



Corporate Exposure Understanding Your Policy, Part II

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Last month we discussed the importance of understanding the difference between deductible and self-insured retention options. This month we review the impact deductibles have on insurance premiums.

Premium versus Deductibles

Insurance companies view deductibles as a means of eliminating small, nuisance claims that can be expensive to handle. As a rule, insureds pay lower premiums for higher deductibles. But be careful: A \$1000 deductible may reduce the premium by 10 percent and a \$10,000 deductible may lower the premium by 12 percent. Be sure you are getting value for the higher deductibles. Have the carrier quote your program at different deductible levels to note your best choice. Further, do not assume that if you file a claim your premium will increase. Depending on your class of business and a number of other variables, you may be paying the same premium as a company with hundreds of claims. Though remaining loss-free will often entitle you to a premium discount, a high number of claims does not usually drive up premiums. Rather, if a carrier notes a high frequency of claims, it will typically accelerate its decision not to quote your policy in the future and to get off the account.

General Coverage

Clearly, coverage will vary with policies, but in general all policies cover three basic exposures.

Bodily injury losses are those sustained by an individual that result in an injury to a person's physical or emotional well-being.

Property damage losses include damages or losses to physical or tangible property.

Personal injury losses include loss-

es to an individual's or a business entity's reputation or rights.

Also usually covered in the policy are medical expenses for those persons injured as a result of your negligence.

Court Awarded Damages

Regrettably, more and more claims are resolved in the courtroom.

In the past, claimants and adjustors worked out arrangements, and few claims went to court for resolution. Once the claims go to court, one of three types of damage awards can be rendered.

Compensatory damages are awards for the actual losses sustained by the claimant, as well as any additional loss amounts that may be incurred in the future as a result of your action.

General damages awards are offered to an injured party for non-financial losses; "pain and suffering" is a fairly common example. Although it is difficult to quantify the dollar value of pain and suffering, a figure is nonetheless determined by the courts.

Punitive damages are the most difficult to quantify. These amounts are added to the settlement figures as a form of punishment for your actions or behavior. Legislators realize that since these awards are intended to punish or reprimand a party, allowing them to be covered under an insurance policy would lessen their impact. As a result, insurance companies are prohibited by law in several states from covering punitive damage amounts; the insured is responsible for their satisfaction.

Legal Costs/Policy Limits

Most policies obligate the insurance company to pay for legal costs when the claim is covered under the policy. Since this is not always the case, it is important to understand the provisions in your policy. Further, legal expenses may or may not be part of the policy limits. Policy limits indicate

the maximum amount the carrier will pay during the policy term. Policies usually include different "sub-limits" that limit the amount the carrier will pay under certain situations. For example, if your policy has a \$1 million "per occurrence" limit, and defense costs are part of that limit, that means the carrier will never pay more than \$1 million in settlement and defense costs for any single occurrence during the policy period. Thus, if there is a \$1 million award and associated legal expenses are \$200,000, if the legal expenses are part of the limit you would have to pay the \$200,000 since your policy is obligated never to pay more than \$1 million for a single occurrence. If legal expenses are *not* part of the limit, the insurance company pays both the \$1 million award and the \$200,000 in legal expenses.

As noted above, sub-limits are common in policies, and a "per-occurrence" sub-limit is quite common. If 100 people are injured as a result of a single accident, the most the carrier will pay is the sub-limit established, regardless of the policy limit. That means for a \$50 million policy with a \$1 million per-occurrence sub-limit, the most paid for any one occurrence will be \$1 million, not \$50 million. The \$50 million is the most the policy will pay during the term of the policy (usually one year). Be certain whether the legal defense costs are part of your limits, and examine what effects sub-limits have on your coverage, since these costs can be considerable.

We will continue policy review in next month's column.

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