



INTERNATIONAL INSURANCE BROKERS

CORPORATE HEADQUARTERS • NEW YORK, NY • TEL 212 432 1234
EASTERN REGIONAL OFFICE • MELVILLE, NY • TEL 516 228 1234
PERSONAL LINES CENTER • VALHALLA, NY • TEL 914 773 4321

THE INSURANCE NEWSLETTER

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Named Insureds: Who is Covered?

Take a look at the main declarations page of any of your insurance policies. In most the first thing you'll see, at the top of the page, is the name of the insurance company; right after that is the named insured.

These are the single most important parts of the insurance contract, and remember, an insurance policy is a contract. Like any contract, the first thing always defined is who are the parties to the contract. If an individual or entity is not listed specifically in the insurance policy declarations, an endorsement, or within an omnibus clause, then it is not party to the insurance contract and has no coverage in the policy. For this reason it's critically important that all entities or individuals that are intended to be covered under the policy be named correctly.

To do that it's important to first understand the types of insureds in a policy. There are four basic types of "insured's" in most policies. The primary policyholder, named on the front page, is the "Named Insured", the primary party in the contract with the insurance company. The named insured (also called the "first named insured" and often referred to throughout the policy as "you" and "your") is the owner of the insurance policy and has all the rights and obligations that go with it. The first named insured receives the original policy, is responsible for paying premiums, can submit and be paid for claims, has the right to cancel the policy or alter or change it (with the insurance company's consent, of course) and receives any notices, including notice of cancellation or non-renewal.

In addition to the Named Insured most policies will also have a section called "who is insured" or something

similar. That section defines who would be considered an "automatic insured", or who, in addition to the first named insured, is automatically covered under the policy. Here are just some examples of who might be listed as an "automatic insured" on many policies:

- The spouse of an Individual Named Insured
- Partners and Joint Ventures in a Named Insured Partnership or Joint Venture.
- Members and managers of a Named Insured limited liability company.
- Officers, directors, and stockholders of a Named Insured corporation or other Named Insured organizations.
- Trustees of a Named Insured Trust

Beyond the named insured and automatic insureds as defined in each policy there are often other persons, entities and organizations that you'll want to be sure are covered by the policy. These usually include entities and operations closely related to the first named insured such as subsidiary corporations, real estate holding companies, partnerships, trusts and retirement plans among others. To cover these properly the first named insured will want to add them to the policy as "additional named insureds". When they are added to the policy this way the first named insured is extending all the coverage and limits in the policy to such additional named insureds. Additional named insureds have an ownership interest in the policy and have many, but not all, of the rights and responsibilities of the first named insured. By way of example, they are typically not responsible for paying premiums; they can't change or alter the policy (only the first named insured can do that); and they probably won't receive any notices of policy changes or non-renewal. All of these are reserved for the named insured only.

Besides additional named insureds there is also a fourth type of insured party, the “additional insured”. Additional insureds are typically outside, unrelated entities or persons with business dealings with the named insured, and for whom the named insured elects (or is required) to extend some of the protection in the policy. Examples might include the volunteers for a social service organization, for whom the organization might want to extend the protection of their policy (if not already covered as automatic insureds as they might be in some policies), landlords, or contractors with business relationships or doing work for the insured. Additional insureds have no ownership interest in the policy and even fewer rights than additional named insureds. Most particularly, under most endorsements that add additional insureds to policies the additional insured specifically does not have any right to receive notice of cancellation, non-renewal or material change in the policy. This last can be a vexing problem because many attorneys and others who draft contracts or agreements still commonly insert language requiring that the additional insured be notified of policy changes. With most current standard and even non-standard policy forms, this will not happen.

First named insured, automatic insured, additional named insured, additional insured...understanding the different types of insureds on a policy is the first step; figuring out the different ways to add others to your policy is the next. Automatic insureds are, by definition, automatically included. Additional named insureds must normally be specifically named and listed on the policy with their correct legal name. The endorsement that does this will usually be one of the first ones found after the policy declarations, and will be called the schedule of additional named insureds, or something similar. If you have subsidiaries or related entities you want to have covered by your policy, it's important to be sure they are specifically, and correctly, listed here.

Additional insureds can also be specifically scheduled as well, with any one of many different endorsements because of their different status. They (or some) might also each be specifically added with an endorsement specific to them.

Beyond that, other choices exist. Sometimes its worth using an omnibus clause or endorsement to cover other entities. An omnibus clause is a provision in policies that embraces within the definition of “insured” certain

persons or entities without the necessity of naming them or designating them specifically. These clauses can take different forms. The social services organization mentioned earlier might extend coverage to volunteers by amending the definition of who is an automatic insured to cover volunteers. Other additional insureds might be covered under a blanket additional insured endorsement, which might describe the types of entities or relationships that would qualify for automatic additional insured status, and under what conditions.

Omnibus clauses can be standard or non standard forms, so they all need to be scrutinized, but either way they are not a cure-all. For example, many standard automatic or blanket additional insured endorsements will automatically add an entity to your policy as an additional insured if you are party to an agreement that requires that, but they commonly specify that there must be a written agreement with such a requirement for the endorsement (and coverage) to attach. Suppose there is no written agreement, or imagine the other party is a subcontractor, with an agreement with the contractor but not with you? In that case, there is no automatic coverage.

Keep in mind that, except for the first named insured, provisions dealing with who else might be covered on your policy can and do differ from policy to policy and insurance company to insurance company. There is typically little or no cost for these types of endorsements, and they do have value, but you need to understand their limitations. This is a part of your policy that should always be examined and customized to be sure coverage properly attaches for those you want (or need to have) covered. As with many things having to do with insurance contracts, the devil is in the details.

The bottom line is nothing will result in a quicker denial of coverage by an insurance company than when an entity submitting a claim or seeking coverage is not properly listed as a insured by some means or another on a policy. Such situations are entirely avoidable and rarely add any cost to your premiums to fix. If you have not looked at this recently give us a call so we can review this with you and make sure you are properly protected.

Computer Crime & Fraudulent Funds Transfer

Nearly every organization today relies on some form of electronic tool in its banking and financing activities, including cash management as well as for core internal processes such as order entry, billing, inventory controls, and accounts payable. The main tool used is the organization's computer system, which may be linked to other systems, including one or more outside banking or financial institutions.

The internet is a great conduit for an organization to gain access to and manage critical financial and other services, but it is also a means for thieves to gain unauthorized access to an organization's computer systems. Your first line of defense always has to be your own internal and external controls, but since the possibility of a breach always exists it's worth considering a couple of small enhancements to your crime policy.

Computer Fraud coverage is a standard coverage provided in Insuring Agreement 6 in the standard Insurance Services Office (ISO) form, and almost all insurance companies writing these policies offer it, or an equivalent. Coverage is provided for loss or damage to money, securities, and other property which results directly from use of any computer to fraudulently cause a transfer of insured property from inside the insured's premises or a bank's premises to a person or place outside of the insured's premises or a bank's premises. This is something of a duplication in coverage, since if such a loss was proven to have occurred due to employee dishonesty that coverage section would apply, but this section is broader because 1) you don't have the burden of proving it was an employee that caused the loss and 2) loss caused by non-employees is covered (the cleaning lady's teenage hacker son comes with her one night, sits at your terminal and cleans out your bank account).

Another general weakness found in many crime insurance policies is lack of coverage for fraudulent funds transfer, which is ISO Insuring Agreement 7. Coverage is provided for loss of funds resulting directly from a fraudulent instruction (from any source) that directs a financial institution to transfer, pay, or deliver funds from the insured's transfer account. A common exposure for many organizations is a transfer of funds by electronic instruction (wire, telefacsimile) or voice

initiated transfer (telephone). The term "Fraudulent Instruction" in ISO forms means:

1. An electronic, telegraphic, cable, teletype, telefacsimile or telephone instruction which purports to have been transmitted by you (the Insured), but which was in fact fraudulently transmitted by someone else without your knowledge or consent;
2. A written instruction issued by you, which was forged or altered by someone other than you without your knowledge or consent, or which purports to have been issued by you, but was in fact fraudulently issued without your knowledge or consent;
3. An electronic, telegraphic, cable, teletype, telefacsimile, telephone or written instruction initially received by you which purports to have been transmitted by an "employee" but which was in fact fraudulently transmitted by someone else without your or the employee's knowledge or consent.

Note that this coverage does not rely on a computer, thus this coverage supplements that provided to the insured organization by the Computer Crime insuring agreement. As with computer crime, there is some overlap with other sections of the policy, but there is important new coverage in this section which would make it the preferred section under which to file a claim if the need arose.

The premium charge to add computer crime and fraudulent funds transfer to the crime policy is in almost all cases quite reasonable, usually a small percentage of that charged for the employee theft coverage, which is usually not an expensive coverage to begin with. These two coverages are a must for all organizations today.

Insurance Values for Diamond, Gold and Silver Jewelry

Here's a tip that might be of value for many of our readers. Many of you own some amount of jewelry, even if only an engagement ring or some cherished family heirloom. Your personal homeowners policy normally has very limited coverage for jewelry, with typical limits for unscheduled jewelry items ranging from perhaps \$500 to no more than \$1,000 on most policies. If you or your spouse own any such items with significant value you're probably already buying a separate jewelry floater which will provide a specific limit of insurance

for each scheduled item. Question: when is the last time you reviewed that schedule and updated limits per item to reflect current values?

Take a look at these recent historical prices:

Year	Diamonds (1 carat)	Gold (per oz.)	Silver (per oz.)
2000	\$15,100	\$ 279	\$ 6
2005	\$18,000	\$445	\$10
2010	\$25,000	\$1,224	\$24
2012	\$29,000	\$1,589	\$29

If it's been a few years since you reviewed the amounts of insurance you carry on scheduled jewelry items you

could be in for a nasty surprise if you ever have reason to file a claim; these items are worth quite a bit more now than they were few years ago.

Consider reviewing and revising scheduled jewelry values if you have not done so recently. This will require up to date appraisals. Getting them will involve some cost; one local jeweler recently quoted prices of \$95 for the first item and \$60 for each additional item, but prices will vary so it pays to shop around. Just be sure to deal only with jewelry appraisers who are a Certified Gemologist Appraiser (CGA). You can locate one at <http://www.americangemsociety.org/>. Click on the Find a Certified Appraiser section.

And if you don't have any such coverage on your personal jewelry items, you might want to rethink the idea of going uninsured.

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INTERNATIONAL INSURANCE BROKERS
68 South Service Road
Melville, NY 11747-2357



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