

Insuring Electronic Data Processing Equipment

Most businesses are computer-dependent. Only the smallest retailer can operate without a computer cash register. Embedded chips and computers operate manufacturing equipment, contractors' equipment and equipment found in hospital operating rooms. Rather than insuring computers as office or manufacturing equipment, the Electronic Data Processing (EDP) form protects hardware, software, media and other similar property. Coverage is available for hacking (unauthorized computer system access) and virus damage, power shortages, overload and outages.

There isn't a standard form for providing Electronic Data Processing or Computer coverage. Because so many different forms are offered by many insurers, businesses seeking coverage must take extra care to understand what is covered.

Any commercial operation that owns and/or uses computers and other data processing equipment is eligible for EDP coverage. Commonly a policy covers hardware, media, programs/applications, data records, proprietary programs, loss of income and (on- or off-site) Website servers.

How EDP coverage applies depends upon the policy definitions of key terms, including "computer hacking," "computer virus," "data records," "media," "telecommunications equipment" and others. EDP policies have many defined terms because technology is dynamic. Liberal use of specific policy language helps to preserve an EDP policy's intended coverage.

Typically, coverage is provided against a specific list of events that can cause tangible loss to electronic equipment. Different coverage applies to major areas of EDP, such as hardware, software and Website servers. Covered businesses usually must comply with certain provisions to qualify for coverage, such as properly creating and storing back-up programs.

There are certain types of property that, generally, are ineligible for coverage under an EDP policy, such as:

- Hardcopy accounts, bills, evidences of debt, records, abstracts, deeds, manuscripts, program documentation and similar property
- Portable computers that are stolen or that disappear
- Any property used for illegal transportation or that is contraband
- Any property that is leased or rented to others
- Currency, food stamps, lottery tickets, money, notes and securities
- Property held for sale

One area that a business must pay attention to is how losses are settled. Are claims handled according to the current value of the lost equipment (Actual Cash Value - ACV) or according to what is necessary to replace the property? Settlement based on ACV can be a problem for companies that don't regularly upgrade their EDP equipment. Technology changes so fast that payment for equipment purchased years ago is far less than what is needed to secure new equipment. On the other hand, replacement cost coverage would not be as critical for a firm that regularly changes equipment as damaged property would likely be newer.

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