

FranchiseCanada

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ASK AN INSURANCE EXPERT



As a new franchisee, who do I deal with for business insurance and how do I purchase it?

A: Congratulations, you are thinking of investing in a franchise system, and quite possibly, you already have invested in a franchise system! It is important for you to know that some franchisors have already investigated the types and limits of insurance that they require you to have, and already have an insurance program in place, which is optional, but often, comes at a group savings with designed cover unique to the needs of the franchise system. Some franchisors encourage their franchisees to seek out their own insurance brokers, but put provisions in on the types and limits of cover that they require and then ask for proof of that insurance. It is important for you to find this information, and often, your obligations for business insurance can be found within the franchise agreement.

Liability Insurance, A Brief Overview:

All franchisors will require you to carry some type of liability insurance, and again, will confirm usually in a franchise agreement. The liability types and wordings will vary, depending on the

franchise system you are looking at. For example, the liability requirements for a hospitality risk would be a Commercial General Liability policy including Premises Liability, Operations Liability, Products Liability and Completed Operations Liability. Carrying higher levels of Tenants Legal Liability if you are renting the space is recommended along with Non-Owned Automobile Liability. Of course, the higher the receipts for liquor sales versus food sales will affect the insurance premiums and with whom your insurance will be placed, as not all Carriers will entertain insuring restaurants with higher liquor receipts versus food receipts. This liability cover would differ if you were looking at a franchise whom cares for, or are in the presence of vulnerable persons including seniors, youth, and children. The franchisor may insist on liability insurance for Abuse and Molestation allegations as a form of risk management. Again, not all insurance companies are willing to insure these risks. A third example would be if you were thinking of investing in a franchise system where there is a professional/

errors & omissions liability exposure, such as home inspections. This form of liability insurance insures against financial losses of a third party due to your error & omission, and the policy would include your defence costs. All of these policies would be subject to various deductibles, and specific policy wordings.

Property Insurance, A Brief Overview:

No one property policy covers everything that goes wrong at a premises. There are two types of property policies, a Named Perils Policy and a Broad Form or All Risk Insurance policy, and Broad Form/All Risk is the better of the two. A Named Perils policy covers the Perils that are specifically named on a policy. A Broad Form policy, or All Risk policy's coverage are defined by its exclusions. In other words, if the damage is not excluded, it's covered. You may also need to review your lease agreement, as most often, insurance requirements will also be contained within this agreement. This agreement may also require you to obtain Comprehensive Boiler & Machinery cover, Sewer back up, a cover

we always recommend, and Flood and Earthquake cover. Your financier, often a bank, will also need proof of insurance, and require your insurance broker to prepare a binder of insurance prior to you taking on the space or obtain your financing.

Business Interruption, A Misunderstood Coverage:

Business Interruption coverage is designed to do for the business exactly what the business would have done had the loss not occurred. Business Interruption forms insure:

- the net profit that is lost because of a partial or total interruption to the business.
- the continuing expenses during the period of the interruption which is also referred to as standing charges.

There are Three Business Interruption Options:

- (i) *“Gross Earnings” Form:* In this approach, the Indemnity Period commences at the time of the loss and ceases immediately upon the reinstatement of the lost or damaged property or once the premises are fit for occupancy. Defined as including total net sales and other earnings derived from your operations less:
- Cost of Merchandise sold including packaging;
 - Cost of Materials directly in business;
 - Cost of Outside Services purchased not under contract.

This coverage is subject to the indemnity period, typically 12 months, but can be extended for an additional premium. Ordinary Payroll Expense may or may not be necessary. In the event of a claim, the insurer may not recognize the continuation of salaries of certain employees for the entire period of the interruption as necessary continuing expenses. The options available are to insure full ordinary payroll expense on a 90 or 180 day limited payroll, or not to insure full ordinary payroll expense. Select either 50% or 80% Co-Insurance

Options. The reasoning behind ordinary payroll coverage is for compliance with unions, employment contracts, and social responsibility.

Option:

- (ii) *“Profits” Form:* The indemnity period commences at the time of the loss and continues until income is restored to the level that would have resulted had the loss not occurred subject to a 12 month indemnity period. The indemnity period can be extended.

Defined as including:

- Net profit (net income); and
- Insured standing charges (selected by insured)

This coverage is subject to the indemnity period, sometimes 12 months, however, coverage is commonly sold for periods of 18-36 months for larger commercial operations. This coverage option has a By-Laws coverage provision, when a local building by-law results in an increase in the time required to complete the reinstatement of damaged property, coverage is provided for the additional loss of income sustained during this period. 100% Co-Insurance is applicable on the Profits Form, and therefore it’s intent is to insure 100% of the amount of coverage required. Profits form automatically insures all standing charges unless the insured directs that only certain expenses be insured. Typical salaries to be insured as standing charges are those of “permanent staff and wages to foremen and important employees whose services would not be dispensed with should the business be interfered with or interrupted.” Provision is made for the insuring of ordinary payroll.

- (iii) *“Actual Loss Sustained (ALS)”* In this approach, the amount of the payment to the insured is based on the actual loss sustained to the business during the period of the interruption. Entitlement is determined only to the amount the business would actually have earned had the loss not occurred.

Other Business Interruption coverage: *“Extra Expense” Form:* Provides protection against any expenses incurred to continue business operations at another location after an insured loss occurs which are above the normal operating expenses. This limit is pre-selected by the Insured, and is in addition to the other business interruption limits. This cover can be purchased alone or alongside another business interruption form. *“Off Premises Power”* – provides business interruption coverage in the event of a loss of power from an outside source with a usual time deductible of 24 hours. This includes electric, water, and telephone interruption, excluding overhead lines.

This is a quick synopsis of some basic commercial insurance coverage that franchisees should be aware of. Work together with your franchisor and insurance broker to fully understand coverage availability to choose the best coverage. 🌸



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