

## **SPECIAL REPORT**

### **THE IMPORTANCE OF REVIEWING CONTRACTS, IN PARTICULAR THOSE RELATING TO LEASED EQUIPMENT**

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They say that you learn something new every day in this business, and it is true.

Some business personal property leases, such as leases for computer servers, will include a stated value in the event of damage to the leased equipment. For example, I recently looked at one lease which stated that the value agreed upon was the initial sale price of \$60,000 in the event of damage to a server.

As we all know, replacement cost does not mean new; rather, it means like kind and quality. The value of a server can go down over time. Even if like kind and quality means that they get a new server for \$30,000, the lease still provides for an agreed upon value for the equipment of \$60,000.

The Leased Property ISO Endorsement CP 1460 can solve this problem by providing an agreed value dollar amount for valuation. Of course, we do not always know all of the leases into which a client may be entering. You may be able to get an insurer to insert “any agreed value stated in a written lease” into the language of the endorsement.

The above example illustrates a coverage gap to which our clients may not be paying a lot of attention. However, more importantly, it underscores the critical task of requiring copies of contracts and leases from clients so that the exposures can be properly understood and insured.

In another account that I recently worked on, I discovered major noncompliance with the insurance requirements. This allowed us to properly protect the client's assets through a detailed compliance review of contracts and subsequent insurance changes.

The message here is that all equipment leases need to be reviewed in detail. This is typically triggered when a client requests a certificate of insurance.

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