

### **I am just starting my business. Do I need insurance right away?**

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.

### **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.

### **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 Business owners 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, second policy called a difference-in-conditions (DIC) policy. 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 business owner's policy. For example, restaurants, wholesalers and garages have special liability needs that are not met in the standard business owner's policy. Your insurance agent can advise you of the best policy (or policies) to protect you and your business.

### **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 (good will, 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, an endorsement, or rider can add coverage. And some, like money and securities, may not be covered by a standard commercial policy and may require a second, separate policy.

### **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, 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 (usually 50 percent), it must be completely demolished and rebuilt in accordance with current building codes rather than repaired. Special attention is required when establishing the amount of insurance.

#### **Business Interruption Insurance**

Covers the loss of earnings as a result of damage or loss of business property. Reimbursement

for salaries, taxes, rents, and other expenses plus net profits that would have been earned during the period of interruption can be included.

### **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.

### **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. This is not part of fire insurance coverage and must be added as an endorsement.

### **Fidelity Bonds**

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

### **Glass Coverage**

Provides coverage for glass breakage such as store windows and plate glass on office fronts.

### **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 or an employee's personal effects left in the company locker room.

### **Insurance for Loss of Lease Income or Value**

Covers the loss of income when rental property is damaged or destroyed and the loss of value when the owner of the rental property also used some of its space for business. If the tenant of the destroyed or damaged building is forced to rent space elsewhere at a higher cost, this is called loss of lease value.

## **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 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 are all covered. Liability protection also will vary from business to business. A retail business is 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.

## **Who decides how much my business property is worth?**

Property insurance can be purchased on the basis of the property's actual 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 agent can advise you of the costs involved.

### **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, building collapse, and glass breakage. Property insurance can be written as either "named peril" policies or so-called "all risk" policies. A named peril policy provides coverage for those perils specifically named in the policy. An all risk policy covers loss by any perils not specifically excluded in the policy. The term "all risk" does not mean that all perils will be covered and, to avoid confusion, is often replaced with the term "special form" or "special causes of loss" coverage. Check with your agent on the perils covered by your policy. If you wish, additional coverage can be added.

### **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 business owner's 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 business owner's 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 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. Check with your agent about the best liability protection covering all types of situations that may arise in your business.

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

Yes, but in addition to covering the vehicles you own for liability, medical payments, uninsured motorist coverage, comprehensive and collision, it also covers you when you rent a car and when your employees are operating their personal cars for your business. Be sure to review your auto exposures with your 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.