

Obtaining Insurance Coverage for a Business

By BNET Editorial

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Every business needs insurance against risks that might threaten its profitability, including theft and work-related injuries. A small business is more vulnerable to the consequences of these incidents, since it rarely has the resources to cover sudden and unexpected expenditures.

This article explains what insurance your business is legally required to have and describes some optional types of insurance you may want to consider.

What You Need to Know

Is insurance compulsory for businesses?

Once you establish your business, and before you begin active operations, you should consult a commercial insurance agent or broker to determine the insurance regulations it must meet. You will be told the types of insurance your business requires, as well as other protection that is available and may be recommended.

Businesses are required to carry workers compensation insurance immediately upon hiring any employees. Each state has specific business insurance requirements, so visiting the Web site of your secretary of state or your state's department of commerce to learn more is good idea.

If your business is highly complex and considered high risk, it may also be in your best interests to consult an attorney specializing in insurance law to help you determine requirements and coverage options.

Any injuries or illnesses arising from motor vehicle accidents that occur while your employees are working for you may be covered separately by your vehicle insurance. *All* vehicles—cars, trucks, vans, SUVs, motorcycles, *et al*—that are used on an employer's behalf must be insured for minimum third party liability. Insurers normally need to know who will be using the vehicle for business purposes (especially any drivers under age 25), what the business use entails, who owns the vehicle, and how it will be used. Make sure you check the licenses of all your drivers. Any serious motor convictions must be reported to your insurer.

Are insurance agents and brokers different?

An insurance *agent* customarily has an agreement with an insurance carrier, writes policies only for that carrier, and can provide cost-effective package deals. An insurance *broker* is an independent businessperson who deals with numerous insurance carriers. He or she shops around to get the best

coverage at the best price for a client. In most cases, a broker is better positioned to find hard-to-get coverage for special or unusual situations.

What to Do

Choose Your Insurer Carefully

Many new business owners begin by speaking with their personal insurance agent. Find out whether yours has specific experience in providing business insurance to organizations such as yours or if the company they work for offers the broad base of coverage your business will need.

After talking with your insurance agent, talk with other business owners, too, as well as with your local Chamber of Commerce members to find out with whom they are doing business.

You want the very best deal for your business and one that best fits your needs. So talking with many potential sources, including one or more insurance brokers, is time well spent. Besides, their services are usually free; if a fee is cited at all, in fact, consider changing agents!

Consider What You Need to Insure

The types of business insurance available today cover virtually every conceivable need; a sample appears below. As you look at business insurance coverage per se, you also should ask your agent or broker about health, dental, vision, and other insurance benefits packages you might make available to your employees. Since health care coverage is a vastly complex topic in itself, it is not included in this review.

Property

Property insurance, as the name suggests, covers a business for loss or damage to property caused by fire, flood, theft, or vandalism. Note, however, that damage caused by certain types of natural disasters—such as earthquakes or tornadoes—is often excluded. You also should check to see if your policy covers computers and communications systems; they may be considered “special property” requiring extra or specialized equipment coverage. You should cover all your property, including buildings (if you own them), contents, stock, and fixtures. If you rent, ask to review the landlord’s insurance policy and check its range of protection. Property insurance can be critically important if you manufacture, repair, install, or even retail goods.

Computer and engineering systems

Computer insurance policies cover breakdowns and loss of information. Check that your insurance covers the computer environment, including e-mail and Internet access. Different types of engineering

insurance policies are available for machinery. This protection can cover breakdowns, consequences of statutory inspections, and related situations.

General liability

Liability or casualty insurance protects your business in case of bodily injury to a person, or damage to a person's property, that occurs on your premises for which you might be held legally responsible. Should a client fall down and suffer injury in your office, for example, your liability insurance could cover his health care costs and expenses. Likewise, if you break something while in a client's home or office, the cost of replacing the item could be covered. This coverage is invaluable should lawsuits arise from such mishaps—as they too often do.

Public liability

Public liability covers you and your business against accidents to members of the public or damage to property that occurs as a result of your business activities. It also covers any related legal costs—a most important provision. This type of insurance is compulsory for certain types of businesses, such as health and fitness instructors and similar organizations.

Product liability

Product liability insurance works on the same principle as professional liability insurance. It protects you against claims arising from faulty products that your company has manufactured, sold, or installed.

Professional liability

Professional liability insurance, also known as errors and omissions (E&O) or malpractice insurance, covers you against being sued for giving allegedly poor advice or some manner of alleged negligence. This insurance is mandatory in professions such as medicine, law, accounting, and financial services. It is now common among management and computer consulting firms as well as engineering and design professionals. Coverage usually includes breach of professional duty, breach of copyright, breach of confidentiality, libel and slander, and loss of documents.

Business income/extra expense

This type of insurance protects your company's income and revenues by compensating you for extra costs incurred and/or revenues lost if your business suffers serious disruption—after a fire, for example. You usually are covered for an interruption of up to 12 months from the date of the loss or damage. If damage to your office increases the cost of working, you can claim added expenses, such as the cost of temporary offices, removal expenses, and increased rent and rates.

Directors and officers insurance

A company's directors and officers can be sued personally over an increasingly wide range of business matters—and the personal liability of a director is unlimited. Legally, the directors of a company and the company itself are separate entities, so both may be defendants in any legal action,

separately or jointly. To protect the personal assets of individuals and, most importantly, to cover the costs of their defense, directors and officers insurance—D&O, as it's called—is widely used. Directors and officers insurance extends to protect the company, too, rather than leaving it to fund its own defense and consequently acts as a mechanism that protects the value of a director's personal holding in the company.

Key man

Key man coverage pays a benefit to the business if a key employee—for example, a chief executive or business partner—is lost through death or incapacity that would otherwise result in financial hardship for the business.

Disability

Disability (or loss of income) insurance plans cover employees in the event of long-term sickness, paying a percentage of their salaries during the period of incapacity. This relieves your business of the burden of paying for an ailing employee. The benefit is paid tax-free after a deferred period selected by the policyholder and is paid until retirement, recovery, or death.

This type of insurance is available to sole practitioners, too, and is especially important to them. If you are self-employed, be sure you are covered if illness or incapacity prevents you from doing the work you currently do, since many policies only cover you if you cannot work at all.

Home office

A growing number of start-up businesses begin in a person's home. Home office insurance may be needed if ordinary homeowners policies do not cover business liabilities and office equipment. Note that most homeowners policies do not.

What to Avoid

You Fail to Obtain the Right Kinds of Coverage

Think long, hard and carefully about the amount of insurance coverage and kinds of protection you need. The consequences of not doing so can be catastrophic. Insure stock for its replacement cost without any additions for profit. Plant and machinery should normally be insured on a “replacement as new” basis. Don't be afraid to shop the market, either.

You Fail to Obtain Enough Coverage

If you have too little coverage, an insurance company can reduce any claim by the percentage to which you are underinsured. It's a detail often overlooked—until it's too late.

You Obtain Coverage with Inappropriate Deductibles

Most insurance policies require you to pay a deductible amount that covers the first part of any loss. Make sure the deductible included in your policy is appropriate. You often can negotiate a reduction in premiums by agreeing to pay a higher deductible. If most of your claims fall beneath the deductible threshold, you should consider switching to a policy with a lower deductible amount, although the premium will cost you more. On the other hand, you may want to avoid filing claims just above the deductible amount, if doing would result in paying increased premiums in subsequent years.

Where to Learn More

Book:

Vassar, Rick. *Hide! Here Comes The Insurance Guy: A Practical Guide to Understanding Business Insurance and Risk Management*. iUniverse, Inc., 2006.

Web Sites:

Entrepreneur.com's Insurance Center: www.entrepreneur.com/insurance/index.html

Independent Insurance Agents of America: www.iaa.org

National Association of the Self-Employed: www.nase.org