying it doesn't meet its three criteria for a federal terrorism backstop: it must be temporary and short-term; private-sector retentions must be increased (in other words, private insurers must pay out more than the current limits of TRIA before the federal backstop kicks in); and the program should not be expanded.