

INSURANCE CONSIDERATIONS FOR THE SMALL BUSINESS

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1. Property

- Pays for loss or damage to tangible business property, such as buildings, tenant's improvements and betterments, furniture, fixtures, equipment, inventory.
- Loss or damage must be due to an insured peril. The broadest, standard form of coverage is Causes of Loss-Special Form, subject to the form's standard exclusions.
- Lost or damaged property is valued at Replacement Cost (new for old) or Actual Cash Value (depreciated replacement cost). Replacement Cost is generally better.
- Coinsurance clauses should be deleted, if at all possible.
- Loss of Business Income should be considered, if insured loss or damage due to an insured peril causes the business to also suffer a loss of net income.
- Coverage for property in course of transit, property temporarily at other locations and property of others for which the business is liable should be considered, depending on the nature of the business.
- Special coverage is needed for imports/exports and for property outside of the country.

2. Crime

- Pays for theft of the business' money, securities or property by an employee.
- Coverage may be added for burglary, hold-up and robbery of money by third parties, whether within the premises or in custody of messengers.
- Coverage may be added for computer fraud causing the loss of money due to unauthorized access of computer systems.
- Special coverage is needed for employee theft of customers' property and money.

3. Commercial General Liability

- Protects the business and its owners against suits and claims by others for bodily injury, property damage and personal and advertising injury.
- Typical claims are those arising out of the premises, such as slips and falls, and out of products (sale of tangible goods) or completed operations (work performed for others).
- Coverage includes defense costs as well as indemnity payments.

4. Business Auto

- Protects the business and its owners against claims and suits by others for bodily injury or property damage due to the ownership or use of autos in the business.
- Coverage may also apply to physical damage to autos owned or leased by the business or temporarily hired by the business.
- Coverage includes liability arising out of vehicles used, by not owned, by the business, such as the use of employees' autos on company business.

5. Workers' Compensation

- Required if the business has even one employee.
- Pays the lost wages (subject to minimums and maximums), medical expenses and permanent disability of employees injured on the job.
- Business owners and general partners may elect to exclude themselves from coverage.

6. Intellectual Property Liability

- Protects the business against claims for infringement on the intellectual property of others.
- Intellectual property includes copyrights, patents, titles, slogans, trade names, trademarks, trade dress, etc.

7. Internet Liability

- Protects the business for its liability arising out of doing business on the Internet.
- A key issue is failing to keep secure and private confidential customer information, such as personal data and credit card numbers.

8. Management Liability

- Protects the business, its owners and employees for claims for wrongful acts in running the business that result in money damage claims, not bodily injury or property damage claims.
- Main types of Management Liability—
 - Directors and Officers Liability
 - Employment Practices Liability (wrongful termination, discrimination, harassment)
 - Fiduciary Liability (mismanagement of employee retirement plans)

9. Professional Liability (Errors & Omissions)

- Businesses that provide services as opposed to tangible products may need Professional Liability insurance.
- Examples include: attorneys, doctors, lawyers, accountants, engineers, architects, real estate and insurance agents, interior designers, consultants of all sorts, anyone providing a professional service for a fee.

10. Group Life & Health

- Primarily medical insurance for employees.
- No medical underwriting for groups.
- Guaranteed issue for groups with 50 or fewer employees.
- As few as two employees constitute a group.
- The Health Coverage, Affordability, Responsibility, and Equity Act of 2009 provides tax credits to small businesses (< 50 employees) that offer health insurance to their employees. Tax credit is a maximum of 35% of premium until 2014, when it increases to a maximum of 50%.
- Offering health insurance can increase the business' ability to attract and retain quality employees.

11. Key Person Life Insurance

- Businesses that rely on the services of key people with special skills could suffer significant loss of revenue or go out of business should a key person die.
- Should a large owner or partner of a business die, the business is generally required to buy out the deceased person's equity interest in the business.
- Key Person Life Insurance provides the funds to allow the business to replace the key person, recover lost income and buy out partners/owners.

Risk Management

- It is important for businesses to have formal plans to reduce exposure to loss and to manage claims frequency.
- Firms with good programs for safe operations and employee training generally have fewer and less costly claims and can negotiate the most favorable terms with insurance companies.
- Risk Management incorporates these steps:
 - Risk Identification—what can cause the business or its employees to suffer claims?
 - Risk Analysis—what is the financial and business impact of claims?
 - Risk Control—how can exposure to claims be eliminated or reduced?
 - Risk Finance—how will claims be paid? Insurance? Deductibles? Self-Insurance?
 - Risk Administration—how will the risk management program be effectively and efficiently managed?

Resources

- Consult with a knowledgeable insurance advisor to design the right insurance program.
- Sign up for SCORE's insurance workshop: Insurance-What You Need To Know
- Meet with a SCORE mentor knowledgeable about insurance.
- Insurance defined by Wikipedia: <http://en.wikipedia.org/wiki/Insurance>