

# furniture WORLD

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# RISKY BUSINESS

## Part 3: Insuring your store and stock.

by Stephen J. Wisocky

To most furniture dealers, buying insurance is a necessary evil and expense, something that may never be needed or used. It ranks up there with paying taxes. The process of finding the best value by soliciting quotes from the insurance world is an arduous task with agents telling you what you should carry and why their policy is better than the competition. As it is most important to keep your sanity, a basic understanding of insurance terms and definitions that relate to essential property and casualty coverage for your business is helpful.

This installment will look at insuring your real property and follow up in coming issues with information on how to cover your liability exposures including trucks and employees, plus Workers' Compensation.

Protecting your assets, including your store, showroom, warehouse and the stock/inventory contents contained therein via property insurance, better known as fire insurance is prudent and necessary. When you purchase such an insurance policy, the following abridged but key definitions are important to understand:

**Building** refers to the building or struc-

ture named in the policy, including completed additions, and permanently installed machinery and equipment.

**Business Personal Property or Contents** that's located in or on the building named in the policy or in the open (or in a vehicle) within 100 feet of the described premises, consists of the following items:

- *Furniture and fixtures.*
- *Machinery and equipment.*
- *Stock.*
- *All other personal property owned by you and used in your business.*
- *Labor, materials or services furnished or arranged by you on personal property of others.*
- *Your use interest as tenant in improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions: (a) Made a part of the building or structure you occupy but do not own; and (b) You acquired or made at your expense but cannot legally remove.*

**Property Not Covered:** Accounts, bills currency, food stamps, money, lottery tickets held for sale; Animals; automo-

biles; bridges, roadways, walks, patios; The cost of excavations, grading, backfilling or filling; foundations of buildings; land; personal property while airborne or waterborne; bulkheads, pilings, piers, wharves or docks; underground pipes, flues or drains; electronic data; vehicles or self-propelled machines

**Cause of Loss:** What losses are covered with regard to your building and/or its contents? Most property insurance policies are written on a Special Form perils coverage, meaning the insurance carrier will pay for direct physical loss or damage to the property caused by any peril except

*"Ask your agent to provide you a no-cost Building Insurance Valuation done by the insurance industry experts Marshall-Swift-Boeckh."*

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the following:

- Ordinance or law.
- Earthquake which includes landslides and mine subsidence (caving in or sinking).
- Government actions.
- Nuclear hazards.
- Utility services.
- War.
- Water (flood, surface water, mudslide or sewer drain backup).
- Fungus, wet rot, dry rot and bacteria including mold.
- Wear and tear, gradual deterioration.
- Inherent vice.
- Inventory shortage.
- Dishonest acts.

**Deductible** is the amount of your money that will be subtracted from the

claim payment.

Property Valuation options are as follows:

**Replacement Cost** is the amount of money needed to replace a building or its contents with like kind and quality in today's dollars. It is intended to put you back exactly in the same position prior to the insurable loss.

**Actual Cash Value** is simply Replacement Cost minus/less applicable depreciation.

**Functional Replacement Cost** is used when actual replacement is not feasible or not desired. This amount of insurance is based on the amount needed to buy or rebuild property that will serve the same purpose as the original property but will not have like kind and quality.

**Selling Price** is for stock that has been sold but not yet delivered. This clause provides stock valuation at your retail price.

**Coinsurance** is the insurance-to-value requirement found in Fire Insurance policies. In return for a reduced premium rate from the carrier, you agree to insure your property, either Building or Contents, to a specified percentage (80, 90, or 100 chosen by you) of the Replacement Cost or Actual Cash Value of the property. If you comply by insuring properly, all is well. However if you underinsure the property you will suffer a penalty at the time of insurable loss. The following are examples using the same formula that carriers use to determine if a Coinsurance penalty would apply:

Your building is 20,000 Square Feet, using \$100 per foot to replace, the Replacement Cost is \$2,000,000

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# "If you are a tenant, be sure to include with the value of your Stock the value of Improvements & Betterments you made to the space in determining the insurable contents limit."

and you have chosen 80% Coinsurance. So the amount of insurance you should carry is a minimum limit of \$1,600,000. If you carry \$1,700,000 coverage, no penalty applies and you would be paid 100% of your claim. However, if you carry \$1,200,000 you would be paid only 75% of your claim ( $1,200,000 \div 1,600,000 = 75\%$ ), thus suffering a 25% penalty.

## HELPFUL HINTS

1. Insurance is NOT a maintenance contract.
2. Buildings are permanent and immovable, whereas Contents is anything that isn't nailed down, dug into or built onto the land.
3. When determining the limit of insurance to buy on your

Building, do not get hung up on Real Estate value vs. Insurance value as insurance does not include Land value. Also, ask your agent to provide you with a no-cost Building Insurance Valuation done by the insurance industry experts at Marshall-Swift-Boeckh.

4. If you are a tenant, be sure to include with the value of your Stock and the value of any Improvements & Betterments (track lighting, paint, wallpaper, carpet etc.) you made to the space in determining the total insurable contents limit you should carry.

5. Replacement Cost is the most commonly used Valuation clause.

6. Functional Replacement Cost addresses the obsolescence

problem of old out-of-date Buildings.

7. In choosing a Coinsurance percentage to use, the 80% gives some negotiating wiggle room at the time of loss.

8. The higher the Deductible, the greater the premium savings. A \$1,000 deductible seems to be the best buy.

*DISCLAIMER: The information contained in this article is for general informational purposes only as you should always refer to your insurance policy for specific language relative to coverage, limits, conditions etc.*

**About Stephen J. Wisocky:** Stephen J. Wisocky, Home Furnishings Insurance Group President, has over 30 years of experience as a property and casualty insurance broker. He began with the home furnishings industry in 1986.

In January 2004 Stephen created HFIG whose mission is exceptional service to the home furnishings industry with the most competitive and comprehensive insurance products.

For many years Stephen has been the trusted insurance advisor for the International Home Furnishings Representatives Association (IHFRA), Interior Design Society (IDS) and Tri-State Home Furnishings Association (TSHFA). In 2011 he was named a Dean of IHFRA, and earlier received from TSHFA their President's Award. Both honors were given in recognition of his accomplishments and dedication to the home furnishings industry.

Questions about this article or any insurance related topic or issue can be directed to Steve at 610-366-0105 or email [swisocky@hfig.net](mailto:swisocky@hfig.net).

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