

Insuring Your Business Computers, Media, and Data



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March 2010

Virtually all businesses and organizations rely upon their computer and data management systems to conduct business efficiently and effectively. Technology is a substantial business investment and so it is important that you are adequately insured against loss of technology and essential data. Most property policies provide limited coverage for computer equipment and exclude losses that are specific to electronic data processing, such as data, media, and losses caused by computer viruses or hacking.

Electronic Data Processing (EDP) insurance is designed specifically to cover the unique risks associated with computer operations. EDP policies typically include three coverage components:

1. EDP Equipment- The servers, computer terminals, monitors, laptops, etc.
2. EDP Media- The disk drives, disks, magnetic tapes, etc. on which data is stored.
3. EDP Data- The information stored on the media such as facts, concepts, or programs, and additional expenses associated with data recovery.

The Equipment and Media sections are property coverages. Given the volatility of technology equipment values, the most critical concerns are determining adequate limits and understanding the terms of the policy. Equipment and Media coverage can be written on either a replacement cost or actual cash value basis. Some policies may include a coinsurance clause, which requires that you insure the equipment and media for a certain percentage of the total value; typical coinsurance clauses require 80, 90 or 100% of total value, with a claim penalty imposed at the time of loss if the limit is determined to be inadequate. You can also insure your equipment on scheduled basis, in which all equipment is listed on the policy with a limit per item, or on a blanket basis. Each of these provisions can have an impact on claim payments in the event of a loss.

Although each insurance company has its own terms for EDP coverage, it is most desirable to obtain a policy that is written on a blanket basis with replacement cost and no coinsurance clause.

EDP VALUATION TERMS

Replacement Cost - The cost to replace the damaged property with materials of like kind and quality, without any deduction for depreciation.

Actual Cash Value - The cost to repair or replace the damaged property, minus depreciation; or the damaged property's fair market value.

Coinsurance - A provision that penalizes the insured's loss recovery if the limit of insurance purchased by the insured is not at least equal to a specified percentage of the value of the insured property.

Blanket - A single limit that covers several different properties or locations.

Since data is often difficult to replace or retrieve, it is often the most important coverage component of the EDP policy. It is also the most challenging one to insure effectively. Data coverage is not standardized in the insurance marketplace; carriers may define data differently and offer different forms of coverage. A close examination of the terms of your policy is necessary to determine the adequacy of your data coverage. Some important considerations are:

1. Does your policy provide coverage for losses caused by virus and hacking?
2. Does it include coverage for a denial of access?
3. Does it provide business interruption and extra expense coverage?
4. Does your policy cover the expense of hiring a forensic expert if you are hacked?

Every organization that depends upon technology in their operation should consider an EDP policy. This specialized coverage is designed to protect your financial investment in technology and to alleviate the financial impact of data loss, as well as business interruption and extra expenses incurred with a loss. The technology professionals at Parker, Smith, & Feek can guide you through the nuances of EDP coverage and are happy to engineer an effective EDP insurance program for your organization.