

INSURING YOUR BUSINESS

Before starting the business you should thoroughly investigate business insurance. Often, small businesses ignore the importance and necessity of insurance until they have suffered a major loss. A sound insurance plan protects you and your business by minimizing the risks and reducing the uncertainties of your business.

In selecting an insurance plan, it is important that the business have all the right coverage for its specific needs at the best rates. There are many insurance companies to choose from, each with their own plans and rates. Most of them provide package deals that combine several coverages in one policy. A good insurance broker can be essential in helping select an insurance plan that is right for the business. It is preferable to have a single insurance broker who is familiar with the business for all the insurance needs.

Critical factors of selecting an insurance plan:

- Identifying risks that need to be covered.
- Determining the amount of loss from each risk.
- Obtaining coverage for largest potential loss first.
- Avoiding duplicate coverage.

Types of Insurance

There are a variety of coverages available from different companies, with differing premiums and deductions. There are, however, five major types of insurance that are considered to be essential for most businesses: key man life, liability, property, workers compensation, and vehicle.

Key Man Life Insurance

A sole proprietor or a partnership should consider obtaining a key man life insurance policy at least in the amount of financing to be obtained to start the business. The insurance will protect the business in the event of death of a principal owner. This is especially appropriate in a business partnership to provide for business continuity.

Liability Insurance

Liability insurance is considered one of the most important types of insurance for a business. It protects the business from financial loss due to bodily injury or property damage caused by negligence or business operations (which may include acts of the owner, acts of the employees on the job, business conditions, or defective products of the business). In some cases, businesses may be subject to damage claims even when "reasonable care" was used. Several examples of liability policies available include the following coverages: owner, product, contractor accidents, or personal injury (which includes libel and slander).

Package deals may include "umbrella" coverage which increases the amount of coverage over a number of insurances classes.

Property Insurance

Property insurance provides protection to the owner from damage to, or loss of, property. Property losses which can be covered (some for an additional premium), include the following:

- Equipment and inventory
- Fire, windstorm, flood
- Theft, vandalism
- Explosion, riot
- Employee dishonesty
- Business interruption

In determining property insurance rates, insurance companies take into consideration several factors concerning the property and building, such as: location of the property and building; construction of the building; and smoke, sprinkler, and burglar alarm systems. If an automatic sprinkler system is installed, risk will be reduced, and fire insurance rates lowered.

A renter should determine, and include in the lease documents, such coverage as the landlord furnishes, and then provide such additional insurance as desired.

Workers Compensation Insurance

Workers compensation insurance provides compensation benefits to employees injured on the job. Employers failing to provide safe working conditions are liable for damage suits brought by the employee suffering injury. Employers are required by law to carry workers compensation for all employees. Premiums are determined by the state, and will vary according to the occupation of the employees and the injury history of the business. Workers compensation insurance is available from the state as well as private insurance companies.

For further information and specific requirements on workers compensation insurance, contact:

California Department of Industrial Relations

Information & Assistance
1562 Grand Avenue
Grover Beach CA 93433
(805) 481-3296
www.dir.ca.gov

or

State Compensation Insurance Fund

Legal Office
3238 S. Higuera Street
San Luis Obispo CA 93401
(805) 544-9120
www.scif.com

State Disability Insurance, which covers non-occupational disabilities, should not be confused with workers compensation insurance, which relates to work-related injury or

illness. However, if the weekly benefit rate for a workers compensation claim is less than that which would be payable under disability insurance coverage, disability benefits may be used to pay the difference.

Automobile Insurance

Automobile insurance provides both property and liability coverage for vehicles owned by the business or vehicles used for business purposes. Several types of property insurance covering the vehicles are: collision, theft, and glass breakage. Vehicle liability insurance protects the employer from losses resulting from an employee's injuring people or damaging other people's property while operating a company owned vehicle. Non-owned vehicle liability insurance is available to the employer for employees driving their own vehicles on company business. Rates are determined by the type and usage of the vehicle, as well as the driving record of the operators.

Additional Comments

Depending on the type of business and situation, other insurance coverages, such as surety insurance, employee health and life insurance, and credit insurance can add great value and security to the business. Employee health and life insurance protects employees at times when they are most vulnerable. Employee insurance packages can include dental, vision and hearing coverage. You should consult your insurance agent regarding these special circumstances.

Consult your local Chamber of Commerce Membership Directory, the internet and Yellow Pages for listings of insurance agents and companies. Your SCORE chapter also can provide a list of 3 insurance agents.