

The Consumer's Guide to SMALL BUSINESS INSURANCE

If you own your own business or are a partner in one, you're probably already familiar with risk. After all, few things in life are riskier than launching and running your own small business. Part of the risk of any small business is the loss of critical tools and property or liability to others, either of which can cause loss of income or even force you to close your doors.

Large companies employ full-time risk managers to keep their risk-taking to a minimum. But chances are that as a small-business operator, you are your company's risk manager, along with its personnel director, office manager, and possibly the entire staff all rolled into one.

While juggling all the jobs that need to get done to make your firm a smooth-running and profitable operation, you may already be asking yourself, "Who has time to think about insurance?" You do! Keeping risks and losses to a minimum is a cornerstone of business success, especially for small businesses. Take a few minutes now to check your risk factors, find out your insurance needs and learn the many options available to you. And remember choosing the right Trusted Choice[®] agent is as important as choosing the right insurance.

This guide does not represent the provisions of any particular policy, but it can serve as a starting point to a complete package of protection.

- I'm just getting my business started. [Do I need insurance right away?](#)
- I don't have any major business assets. [Why do I need insurance?](#)
- [Is insurance coverage different for different businesses?](#)
- [What types of property do I need to insure?](#)
- [What types of property insurance should I consider buying?](#)

- [How much property insurance do I need to buy?](#)
- [Who decides how much my business property is worth?](#)
- [What kinds of events does business insurance cover?](#)
- Everybody seems to be suing everybody else these days. [What if someone sues my business?](#)
- [What about the cars and truck that I have in my business? Is the coverage like what I have on my personal car?](#)

- [Will I need to protect my employees in the event they are injured on the job?](#)
- I keep one auto strictly for business. [Do I need a separate policy?](#)
- I just signed a 3-year lease to open my business. [Why does my insurance agent want to see my lease?](#)
- My business requires that I store gasoline on the premises. [Do I have to have special insurance?](#)
- I run a dry-cleaning business. [What happens if fire destroys many of my customers' clothes that were stored in the building?](#)

- What if the clothes I manufacture are damaged in shipment. [Does the shipping company reimburse me or do I put in a claim to my insurance company?](#)
- I work out of my home. [Will my homeowners insurance cover my business?](#)
- [What is coinsurance all about?](#)
- [As a retailer, do I need to worry about product liability?](#)

- Now that my business is established, I think it is time to offer my employees some benefits.
[What do I need to know?](#)
- [Can I do anything to lower my insurance premiums?](#)
- [Who keeps an eye on the insurance companies?](#)
- [What should I look for in an agent?](#)

I'm just getting my business started. Do I need insurance right away?

Yes, because the chance that you could suffer a loss begins with the first day of business. You can't get help after the fact. If you suffer a loss and have no insurance or have improper or insufficient coverage, there is very little, if anything, your insurance agent can do to help you. You must be prepared for the risks that are inherent in any business and the losses, sometimes catastrophic, that they can cause. Also, many states and local jurisdictions require that businesses be insured to begin operating. And if you rent space for your business, your landlord probably requires that you be adequately insured as well.

[Return to Small Business Index](#)

I don't have any major business assets. Why do I need insurance?

Every business has some property. And, when you think about it, your business is your property. Just like your home and your car, your business needs to be protected from loss, damage and liability. In addition, your business is your source of income, so you need protection from the potential loss of that income.

Generally, there are two types of insurance - property and liability. Property insurance covers damage to or loss of the policyholder's property. And if somebody sued for damages caused by you or your possessions (other than a vehicle covered by your insurance policy), the cost of the suit - both defending it and settling it if necessary - would be covered by your liability insurance.

[Return to Small Business Index](#)

Is insurance coverage different for different businesses?

It can be. Many small businesses are now insured under package policies that cover the major property and liability exposures as well as loss of income. A common package policy used by many small businesses is called the Businessowners Policy (BOP).

Generally, these package policies provide the small-business owner more complete coverage at a lower price than separate policies for each type of insurance needed. Your agent can help you decide which policy or policies are right for your business. Additional coverage for property, liability or perils or conditions otherwise excluded (e.g., flood protection) can be purchased as endorsements to a standard policy or as a separate policies.

Because businesses vary, it is impossible to have a standard policy to cover all contingencies. Also, some businesses, regardless of their size, do not fit the profile of a standard businessowners policy. For example, restaurants, wholesalers and garages have special exposures that are not met in the standard businessowners policy. Your insurance agent can advise you of the best policy (or policies) to protect you and your business.

[Return to Small Business Index](#)

What types of property do I need to insure?

Your business may not possess all the following types of property, but you can use this list to make sure that you have considered all the property categories and any insurance coverage that may be warranted:

- Buildings and other structures (owned or leased)
- Furniture, equipment and supplies
- Inventory
- Money and securities
- Records of accounts receivable
- Improvements and betterments you made to the premises
- Machinery
- Boilers
- Data processing equipment and media (including computers)
- Valuable papers, books and documents
- Mobile property such as automobiles, trucks and construction equipment
- Satellite dishes
- Signs, fences, and other outdoor property not attached to a building
- Intangible property (goodwill, trademarks, etc.)
- Leased equipment

To establish the amount of insurance you need on each, your insurance agent can help you review the types of property you own and their uses. Some of these items are covered in the basic policies. For others, coverage can be added by an endorsement. And some, like money and securities, may not be covered by a standard commercial policy and may require a second, separate policy.

[Return to Small Business Index](#)

What types of property insurance should I consider buying?

The best thing to do is to take a complete inventory of all your business property, determine their value and decide if each is worth insuring. Then check to see that the items on the inventory list are included in the basic business property policy and covered for the correct amount. If not, ask your agent about the cost of purchasing additional coverage to meet your needs.

You also need to consider your business situation. Are you planning a major expansion? Does your inventory have a decidedly peak season (like a toy store in December)? Or does it fluctuate throughout the year (like a clothing store)? Is your liability limit high enough in light of the new job contract you just signed? Business policies are designed to be added to or subtracted from to meet your needs. Be sure to discuss changes to your business with your agent so that he or she can be sure your policy still provides adequate coverage.

Some common additional coverages for business property include (although this list is by no means all-inclusive):

Boiler and Machinery Insurance

Even if you do not own a boiler, you may need this coverage. The term "boiler and machinery insurance" is gradually being replaced with terms such as "equipment breakdown" or "mechanical breakdown" coverage. This insurance provides coverage against the sudden and accidental breakdown of boilers, machinery or equipment, often including computer systems and telephones/communication systems. Coverage usually includes reimbursement for property damage, expediting expenses (e.g., express transportation charges), and business interruption losses.

Builders Risk Coverage

Covers buildings in the course of construction. Depending on the policy, this coverage can be for either the building's value at the time of loss or its full value at the time of completion.

Building Ordinance Coverage

Provides coverage when a community has a building ordinance stating that when a building is damaged to a specified extent, it must be rebuilt in accordance with current building codes. Special attention is required when establishing the amount of insurance.

Business Interruption Insurance

Covers the loss of rents or profits plus any continuing expenses while your business is shut down or curtailed as a result of damage or loss of business property. Also typically covered are extra expenses incurred to get back in business as quickly as possible.

Commercial Crime Coverages

Covers money and securities, stock and fixtures against theft, burglary and robbery both on and off the insured premises and from both employees and outsiders.

Excess Debris Removal Coverage

Covers the cost of removing debris after damage from fire or other covered peril that requires debris removal before reconstruction of the damaged building can begin. Many policies limit the amount of coverage for debris removal which is often inadequate and must be increased by endorsement.

Fidelity Bonds

Covers business owners for losses due to dishonest acts by their employees.

Inland Marine Insurance

Primarily covers property in transit such as from warehouse to warehouse or warehouse to retail store, as well as other people's property left on your business premises, such as clothes left at a dry cleaning business.

How much property insurance do I need to buy?

There is no one answer to this because each business is different. You can consult with your Trusted Choice[®] independent agent on the monetary limits needed to cover your potential for loss. Obviously, a one-person accounting firm will need to purchase less insurance than a store with a substantial

inventory. But each will need to make sure that all necessary business property is covered, that the limits of liability are sufficient to protect the owner and the employees, and that loss of income is protected.

In addition, each business has unique needs and situations that must be handled. If the store happens to be located on a flood-prone area, the owner should invest in flood insurance. The accountant may wish to purchase reconstruction-of-accounts-receivable insurance to cover the loss of accounting records. The costs of reconstructing those records, money borrowed because of delayed payments due to the records being lost, and lost payments from those clients whose records cannot be reconstructed may be covered.

Liability protection also will vary from business to business. A retail business may be more at risk for potential suits than a business that is not open to the public. Also, in some states, courts tend to respond more positively to lawsuits, increasing both the likelihood of successful lawsuits and the amount of damages awarded. In today's lawsuit-conscious society, higher liability limits are extremely important and relatively inexpensive. Your agent can help you decide how much coverage is needed for your particular business.

[Return to Small Business Index](#)

Who decides how much my business property is worth?

Property insurance can be purchased on the basis of the property's actual cash value, on its replacement cost, or on an agreed amount. The differences between the three are:

Actual Cash Value

The replacement cost of the item minus depreciation. For example, a new desk may cost \$500. If your 7-year-old desk gets damaged in a fire, it might have depreciated 50 percent. Therefore, you would be paid \$250 for it.

Replacement Coverage

The cost of replacing an item without deducting for depreciation. So today's cost for a desk of a size and construction similar to the 7-year-old one damaged by fire would determine the amount of compensation. If it costs \$500 today, that would be the replacement coverage.

Agreed Amount

Art objects, antiques and other unique items are usually insured at an amount agreed upon when the policy is being written. An appraiser values the goods to be insured and the business owner and the insurer agree upon an amount that the insurer will pay if the goods are destroyed due to a covered peril.

Check your policy. If you prefer replacement coverage and do not already have it, this coverage can be added to your policy. Inflation-guard coverage, which automatically increases your insurance amount a certain percentage, protects against rising construction costs. Your Trusted Choice[®] independent agent can advise you of the costs involved.

[Return to Small Business Index](#)

What kinds of events does business insurance cover?

Basic property insurance policies generally cover losses caused by fire or lightning and the cost of removing property to protect it from further damage (e.g., removing inventory or equipment from a damaged building so it won't be stolen). "Extended perils," including windstorm, hail, explosion, riot and civil commotion, and damage caused by aircraft, automobiles or vandalism, are usually covered in a standard policy. Other important perils, often not covered and considered "optional" in almost all standard policies, include earthquake and flood damage. Property insurance can be written as either "named peril" policies or so-called "all-risk named exclusions" policies. A named peril policy provides coverage for those perils specifically named in the policy. A named exclusions policy covers loss by any perils not specifically excluded in the policy. The term "named exclusions" is often referred to as "special form" or "special causes of loss" coverage.

Check with your Trusted Choice[®] independent agent on the perils covered by your policy. If you wish, additional coverage can be added.

[Return to Small Business Index](#)

Everybody seems to be suing everybody else these days. What if someone sues my business?

No business can afford to be unprepared for a lawsuit. Liability insurance protects your business assets when the business is sued for something the business did (or failed to do) that contributed to injury or property damage to someone else. Liability coverage extends not only to paying damages but also to the attorneys' fees and other costs involved in defending against the lawsuit - whether valid or not.

The standard businessowners policy provides liability coverage, as does a separate policy known as a commercial general liability (CGL) insurance policy. Generally, commercial liability insurance, whether purchased in a separate policy or as part of a standard businessowners policy, will cover bodily injury, property damage, personal injury or advertising injury. The medical expenses of a person or persons (other than employees) injured at the business or as a direct result of the operations of the business are also typically covered.

Usually excluded from both types of liability insurance policies are suits by customers against a business for nonperformance of a contract and by employees charging wrongful termination or racial or gender discrimination or harassment. Many other exclusions, from use of autos to pollution liability, are included so it is important to carefully review the policy.

Check with your Trusted Choice[®] independent agent about the best liability protection covering all types of situations that may arise in your business.

[Return to Small Business Index](#)

What about the cars and truck that I have in my business? Is the coverage like what I have on my personal car?

Yes, the coverages are similar and can be purchased to insure vehicles owned or leased by your business. In addition, your business can be protected against claims arising from the use of vehicles

owned by your employees. Be sure to review your auto exposures with your Trusted Choice[®] independent agent.

Will I need to protect my employees in the event they are injured on the job?

Yes, and in most states there are legal requirements that must be met, and for which you may be responsible. State laws vary, but most states require that you carry some form of workers compensation insurance. This protects the employee and also offers you the business owner a degree of immunity from lawsuit by an injured employee.

[Return to Small Business Index](#)

I keep one auto strictly for business. Do I need a separate policy?

Yes. Whether you have one vehicle or several, you will need a business automobile policy. Such a policy covers any motor vehicle used in your business including cars, vans, trucks and trailers pulled by trucks, and offers coverage if they are damaged or stolen. It also covers liability if the business vehicle is in an accident and the driver is at fault. This policy is not for truckers or commercial garages. They have special liabilities and must secure special policies that deal with their different needs. Businesses that have a fleet of vehicles will of course have different needs than a business with one or two, and their policies will reflect these differences.

[Return to Small Business Index](#)

I just signed a 3-year lease to open my business. Do I need to address the insurance requirements with my agent?

Whether the business lease is for a building or for equipment, the agent needs to be advised who is responsible for insuring what leased items - you or the lessor. For leased buildings or building space, there are other factors to be considered, such as who is responsible for plate glass or equipment coverage and whether your landlord requires tenants to carry minimum amounts of liability insurance, and the extent of a hold harmless agreement. These and other situations covered in the lease affect the amount and kinds of insurance you need. Therefore, you or your legal counsel should advise your insurance agent as to your insurance requirements.

[Return to Small Business Index](#)

My business requires that I store gasoline on the premises. Do I have to have special insurance?

Yes, if your business transports, stores or uses toxic materials, you may be required by law to have a special pollution liability policy. If these materials should be discharged accidentally into the water or leak onto the ground due to a covered peril like fire, the cost of extracting the pollutant from the business premises is covered up to the dollar amount set forth in the property section of your policy.

[Return to Small Business Index](#)

I run a dry-cleaning business. What happens if fire destroys many of my customers' clothes that were stored in the building?

The standard businessowners policy contains coverage for loss due to fire, including coverage for property of others the insured business was repairing, storing, or otherwise servicing in order to earn money. Coverage is provided for the perils covered by the policy and for a specified limit that may be increased. There are other policies, called Bailee's customers policies, that provide even broader coverage for your customers' possessions.

What if the clothes I manufacture are damaged in shipment. Does the shipping company reimburse me or do I put in a claim to my insurance company?

Shipping companies often carry insurance to cover their losses. However, the shipping company's insurance may be too low, not cover certain losses, or you may have difficulty collecting on a claim after signing for the shipment. Therefore, "property in transit" insurance is available to cover your property being transported by truck, rail, ship, or other means of shipment. Also, the firm you hire to transport goods and the contract you sign with them may affect your need for coverage. Make sure you check with your Trusted Choice[®] independent insurance agent.

[Return to Small Business Index](#)

I work out of my home. Will my homeowners insurance cover my business?

Only on a very limited basis. Loss of business property is usually reimbursed only for very small limits. Even if your business is a sideline such as a craft studio, these limits may be too low to cover all the equipment and materials you have accumulated. It's also important to know that no business liability coverage is included in a standard homeowners policy. Your insurance agent can help you ascertain what, if any, additional coverage you need. This additional coverage may be added to your homeowners policy or found in a separate commercial policy.

[Return to Small Business Index](#)

What is coinsurance all about?

Most business policies include a "coinsurance" clause stipulating what percentage of the total value of your property must be insured in order to be fully reimbursed for a loss, even a partial one. (Most losses are partial.) If you insure for less than that amount, your insurance company may impose a "coinsurance penalty" on your claim. Note that even if you carry that agreed-on percentage of insurance to value, it may be inadequate and you would not be fully compensated for a total loss. For that reason, it is usually a good idea to insure the full replacement value of your property.

Here's how coinsurance works:

Let's say you have a building insured that you believe would cost \$100,000 to replace and a coinsurance penalty in your policy of 80 percent. You insure the building for \$80,000, thinking you have fulfilled the coinsurance clause. A fire loss causes \$60,000 worth of damage, so you submit a claim. Your insurance company subsequently determines that the replacement cost of the building is actually \$150,000. To determine how much to pay on the claim, the insurer divides the amount of insurance you purchased (\$80,000) by the amount you should have purchased (80% of \$150,000 or \$120,000). The result (two-thirds, or \$40,000) is the amount of your claim the insurer will pay.

Thus, even for a partial loss within the monetary limits of your policy, you will receive only two-thirds of the amount claimed. If the building had been insured for at least \$120,000, the insurer would have

reimbursed you for the amount of the loss.

You should check with your agent to make sure you have adequate coverage. According to studies, many businesses are significantly underinsured. Adding an endorsement to the policy that automatically increases policy limits to keep pace with inflation is a good idea.

[Return to Small Business Index](#)

As a retailer, do I need to worry about product liability?

Yes. Even if damage or injury is caused by a manufacturing defect, you can (and probably will) be sued. General liability or businessowners insurance usually covers this liability, but you should check with your agent to be sure your business is adequately covered. Recognize, too, that your liability policy will pay defense costs, whether or not a judgment is rendered against you.

[Return to Small Business Index](#)

Now that my business is established, I think it is time to offer my employees some benefits. What do I need to know?

Employee benefits generally include health insurance (sometimes including dental and vision benefits), term life insurance, and possibly a retirement program. Group disability insurance is also available, although employers and employees opt for this benefit less frequently.

Employers can provide coverage for their employees alone or for the employees and their families. Cost is usually the determining factor. With the high cost of health insurance in the United States today, employers are more likely to ask employees to pay some or all of the costs of health insurance for their families and sometimes for the employees themselves.

Depending on the size of the group to be insured, the business may serve as the policyholder for the group's insurance. However, for many small businesses, the insurer will pool them together in a multiple-employer trust. The trust itself, rather than any single employer, is the policyholder. This enables smaller businesses to benefit from the lower premiums and other services enjoyed by large groups.

Small businesses can also sometimes obtain employee benefit insurance through their trade or professional association. Your best bet as a small business operator is to find a way to join a larger pool seeking benefits. Check with your Trusted Choice[®] independent agent on the options available to you.

[Return to Small Business Index](#)

Can I do anything to lower my insurance premiums?

Remember that all insurance premiums are based on the risks involved. The insurance company evaluates the situation to determine the risks - or potential for losses - and bases its rates on the results. Therefore, deliberate steps you take to lower your risks not only can help safeguard your business but also may make you eligible for lower insurance rates. Consider these steps:

- Maintain adequate lighting throughout your business premises.
- Keep electrical wiring, stairways, carpeting, flooring, elevators, and escalators in good repair.
- Install a sprinkler system, smoke and fire alarms, and adequate security devices.
- Keep only a small amount of cash in the cash register.
- Keep good records of inventory, accounts receivable, equipment purchases and the like.
Consider keeping a second set of records off-site, such as with your accountant, insurance agent or at home.
- Make sure your employees have good driving records.
- Make sure your employees know how to lift properly and use all necessary safety equipment, such as goggles, gloves, and respirators.
- Consider using the services of a risk manager. Such an outside consultant can advise you of any safety or environmental regulations you may have overlooked or not been aware of and talk to your employees about safety practices.
- You may also wish to raise your deductible where appropriate to lower your insurance premiums. How high to raise the deductible should be governed by how much you can afford to pay out of pocket. Be careful not to raise it so high that you cannot cover it should a loss occur.
- Finally, make sure your agent is familiar with your business and the risks inherent in it. He or she should be able to advise you on risk management techniques and their benefits to both you and the insurer.

[Return to Small Business Index](#)

Who keeps an eye on the insurance companies?

Insurance is a heavily regulated industry. Every state has some sort of department, administration or agency that regulates and monitors every insurer operating within the state's borders. In addition to approving rates, your state's insurance department is involved in all insurance matters on behalf of private citizens and businesses. It also issues operating licenses to insurers and agents, based on their ability to meet the state's requirements for conduct and knowledge about insurance issues.

Your insurance company and agent work closely with your insurance department to make sure you are getting the best and fairest possible service within the state's guidelines. If you ever have difficulty settling a claim, work with your agent to resolve the difficulty. However, you can also contact your state's insurance department if you wish to know more about your options and rights as an insurance consumer.

[Return to Small Business Index](#)

What should I look for in an insurance agent?

Agents are there to help you. At the most basic level, any agent should be able to answer all of your questions about insurance, provide you a thorough assessment of your insurance needs, and offer you a choice of insurance products to meet those needs. Also, any insurance agency should provide you with prompt, quality service in the case of a claim.

Just as important is the level of professional confidence and personal comfort you feel with the agent. Many people stick with the same insurance agent for decades, even generations. It helps to find an agent you can get to know and trust.

An important, but sometimes overlooked, factor to keep in mind is that there are two kinds of insurance agents: those who represent only one insurance company and those who represent more than one insurance company.

Agents offering through their agencies only the policies of one insurance company often are referred to as "captive agents," because the company they represent does not allow them to offer their customers competitive alternatives.

By contrast, agents offering through their agencies the policies of more than one insurance company are called "independent agents," because they can shop around for their customers for the best insurance values among a variety of competing companies.

Trusted Choice[®] independent agents are dedicated to you and are committed to treating you as a person, not a policy. All Trusted Choice[®] independent agents agree to adhere to a Pledge of Performance, designed to assure quality service that enables them to offer you competitive pricing, a broad choice of products and valuable advocacy.

A nationwide survey in 1994 showed that Americans prefer to work with independent insurance agents by a 2-to-1 margin over captive agents. You can be sure you are dealing with a Trusted Choice[®] independent agent when you see the Trusted Choice[®] logo on the agent's signs, letterhead and business cards.