



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

Summer 2013

Trade Credit Insurance

Businesses are comfortable with the idea of purchasing insurance to provide financial relief in the event their insured assets are lost, stolen, damaged or destroyed. Insurance on real and business property, cash and financial assets, vehicles, equipment, supplies and inventory is all common and routine.

Here's something else to think about, though. For most businesses accounts receivable are one of their largest assets, and one of the most vulnerable to unexpected loss. Yet while businesses have long understood the need to insure against unexpected loss to other types of assets, few think to insure accounts receivable. It's worth taking another look at this; accounts receivable insurance, more accurately known as trade credit insurance, is an often overlooked type of insurance designed to protect these assets.

Think of all the many reasons why your customers might not pay what they owe you: corporate insolvencies, financial institution changes, shrinking margins, industry consolidation, unexpected economic developments, product liability, cash flow issues, government regulations, natural disasters, fraud...the list is almost endless; there are many reasons for non payment.

Credit insurance pays when your customer cannot, or will not. Properly used it can be an important risk avoidance and risk mitigation tool. There are a number of different types of products in the credit insurance arena that can be customized and structured in such a way as to provide meaningful protection for almost any need. Some examples: you can choose to cover all your customers or just a select few; single accounts, just key accounts

or almost any combination. Credit insurance can also be written for domestic or international receivables, or both, and it has particular value for international trade exposures.

What can credit insurance do for you? Some of the benefits of a thoughtfully designed program of credit insurance would include:

- Catastrophic loss protection
- Safely increasing sales without increasing credit risk
- Penetrating new and unfamiliar markets, territories and/or industries
- Increasing borrowing rates
- Protecting overseas loans and investments
- Insuring export sales
- Replacing letters of credit
- Insuring against political events
- Gaining access to experts in specific industries and countries

While credit insurance certainly has value in a domestic sales setting, it can also be particularly valuable in international transactions. The world economy has become increasingly internationalized, and many worthwhile business opportunities lie outside U.S. borders; many of these opportunities may be available in some of the more volatile parts of the world. Wherever they are, once you are outside U.S. borders you must deal with laws, customs and business practices you are not familiar with. Political risk can also be a concern. Factors such as war or political violence, social or economic instability, license cancellations, confiscation, expropriation or nationalization, currency fluctuation or contract frustration are among the many risks that might

be issues; these are mostly all out of your control, but represent real risks in export sales.

Credit insurance can assist with many of the risks associated with export sales. Export credit insurance is one of the most valuable tools you can consider for protecting and growing international sales; it's designed to help you serve international markets and customers without undue fear of non-payment. Building political risk cover into a well thought out program of export credit insurance may also allow you to gain business and sell into markets you might otherwise avoid. The coverage is very comprehensive and can be customized to meet your specific financial needs, level of export credit expertise, and geographic market concentrations.

Credit insurance is a highly specialized product, typically offered by providers who specialize only in that. Brokers are as interested as you in avoiding problems, and underwriters, like any insurance company, don't like to pay claims, so along with the ability to design a highly customized insurance program that fits your specific needs they also will typically offer valuable additional support services and resources and will work with you to avoid pitfalls; this is just another value to this type of insurance. Understanding the creditworthiness of prospective international customers is important, so access to international credit reports offered by credit insurance markets can be valuable. In addition to foreign credit reports, receivables management services, political risk guidance and advice on laws in foreign jurisdictions you may be thinking of entering are just some of the additional support available. And when problems do occur, having expertise available to handle collections outside the U.S. where laws may vary widely is a valuable resource.

If this sounds like something you would like to explore further, give us a call, we'll be happy to take you to the next step.

2013 Business Auto Policy Revisions

We wrote in the last issue about revisions to standard insurance policy forms being rolled out this year, and specifically about changes to general liability forms that would likely to affect most readers.

There are some major changes to standard business

auto forms and endorsements, too. As part of this 2013 business auto form revision, ISO introduced 32 new forms and endorsements; revised 97; and withdrew 10 forms and endorsements from use.

The major changes center around introduction of the Auto Dealers Coverage Form as the replacement for the Garage Coverage Form. As part of this change the Garage Coverage Form is withdrawn and all endorsements related to it are either revised, withdrawn completely, or editorially altered to remove every reference to Garage Coverage. Thirty-one of the 32 newly introduced forms and endorsements relate to or specifically arise from this transition to the Auto Dealers Coverage Form. These changes will affect only those businesses involved in the auto industry; if that's you, give us a call and we'll be happy to review them with you. For other readers, these will have no impact.

There are two revisions that could affect most readers, though, and they are worth a few words of explanation. One is a revision to the "Employee Hired Autos" endorsement, which many of you have on your commercial auto policies. This endorsement extends liability protection to short term vehicles rented by your employees while conducting your business. The classic example of this is the executive or salesman who travels to visit a client or vendor and rents a car during the trip. The impact of the revision is to clarify and slightly broaden coverage, so it's a net plus for policyholders.

The other revision is to the "Hired Autos Specified as Covered Autos You Own" endorsement. This applies when you have long term leased or rented vehicles, and, as with the Employee Hired Autos endorsement, it clarifies and broadens coverage.

Finally, some readers may have a business where they occasionally hook their tractors up to non owned trailers. The "Trailer Interchange Coverage" endorsement is also changed. The important change made to this endorsement is an additional definition added to reinforces that the term "trailer" includes a semitrailer or a dolly used to convert a semitrailer into a trailer. In regards to Trailer Interchange Coverage only, a "trailer" also includes a container (such as an intermodal container).

Bottom line, some widely used endorsements that affect most of our readers are changed in ways that generally

are beneficial to you. If you are in the auto business, changes are more significant; we'll review those with you individually.

Optimize Your Experience Modifier

We wrote last Summer about changes that would be coming to the workers compensation experience modification formula starting this year. You'll remember that experience modifications are calculated based on reported losses valued six months after normal workers compensation policy expirations. For policyholders with December 2013 policy anniversaries, your claims will be valued as of June; you'll be the last to feel the impact of these changes, but feel them you will.

It's a good time to talk a bit about some things you can do to try to affect your experience modification in a positive way. Understanding the timing described above is the first step. Experience modification factors are developed from your actual claim information reported by your insurance company to the National Council on Compensation Insurance (NCCI) or other governing rating bureau. That reported claim information is just a snapshot of your claims experience, valued and reported at a specific point in time.

Claims reported on that valuation date include both actual dollars paid for your workers compensation claims, and your insurance company's estimates of future payments, the claim reserves. Those estimated reserves have a direct impact on your workers compensation costs on only one day each year, the day they are reported to the rating bureau. Since claim reserves, as of the valuation date, are included as losses in the report submitted to the rating bureau, it only makes sense to examine those reserves to make sure they are properly set. It is critical that you examine those reserves to be sure that your open claims are not over-reserved as of the valuation date, and that claims that should be closed are in fact closed prior to the valuation date, since closed claims will have no reserves.

Remember, claim experience for three years goes into determining your experience modification, so be sure to minimize any over-reserving on claims occurring in all three policy years that will be used to calculate your experience modification factor.

Of course it's not a bad idea to pay attention to what's happening to your claims throughout the year. And as a practical matter there is one other time that claims values can affect your insurance cost, although less directly. That's about three months after the experience modification valuation; that's when underwriters will be looking at your claims history as they price your renewal. Getting an earlier jump on correcting any problems with your claims will pay dividends here, too.

WC Exclusions in Health Insurance

Speaking of workers compensation, many states allow owners and officers to exempt themselves from coverage in the company workers compensation policy. As a cost saving measure many individuals do this, thinking that the medical costs for any injuries they might suffer would be covered by their health insurance plan. There is a risk to this strategy, however, that should be considered.

Individual and group health insurance policies commonly contain exclusions for claims arising out of work related injuries. Here's an example of one typical exclusion:

“Unless exceptions to the following exclusions are specifically made elsewhere in this Agreement, no benefits are provided for Services: Incident to any injury or disease arising out of, or in the course of, any employment for salary, wage or profit if such injury or disease is covered by any workers' compensation law, occupational disease law or similar legislation.”

Note the exclusion is for injury or disease covered by a workers compensation law; the exclusion would apply to a work related injury that would fall under the law, whether there is a policy to cover it or not. An owner or officer who chose to decline coverage under the company workers compensation policy could easily find themselves uninsured for a work related injury under the workers compensation policy, and with no coverage in the health insurance due to an exclusion like this one.

There is a lot to be said for having the coverage for full medical costs, rehabilitation expenses and lost wages that a workers compensation policy provides. It rarely makes sense for an otherwise eligible individual to opt out of this coverage.

Travel Medical Insurance is not a Luxury

Summertime is vacation time for many of us, so here's a personal risk management tip you might want to keep in mind as you make your travel plans.

Take a look at the details of your current health insurance coverage, and you might be shocked to find out that traditional American medical insurance policies provide little or coverage outside the U.S. The HMO or PPO plan you have may give you sufficient coverage while

you are close to home or here elsewhere in the U.S., but if you travel outside U.S. borders you leave most of that coverage behind. Extra-territorial benefits, when found, are commonly limited to emergency coverage only, and plans may limit those benefits to only \$50,000 or some other relatively modest amount. And if you are covered by Medicare the purchase of an additional Medicare supplement is required to provide even limited benefit medical insurance outside the U.S.

Unexpected accidents or an illness striking suddenly while out of the country can quite conceivably result



INTERNATIONAL INSURANCE BROKERS

68 South Service Road
Melville, NY 11747-2357

PRESORTED STANDARD
US POSTAGE
PAID
PERMIT NO 231
WINSTON SALEM, NC

in large uninsured medical bills, but there are other potential costs that should also be considered. Most folks who become injured or ill overseas will seek immediate treatment wherever they are, but quite naturally will want to get back home as quickly as possible for any indicated surgery or follow up treatment. Seriously ill or bedridden patients can't just drive to the airport, roll through security and walk onto a plane; special medical transport flights are required. These are available, but can be very expensive, and depending on the location you are coming from and the degree of medical attention you need en route can add up to a huge cost all by themselves. Similarly, if an illness or injury is such that you can't be moved and requires a lengthy treatment and convalescence overseas, the patient

will likely want to have a spouse or family member close by. Again, these costs can add up quickly.

Travel medical insurance is the common sense solution for any excursions by U.S. residents outside the United States. These products are typically guaranteed issue for anyone under the age of 85 and can provide a range of generous benefits including non-emergency and emergency medical expenses, prescription medications, medical evacuation services and other travel insurance benefits.

Give some thought to this coverage if you are planning a trip outside the country. It's usually quite reasonably priced and can provide real value should the need arise.

The information, suggestions and techniques contained in this newsletter are believed to be accurate but are offered as information only. This firm makes no warranty of any kind, whether expressed or implied, as to the accuracy of the information or its fitness for a particular purpose.