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GRAHAM ADVISOR

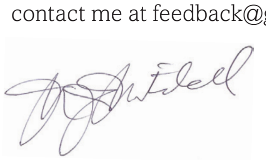
NOTES FROM THE PLAYBOOK

In the Winter Issue this year, Bill Graham discussed our focus on The Graham Company's perpetuation plan that is rooted in the firm remaining independently owned and operated. Cultivating the next generation of employees that are committed to our client's well-being is central to this plan.

Over the last year, we've welcomed 24 new employees and project we'll hire eight more employees over the next year – above the industry average for a brokerage our size. Of the new employees that have joined the firm so far this year, more than 70% are Millennials. In May, The Center for Generational Kinetics named us one of the 75 best places to work for Millennials in the United States. It was an honor to receive this recognition and a testament to the success of our perpetuation strategy.

In this newsletter, you'll read about the latest intelligent, hard-working problem-solvers who have joined our firm. We're committed to training, empowering and retaining these professionals because we realize having the best team in place is essential to delivering on our promise to protect your business, keep your employees safe and reduce your long-term cost of risk.

I encourage you to contact the authors in this issue if you want to learn more, or contact me at feedback@grahamco.com.



MICHAEL J. MITCHELL
CPA, CPCU
Vice Chairman

Lender Requirements:
Adequate Protection for Your Real Estate Investment?

When purchasing or refinancing commercial or multifamily real estate property, buyers are required by lenders to secure insurance coverage that meets minimum standards. Although lenders set these requirements, oftentimes the minimum requirements are just that – the minimum coverage you should seek to protect your property or new acquisition. There are many confusing provisions built into these lender requirements. The goal of this article is to break down the provisions and guide you on what you need to consider as part of your overall comprehensive risk management and insurance program for your real estate property.

THE BASICS

In almost every case, lenders require the following basic standards be met for an insurance program:

- That insurance companies must be in good financial standing. Often lenders require an A.M. Best rating of at least an A with a financial size of $50 million-$100 million in policyholder surplus.
- Proof of insurance, either in the form of a certificate of insurance or copy of the policy.
- Notice of cancellation within 30-60 days if the policy is canceled.

PROPERTY COVERAGE PROVISIONS

Consideration: Individual vs. Master Policy Approach

The main coverage lenders are going to focus on is Property Insurance since it secures the loan. Owners of commercial and multifamily properties can take an individual or master policy approach for property insurance. A master property insurance program, typically for portfolios with over $50 million in insured values, provides coverage across your portfolio rather than a policy for an individual location. This approach takes advantage of greater purchasing power and geographic spread of risk, often with broader coverage.

Under a master policy, lenders will require you to provide evidence of sufficient limits covering your entire portfolio inclusive of the property they have an interest in. This means you may need to provide them with a schedule of insurance that shows the specific allocation of limits to their property. If there are no lender requirements regarding whether an individual or master policy is acceptable, it would be wise to confirm with them, in particular for acquisitions prior to closing, what they would accept and the means to satisfy their requirements.

Consideration: Adding Specific Provisions

Lenders also will look for specific provisions within the property coverage, such as replacement cost coverage; loss of rent coverage; coinsurance percentages; terrorism coverage; equipment breakdown; ordinance or law coverage; and deductibles. Evacuation and relocation expenses are usually not required by lenders, but can provide needed additional funds after a loss.

CONTINUED ON INSIDE

ASK THE EXPERT

Lisa Talley on mitigating the risk of slip-and-fall situations.

Q: What can businesses do to help mitigate the risk in slip-and-fall situations?

A: Document, document, document! Properly documenting the results of an incident will help businesses better position themselves in the event of a claim down the road. All too often, organizations are forced to pay for frivolous and/or exaggerated slip-and-fall claims due to lack of internal investigation and related documentation. For example, if liability against the organization is clear, the claims team (consisting of a risk manager and/or management personnel, a claims consultant and defense counsel) may likely decide to pursue a settlement; whereas, if liability is questionable, they may be more likely to defend the matter; however, without any information, the claims team cannot make such decisions, placing the organization at an instant disadvantage.

Q: How can businesses ensure a situation is investigated and documented properly?

A: Implementing company-wide accident protocols can help you take control of sometimes unavoidable situations by giving your employees and/or other designated persons the proper tools to successfully respond to, investigate and document slip-and-fall matters. Accident protocols should be customized to your organization's operations and should include items such as step-by-step instructions on how to respond to an incident, whom to notify in the wake of an incident, what to document and how to document an incident (i.e., incident report) and when to conduct an investigation. As mentioned earlier, these documents are essential for helping organizations recall the situation and defend themselves for incidences that occurred as many as two to three years ago.

Q: Is there anything else businesses can do to reduce exposure to claims?

A: You may also reduce your organization's exposure to slip-and-fall claims by transferring the risk by way of a contract. For example, you may transfer the risk of wet floors to a cleaning service or the risk of icy walkways to a snow removal company, so that in the event of a loss, those companies will be financially responsible for such slip-and-fall claims.

If you would like advice on developing accident response protocols or effective contractual risk transfer, please contact Lisa Talley, ARM, Senior Claims Consultant at The Graham Company, at ltalley@grahamco.com or 215.701.5417.

GRAHAM SIGHTINGS

Experts in the News

Kevin Smith on lender requirements
Journal of Property Management, September 2015 Issue

Jim Marquet and Mark Troxell on OCIPs
Construction Executive, August 2015 Issue

Nick Cushmore on data security
Executive Insight, July 2015

Shane Riccio and Bette McNee on rigorous pre-employment screening
Behavioral Healthcare, TBD

Awards & Recognitions

Included in the *Philadelphia Business Journal's* 2015 list of Healthiest Employers

Named one of the best places to work for Millennial employees in America by The Center for Generational Kinetics

Join the Conversation

Follow us on Twitter @TheGrahamCo, and we'll deliver daily insight to keep your employees safe and your business thriving.

For all the details on the latest insurance trends and how your business can benefit, follow our "Risk Matters" Blog at grahamco.com/KnowledgeCenter/Blog.

SAFETY ZONE

Below are four factors that increase your property's risk for water damage and ways to mitigate these risks.

Water Damage Risk Factors:

1. **Geography** – Different locations of the country present different risks. If your building is in an area prone to tropical storms and hurricanes, you need to prepare accordingly.

2. **Property Age** – If a building is more than 25 years old, exterior systems like roofs, gutters and windows will be reaching the end of their useful life and in need of maintenance. The same goes for internal mechanical systems that use water.

3. **Building Use** – Residential properties often have more plumbing systems, smaller mechanical systems, smaller units and more people using those systems than in a commercial setting. This increases the opportunity for misuse and breakdown.

4. **Height** – The taller the building, the greater the chance for water damage because gravity pulls water down from higher floors, damaging everything along the way.

Prevention Methods:

- **Inspect Your Property** – Inspect the interior and exterior of your properties one to three times a year, depending on the risk factors noted above. Check the condition of exterior systems including the roof, gutters, and windows, as well as the interior drains, plumbing and any mechanical systems and appliances with water hookups. Your insurance broker should provide you with a Safety Consultant to design and implement an inspection regimen.

- **Have a Water Damage Protocol** – It should be written and on-site at the property so employees can find it in an emergency. Include detailed instructions for shutting off the water in the building, the contractors and vendors to call in the event of a leak, conditions that can lead to mold and the necessary steps to take to treat a leak

The Graham Company can help your business implement a Water Damage Risk Mitigation System; contact Micah Knapp, Producer, at mknapp@grahamco.com or 215.701.5317.

Lenders may require other policies, such as workers' compensation, automobile or pollution coverages to protect the property, but understanding your risk is equally important to make sure that you have a comprehensive risk management program in place, regardless of their requirements.

Lenders differ on some coverages and limits required, but all are important components of a property policy that should be specifically addressed according to your exposure and appetite for risk. For instance, whether or not the lender requires it, it is advisable to provide coverage for situations where an ordinance or law requires you to rebuild the location under increased building codes or, worse yet, to demolish a location if a significant enough portion of the building is damaged and deemed uninhabitable. Limits for this coverage should be contemplated based on the age of the building, the applicable jurisdiction and the availability of coverage in the insurance market.

Consideration: Deductible Levels

Deciding the most economical deductible for your portfolio is another area where you may be at odds with the lender requirements. Lenders will typically require a $10,000 or $25,000 deductible. Depending on your appetite for risk, you may be able to take on additional risk within your program and, in doing so, exceptions will need to be sought from the lender. A common solution is to have a larger deductible on the policy and negotiate an indemnification provision whereby the insurance will allow you to evidence a lower deductible to satisfy lender requirements.

For example, if you take a $500,000 deductible on your master property policy in order to comply with a $10,000 deductible requirement, the insurance company can endorse the policy to agree that the $10,000 deductible will apply for that property. A separate indemnification agreement can be entered into between you and the insurance company to satisfy the difference as a result of the lower deductible. Entering into this type of arrangement requires deep analysis of your loss experience, but if losses are low, there is the opportunity for lower ultimate costs.

Consideration: Catastrophic Perils

Lastly, there may be very specific requirements for catastrophic perils, such as earthquakes, floods and windstorms if the property is in an area prone to these natural disasters. Specifically, flood coverage is required if the building is in a flood zone deemed a special flood hazard area. Availability of coverage for these locations is often through a combination of coverage with the National Flood Insurance Program (NFIP) and Excess coverage on your Property Policy.

Once again, this is an area where your risk management objectives for your portfolio may differ in terms of deductible levels and limits carried, which both have an impact on the cost and availability of coverage in the insurance market. Similarly, earthquake coverage and capacity are limited, so understanding the amount of coverage required and the acceptable deductible levels is very important for a property in an earthquake zone. Regardless of the lender requirements, your properties in these areas should be modeled to determine the probable maximum loss you are exposed to from any single catastrophic loss, and the coverage should be structured accordingly.

Liability Coverage Provisions

Consideration: Enhanced Liability Coverage

Lenders will require that policies include them as an additional insured under your Policy to cover them from lawsuits resulting from property damage or bodily injury to others. They also will require specific Excess limits depending on the size and use of the building, which oftentimes will require an Umbrella or Excess Policy. Basic liability coverage typically will satisfy lender requirements. However, there are many areas where enhanced coverage can be put in place to provide additional protection. Some examples include separate limits per location, hired or non-owned automobile liability coverage and broadened contractual liability. In addition, many insurance companies that write coverage for commercial and multifamily real estate are specifically looking only to cover the lessors' risk for that location. In the event you perform any construction activities at the location, coverage should be contemplated under your polices, as well.

Final Thoughts

Lenders may require other policies, such as workers' compensation or automobile or pollution coverages, but understanding your risk is important to make sure you have a comprehensive risk management program in place, regardless of their requirements. By ensuring your properties are well maintained and mitigating loss wherever possible, you will improve the risk profile of your locations, thus reducing the long-term cost of insurance. Some additional considerations worth contemplating include periodic loss control inspections, proper maintenance of equipment and mechanical systems, and programs focused on mitigating hazards, such as slip-and-fall situations, as discussed in the Ask the Expert column on page 2 of this issue.

To learn more, please contact Kevin Smith, CPCU, ARM, Vice President – Real Estate Division at The Graham Company at KSmith@grahamco.com or 215.701.5323.

EXECUTIVE ANNOUNCEMENTS

The Graham Company Announces Eight New Hires

To help support the firm's growing client portfolios, The Graham Company hired five new Producers. The Health and Human Services Division welcomed Michael J. Smith. Brad Watts joined the Professional and Financial Services Division. Ryan Scannell joined the Construction Division. Greg Offner Jr. and Carter Bumgardner joined the Real Estate Division. Additional hires include Mallory Stanko, Esq., and Christa Solfanelli, Esq., as Claims Consultants; and Tyler Lyster as an Account Analyst.

"We only hire the most talented people, and these new hires are reflective of this standard for excellence," said Ken Ewell, President of The Graham Company. "As part of our team, they will provide our clients with the exemplary service The Graham Company is known for and ensure the continued growth of our firm."

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