



FINANCED EQUIPMENT INSURANCE

By Jeff Reber

Most capital equipment acquisitions are obtained via a financing vehicle. Traditionally, that vehicle takes the form of either a bank or finance company that originates the lease or loan. A routinely overlooked element of every equipment financing transaction by a company is the mandatory expense associated with the insurance requirements of the lessor or bank that is financing the equipment. Typically, these requirements specify that both property and liability coverage are required by the financier, but in every instance property insurance coverage is required.

What does this mean exactly? The financier is definitely going to protect itself in the event of loss caused by perils, such as fire, theft, or vandalism to the equipment. These



are examples of losses that would be covered by property insurance. In addition, in certain instances the financier will also require the company to have coverage (naming the bank or finance company as insured) in the event of damage to someone else's property by the equipment, or from lawsuits resulting from the company's operation of the equipment. These are examples of liability insurance scenarios.

Although most companies automatically would have the equipment that they are going to be financing covered, what they rarely consider is that they will also be paying for the coverage solely for the benefit of the lessor or bank. So, while they typically already have liability coverage to protect their own business, they will also have to cover the costs to insure the bank or finance company in the event of a covered loss to the equipment.

BROAD PROTECTION POLICIES

In essence, this is a sole benefit policy for the creditor, paid for by the user or lessee. The policies available to handle this type of insurance range in options, but normally result in having the company cover more than what is required under the financing agreement.

Why does this happen? It typically occurs because the insurance for the equipment is part of larger policies that



ABOUT the AUTHOR



Jeff Reber is president of Reber & Associates Commercial Funding, Inc., a nationally recognized financial company that assists banks, end users, and dealers. For more information on Financed Equipment Insurance, please call 484.660.3188 or visit www.reberfunding.com.

belong to Commercial Package Policies or, in some cases for distributors and associated business types, that are structured under Business Owner Policies. These are broad protection policies for covering business risk of all types, but they have a habit of over-covering a specific piece of equipment. By their very scope, they certainly have more extensive coverages than the financier requires. Usually, the result is a more expensive policy.

COVERAGE THAT ZEROES IN ON FINANCED EQUIPMENT

In terms of policy types and categories of coverage that have evolved over time, the Financed Equipment Insurance method of coverage—specifically arranged for the benefit of the financier and tailored to the equipment financing industry—is a newer one. It allows for a business owner to specify a policy to a piece of equipment for a specific period of the financing term. It does not normally have restrictions relative to equipment or industry (except for human lift, mining, and logging).

Financed Equipment Insurance does not take into account length of time in business, review loss histories, or run credit checks. It originates with the premise that if a finance company or bank will finance the piece, then the insurer will insure it. Rates are tailored to and dependent upon the value of the equipment and the perceived risk of damage to it, with four basic risk classes. These classes start at low-risk equipment types, such as printing or telecommunications equipment, and continue through higher risk categories, which consist of waste removal and salvage equipment. The coverage is available in every state.

These are not the typical process steps of what is necessary when underwriting for a Commercial Package Policy or Business Owner's Policy. The requirements are different, as is the structure and basis for pricing. The benefits and lower expense associated with this financed equipment insurance line are a direct result of reducing the elements of the finance industry into a program that is specific to that line. In fact, because the concentration is just on the equipment and the financing of the equipment, it does not have to account for the more broad aspects of risk commonly associated with larger

business policies of all types.

The advantage of this policy method is a result of the type of insurance, and the basis and reasoning behind it. If a company is covering something broader, it will have broader coverages. But if the contractor just wants to cover the equipment for the necessary requirements alone, this may be the

most economical choice. In fact, financed equipment insurance policies can sometimes cost less than half of what larger policy types that cover the same equipment cost.

Contractors should review their financed equipment and coverages, and look into financed equipment insurance as an option. ♦

WHAT IF YOU Could...

Create estimates faster, with greater accuracy, and keep track of labor and production with a precision never before possible.

Contact us today at 866.627.6246, or visit us on the Web at www.oncenter.com to learn more about the On Center ProfitBuilding Suite, which includes: On-Screen Takeoff®, Quick Bid, and Digital Production Control™.



www.oncenter.com • 1.866.627.6246