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Introduction to Property Insurance

Property insurance protects small business owners from losses due to damage to physical space or equipment and as a result of theft. For insurance purposes, a business' property includes the physical building in which it resides, as well as its other assets. All of the following, owned or leased, can be considered business property:

- The actual building
- Inventory
- Furniture, equipment and supplies
- Machinery
- Computers and other data processing equipment
- Valuable papers, books and documents
- Artwork and antiques
- Television sets, VCRs, DVD players, satellite dishes
- Signs, fences and outdoor property not attached to a building
- Non-tangible items such as trademarks and copyrights

There are three types of property insurance plans:

- **Basic form**, which includes losses resulting from a fire, lightning, windstorm, hail and explosion, plus the cost of removing property to protect it from further damage.
- **Broad form**, which includes basic *plus* extended coverage for other types of perils, such as a roof collapse (e.g. caused by snow or ice), riot and civil commotion, etc.
- **Special form**, which includes basic and broad, and covers all direct physical losses *except* conditions specifically excluded as listed in the policy.

With property insurance you can buy either actual cash value or replacement cost insurance.

Actual cash value insurance reimburses you for the value of lost, damaged or stolen goods after depreciation is taken into consideration. Replacement cost insurance reimburses you the amount it would take to replace, rebuild or repair damages with materials of similar kind and quality, without deducting for depreciation.

Business Interruption/Continuation Insurance

This type of insurance covers lost earnings due to a circumstance covered by one of the property insurance plans you purchased, such as a fire or theft that shuts down your business for an extended period of time. Business interruption/continuation insurance covers expenses associated with running a business, such as payroll and utility bills, based on the company's financial records.

Business interruption/continuation coverage can be added to a property insurance policy or purchased as part of a package insurance product.

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Tips & Considerations Concerning Property Insurance

- It's important to have your property value assessed before, and periodically thereafter, any type of property insurance coverage is purchased. Be sure to keep copies of receipts for equipment, furniture and other valuable items in the event your premises are destroyed. Keep physical photos of your property in another location as well as digital pictures that you store on your computer or with a Web service.
- High-value specialty items, like antiques and artwork, should also be assessed by a reputable appraiser before you buy property insurance. These types of items are usually covered for an agreed-upon amount before a policy is written. It is important to specifically tell your agent about these specialty items so that the correct coverage is provided.
- If you lease your building or offices, do not rely on your landlord to provide coverage for your business property. The building will typically provide insurance only for the basic structure and common areas. Read your lease carefully – there may be other requirements or penalties in the fine print. Check to see what is and is not covered so that you are fully protected if something happens to your property and equipment or if someone decides to sue you for damages caused by you or one of your employees.
- A property insurance policy generally includes a statement specifying the limit of liability. Be sure you understand how it works. The limit of liability is defined as the maximum amount an insurer will pay for a covered loss. Typically, the insurer will bear responsibility up to a certain limit, as stated in the policy, with the policyholder liable for amounts above that limit.
- Costs for business interruption coverage are tied to the type of small business you operate. For example, less business interruption coverage would be needed following a fire at a travel agency versus an art gallery, assuming that it would take more time for an art gallery to recover from a fire.
- Even if you purchase business interruption coverage, make sure you have sufficient funds to tide you over the first few days. This type of coverage typically doesn't kick in for a specified time period after a disrupting incident occurs. The time period will be listed in your policy.

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Introduction to Liability Insurance

If someone falls while visiting your business premises, or a customer is hurt by a product your business sells, you can be held responsible. That's the risk that liability insurance covers.

In a 2004 survey released by the National Federation of Independent Business (NFIB), 30 percent of small business owners ranked the cost and availability of liability insurance as the second most important insurance concern they faced. (Health insurance ranked first, while workers' compensation ranked third.) Concerns about liability insurance are significantly increasing. In a 2000 survey, only 11 percent of small business owners cited cost and availability of liability insurance as a critical issue.

Liability insurance, also called Commercial General Liability (CGL), covers four categories of events for which you could be held responsible: bodily injury; damage to others' property; personal injury, including slander and libel; and false or misleading advertising. CGL coverage pays for the injured party's medical expenses. It excludes your employees, who are covered by workers' compensation. (For details see workers' compensation section of this site.) Bear in mind that even trespassers can sue you if they fall and get hurt on your business premises!

There are three types of legal damages people may sue you for that are typically covered by a CGL policy:

- **Compensatory damages:** financial losses suffered by the injured party and future losses they may suffer resulting from an injury they claim in the lawsuit.
- **General damages:** non-monetary losses suffered by the injured party, such as "pain and suffering" or "mental anguish."
- **Punitive damages:** additional penalties and charges the defendant must pay.

Standard liability insurance *does not* protect a business against:

- *Claims from sexual harassment, wrongful termination of employees, failure to employ or promote, or race and gender lawsuits.* These and other employee-related claims are covered by employment practices liability coverage. The cost of employment practices liability coverage depends on a business' number of employees, whether there is a history of the company having been sued in the past, and other business risk factors. The policy also pays for legal costs associated with a company's defense of a lawsuit related to employment practices.
- *Claims related to operating an automobile or truck.* If you own vehicles for your business, whether for deliveries or client consultations, you will need separate commercial automobile coverage to protect you and your employees against liability claims resulting from car accidents. Automobile liability insurance is required by most states. It covers medical expenses and damages to another person's property as a result of a motor vehicle accident caused by the insured's negligence. Some states mandate "no fault" auto insurance, which provides coverage for medical expenses, rehabilitation, funeral expenses, lost wages and in-home assistance to the driver and his or her passengers, regardless of who is held at fault in an accident. Many policies offer or include uninsured or underinsured motorist protection, which provides coverage for the insured and his or her passengers if they are injured in a collision caused by an uninsured or underinsured motorist. If your vehicle is primarily used for business, make sure your company's name is on the policy instead of your personal name to avoid complications later should you need to file a claim. (For details, see commercial auto insurance section of this site.)
- *Professional Liability insurance — or Errors and Omissions insurance — is coverage for wrongful practices by professional service providers (e.g. healthcare providers, lawyers and consultants). This type of insurance covers faulty service (errors) or failure to provide a service altogether (omission). Malpractice insurance is a specific type of professional liability policy that protects physicians and other licensed professionals from liability associated with bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.*

As with other liability insurance policies, premiums for professional liability coverage depend on the type of professional service being provided and its level of risk.

- **Claims related to workers' compensation insurance.** As explained in the workers' compensation insurance section of the site, workers' compensation insurance protects a business owner from claims by employees who suffer a work-related injury or illness. In all states, most companies are required to carry workers' compensation insurance for their employees. Typically, workers' compensation covers the employee's medical expenses, rehabilitation costs and missed wages. You will need a separate policy for this type of coverage. Check with your state insurance department for specific requirements in your area. According to the Small Business Administration, business owners, independent contractors, domestic employees in private homes, farm workers and unpaid volunteers are usually exempt from workers' compensation eligibility. If this is the first time you're purchasing workers' compensation insurance, the rate will depend on your payroll and your industry. After a few years, your premiums may be based on the actual experience of your company.

Other types of liability insurance include:

- An **umbrella liability policy** provides extra protection above a standard policy. Umbrella policy coverage limits are typically within the \$1 million to \$5 million range and are appropriate for business owners who have large assets or may be especially vulnerable to lawsuits.
- **Crime Insurance** protects businesses from theft and malicious damage, such as employee embezzlement.
- **"E-insurance" or Internet Business Insurance** covers Web-based businesses for damages caused by computer hackers and viruses.

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Tips & Considerations Concerning Liability Insurance

- Liability insurance premiums are typically based on a business' sales and payroll estimates provided *prior* to policy inception. If the actual amounts turn out to be higher after the policy has been issued, you may need to pay an incremental premium. Conversely, if the amounts are less than estimated, you could get a refund.
- Other factors that influence your liability premiums include your type of business and the risks generally associated with it. For example, a toy manufacturer may pay \$3 per \$1,000 of sales. Thus, on \$10 million of sales, the premium would be \$30,000. A company that manufactures a less "risky" product or engages in a less risky business, such as a florist, may pay \$1.50 per \$1,000 of sales, or \$15,000.
- Insurance companies evaluate a business's risk for liability coverage based on numerous factors: the number of claims filed within an industry or probability of a claim for a similar type of company; the financial stability and longevity of a business; state laws; business products and/or operation; and a business' approach to handling and preventing potential risks.

If you have solid, documented practices and safety procedures in place, you may be considered a lower risk by an insurance company for liability insurance and therefore be charged lower premiums.

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Introduction to Business Owner's Policy: A Package Solution

Many small business owners purchase a business package policy called a "BOP" – a business owner's policy. A BOP typically includes property insurance, business interruption/continuation insurance and liability insurance. Often it is a less costly option for small businesses than buying a set of individual policies. Many insurers customize BOPs for specific types of businesses.

However, a BOP *does not cover* professional liability (liability claims arising from wrongful practice by professionals), auto insurance, workers' compensation, health or disability insurance – all of which need to be purchased separately.

Not all businesses qualify for a BOP. For example, a factory or jewelry store would probably not qualify for a BOP. Those businesses – because of their unique risks – usually require more customized coverage than what's included in a standard BOP.

A home-based business or a company with only a few employees may start out with a BOP and then expand its coverage as it grows.

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Tips & Considerations for Reducing Business Risk

As a small business owner, you can take steps to minimize risk in the workplace, thereby helping to lower your insurance premiums. Here are some tips that could benefit your business, employees, customers and clients:

- Install fire and security alarms.
- Plan and train employees for an emergency on the premises, such as fires and evacuations.
- Have employees keep wallets and other personal items in a secure place. Keep the business' cash and other valuables in a safe.
- If employees work with machinery, provide goggles, gloves and other recommended safety gear to help prevent injuries.
- Keep office space in good physical condition. Maintain carpeting and railing on stairs. Make sure telephone and computer wiring is in good working condition and does not create any hazards.
- If your employees operate a company car, make sure they have clean driving records and are trained properly.

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Tips and Considerations for Lowering Property & Liability Insurance Costs

- Review all insurance policies annually and note any changes that may affect your coverage costs. For example your premiums could be impacted by the addition or reduction of employees, clients product offerings or inventory; alterations to your building; or changed state regulations.
- Find out how plans differ to make sure you are purchasing the best policy for your particular business and at a competitive price.
- Claim a tax deduction for your premiums on fire, casualty and burglary insurance.
- Avoid purchasing overlapping policies. Read the terms carefully to make sure you are not covered for the same item in two separate policies. This type of policy examination also helps you ensure that you are not missing crucial coverage in other areas.

NOTE: To help with claims processing:

- Document all your business assets, and keep detailed records of all your insurance policies, as well as copies of premiums you've paid and any documents concerning losses and recoveries.

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