

## LEASES AND INSURANCE POLICIES - CONTRACTS THAT STRUGGLE TO COMMUNICATE

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Businesses regularly assume risk. This can be from a new venture, a new investment, or more often by signing a contract. At the most fundamental level any time risk is assumed it is important that it is properly managed.

A very common contract where a business assumes risk is though a lease. Some of the liabilities that arise from this risk may be transferred to an insurance company; however there are many liabilities assumed that are much broader than those covered in a typical insurance policy.

Lease agreements and Insurance policies are two very different contracts with two very different purposes. Simply put, a lease is an agreement between two parties where an owner of property gives permission to another person to occupy or use premises for a period of time. An insurance policy is an agreement between two parties where an insurer agrees to pay on behalf of an insured when they are legally required to do so.

Although both are legal contracts that define two parties' expectations, they generally do not clearly communicate with one another. This lack of harmonization leads to the potential for unexpected out of pocket expenses and poor risk management, two things no business wishes to endure.

Some leases require the tenant to accept responsibility for any damage that occurs to their space and potentially to that of the building. Rarely will a standard insurance policy going to provide terms that are as broad as a lease. As an example, a standard general liability insurance policy will provide coverage for fire caused by the tenant's negligence, and for the policy to respond the insured must be held legally liable under common law. The standard general liability policy will not provide coverage for things like sprinkler damage to the building, vandalism to the building or many other types of damage....even if your lease agreement holds you responsible for that damage!

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Fortunately there are ways to address many of the risks and liabilities that are created because of a lease agreement. However in order to do so, the best practice is to thoroughly review your lease with an attorney and involve your insurance professional. The insurance and indemnification sections may place a broad spectrum of responsibility upon you as the tenant. A combined strategy of insurance coverage and risk management can properly protect your business from many types of risk.

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