



WHAT INSURANCE SHOULD MY BUSINESS HAVE?

Most businesses need to purchase at least the following four types of insurance:

- **Property Insurance**
- **Liability Insurance**
- **Business Vehicle Insurance**
- **Workers Compensation Insurance**

Property Insurance – Property insurance compensates you if the property you use in your business is lost or damaged as the result of various types of common “perils” such as fire or theft. Property insurance covers not just a building or structure but also what insurers call “personal property,” meaning office furnishings, inventory, raw materials, machinery, computers and other items vital to your business operations. Property insurance can do more than protect your physical assets. It may also provide operating funds during a period when you are trying to get the business back on track after a catastrophic loss. Depending on the type of policy you have, property insurance may include coverage for equipment breakdown, removal of debris after a fire or other destructive event, some types of water damage and other losses.

Liability Insurance – Any enterprise can be sued. People may claim that your business caused them harm as the result of, for example, a defective product, an error in a service or disregard for another person’s property. Or someone may allege that you created a hazardous environment. Your liability insurance pays damages for which you are found liable, up to the policy limits, as well as attorneys’ fees and other legal defense expenses. It also pays the medical bills of any people injured by your business.

Business Vehicle Insurance – If you use your own car for business purposes, discuss this with your agent. Many personal auto insurance policies exclude coverage if the vehicle involved in an accident is used mainly for business. A business auto policy provides coverage for autos owned by a business. The insurance pays any costs to third parties resulting from bodily injury or property damage for which your business is legally liable, up to the policy limits. Depending on what kind of coverage you buy, the insurance may pay to repair or replace your vehicle because of damage resulting from accidents, theft, flooding and other events.

Workers Compensation Insurance – In all states but Texas an employer must have workers compensation insurance when there are more than a certain number of employees, varying from three to five, depending on the state. Workers comp insurance, as this coverage is generally called, pays for medical care and replaces a portion of lost wages for an employee who is injured in the course of employment, regardless of who was at fault for the injury. When a worker dies as a result of injuries sustained while working, the insurance provides compensation to the employee’s family.

INSURANCE FOR A HOME-BASED OR VERY SMALL BUSINESS

An extremely small business, such as one operated by one or two people out of a home, may not need workers compensation insurance. But it often needs more property and liability insurance than is provided in a typical homeowners policy. See the section on home-based businesses. [Click here.](#)

OTHER TYPES OF POLICIES YOU MAY NEED

In addition to the basic coverages highlighted above, there are various other policies needed by some businesses. They include:

- umbrella policies
- specialized liability policies
- terrorism insurance

Umbrella Policies

As the name implies, an umbrella liability policy provides coverage over and above your other liability coverages. It is designed to protect against unusually high losses, when the policy limits of one of the underlying policies have been used up. For the typical business, the umbrella policy would provide protection over and above general liability and auto liability policies. If you have Employment Practices Liability Insurance, Directors and Officers Liability or other types of liability insurance, the umbrella could provide protection over and above those policy limits as well.

Specialized Liability Insurance Policies

Some businesses need specialized liability policies. They include:

- Errors and Omissions Insurance (E&O)/Professional Liability Insurance
- Employment Practices Liability Insurance (EPLI)
- Directors and Officers Liability Insurance (D&O)
- Business Identity Theft Insurance

Errors and Omissions Insurance/Professional Liability Insurance

If your business involves services such as giving advice, making recommendations, designing products, providing physical care or representing the needs of others, you could be sued by customers, clients or patients claiming your failure to perform your job properly had harmed them in some way. Errors and Omissions or Professional Liability Insurance covers these situations. The policy will pay any judgment for which the insured is legally liable, up to the policy limit. It also provides for legal defense costs, which can be substantial, even where there has been no wrongdoing.

Employment Practices Liability Insurance

Employment Practices Liability Insurance pays, up to the policy limits, damages for which an employer is legally liable for violating an employee's civil or other legal rights. In addition to paying a judgment for which the insured is liable, it also provides for legal defense costs, which can be substantial even where there has been no wrongdoing.

Directors and Officers Liability Insurance

Directors and Officers Liability Insurance protects directors and officers of corporations or not-for-profit organizations if there is a lawsuit claiming they managed the business or organization without proper regard for the rights of others. The policy will pay any judgment for which the insured is legally liable, up to the policy limit. It also provides for legal defense costs, which can be substantial even where there has been no wrongdoing.

Business Identity Insurance

Business Identity Theft Insurance provides legal liability coverage to businesses that are victims of data theft. Such policies can also provide coverage to notify customers whose personal identification information may have been compromised and pay for services to provide identity theft recovery services for customers.

Terrorism Insurance

Prior to the terrorist attacks of September 11, 2001, standard commercial insurance policies included terrorism coverage as part of the package, effectively free of charge. Today, terrorism coverage is generally offered separately at a price that more adequately reflects the current risk. Insurance losses attributable to terrorist acts under these commercial policies are insured by private insurers and reinsured or "backstopped" by the federal government pursuant to the Terrorism Risk and Insurance Act (TRIA), enacted by Congress in 2002. The Act was renewed for two years in December 2005 and renewed again in 2007 for another seven years. Under TRIA,

owners of commercial property, such as office buildings, factories, shopping malls and apartment buildings, must be offered the opportunity to purchase terrorism coverage. This requirement also applies to your Businessowners Policy (BOP)—your insurer must offer terrorism coverage as mandated by TRIA. In some cases insurers still include terrorism for no additional premium. In other cases there is a separate charge. You should confirm with your agent or broker whether or not your BOP or other package policy provides terrorism coverage. It is important to note that TRIA excludes certain lines, such as burglary and theft and commercial auto. Workers compensation is the only line of insurance that automatically covers acts of terrorism.

SHOULD I BUY A PACKAGE POLICY?

Insurers often combine a number of coverages into a package that is sold as a single contract. The advantage of a package policy is that it offers a broad variety of coverages for small businesses at a price that is usually lower than if the same coverages were bought separately. The most common type of package policy is the Businessowners Policy or BOP (see below).

Many insurance companies have their own unique names for the package policies they offer, and the coverages may vary somewhat from company to company. Often, these policies are created specifically for businesses that generally face the same kind and degree of risk. There are, for example, package policies designed especially for restaurants, undertakers, hair stylists, accountants and many other enterprises.

WHAT IS A BUSINESSOWNERS POLICY (BOP)?

A Businessowners Policy (BOP) combines coverage for all major property and liability insurance risks as well as many additional coverages into one package policy suitable for most small businesses. (For detailed information on property coverage under BOP, see chapter 3. For detailed liability coverage under BOP, see chapter 4.)

The term “BOP” specifically refers to insurance policy language developed (and revised as needed) by experts at ISO. ISO provides sample insurance policy language, research and a variety of other products to insurance companies.

A BOP includes business income insurance. This compensates you for the business income you may lose following a disaster. Disasters typically disrupt operations and may cause you to vacate your premises. The BOP also covers the extra expense you may incur if you must operate out of a temporary location.

To cover specific risks associated with your business, you may purchase a variety of additional coverages to add to the basic BOP. For example, the BOP doesn't cover outdoor signs unless you specifically add coverage and pay an additional premium. If your business relies on electronic commerce, you may want to add coverage for lost income and extra expenses in the event your ability to conduct e-commerce is slowed down or stopped due to a computer virus or hacker.

Only small- to medium-sized businesses that meet certain criteria are eligible for a BOP. Factors insurers consider include the size of the premises, the required limits of liability, the type of business and the extent of offsite activity. Premiums for BOP policies are based on those factors plus business location, financial stability, building construction, and security features and fire hazards.

In discussing small business insurance, we make frequent reference to the coverage provided by the ISO BOP because it is a standardized policy form. Your particular policy may be somewhat different. The coverages, however, will be similar.

A BOP does not include all the coverages you may need. It does not cover professional liability, auto insurance, workers compensation or life, health and disability insurance. You will need separate policies for those.

HOW MUCH INSURANCE DO I NEED?

When purchasing business insurance it's important to obtain the right amount. Be sure that your company is neither overinsured nor underinsured. To help you decide the amount of property insurance you need, list all your company's assets—including property, equipment and inventory. You can buy property insurance on the basis of the property's actual value (the replacement cost minus depreciation) or its replacement value (the cost of replacing the item without deducting for

depreciation).

An agent and insurance company familiar with the risks typically involved with your type of operation can help you decide on a reasonable amount of property and liability insurance.

HOW CAN I KEEP PREMIUMS DOWN?

1. Shop around. Prices vary from company to company, so it pays to get several quotes. Get the names of insurance companies or brokers who specialize in your type of business. Call several so that you can compare prices and get a feel for the types of services they would provide.

It's also important to pick a company that is financially stable. Check the financial health of insurers with rating companies such as [A.M. Best](#) and [Standard & Poor's](#) and consult consumer magazines. Your trade association or other group that represents your business may be able to provide recommendations.

2. Choose a higher deductible. Deductibles represent the amount of money you pay before your insurance policy kicks in. The higher the deductible, the less you will pay for the policy. At the same time, be sure you don't set the deductible so high that it will be a financial burden for you to pay the deductible if you have a loss.

3. Buy a package policy. A package policy, such as a Businessowners Policy (BOP), rather than individual coverages will cost less.

4. Work closely with your agent. The more the agent understands about your overall business and finances, the better he or she will be able to find competitively priced products for you.

5. Ask about specific actions you can take to prevent losses. You may be able to reduce your premium for certain coverages by following your insurer's specific recommendations. These can include tips on workplace safety, disaster preparation and devices that reduce losses (loss mitigation), such as installing alarms and sprinklers. In addition, there are steps you can take to lower the possibility that one of your employees might file a lawsuit against you for discrimination or sexual harassment, for example.

6. Avoid losses. Remember insurance works a lot like credit. Costs are lower for customers with better claim histories. The more losses you have, the higher your premiums will be, because it suggests that you are not very careful and there will be more losses in the future. If your loss history is bad enough, you may have trouble obtaining insurance at all from a private insurance company.

FINDING THE RIGHT AGENT

How do you choose an agent? The best way to find someone you're comfortable with is to talk to several over the phone or visit their offices.

Competent insurance agents should be able to answer your questions, help you assess what coverages you need and offer you insurance products to meet those needs. Ask them also how they deal with claims. Then, decide whether the agencies you contacted are likely to provide you with prompt, quality service on an ongoing basis.

Good agents can consult with you not only about the insurance you may need but also about ways to reduce the likelihood of theft, injuries to visitors and workers, and other business-related losses.

Look for an agent who knows about your type of business. Ask friends and acquaintances in the same kind of business about the agent they use. You can contact your business trade associations to see if they sponsor an insurance program designed specifically for your business or if they can provide a list of insurers who specialize in your field. The agent who handles your personal business—your auto and homeowners insurance—may be able to recommend an agent or broker to handle your business needs.

There are two kinds of insurance agents: those who represent only one insurance company and those who represent more than one. A "captive agent" represents only one company. An "independent agent" represents several companies.

An agent is a person who solicits, negotiates and implements contracts of insurance on behalf of an insurer, subject to the terms of the agency contract with the insurer and to the laws of your state. You may also obtain insurance with the help of a broker, although brokers generally work with larger entities. Traditionally, a broker has represented the policyholder. Now, the distinction between an agent and broker is blurring. The broker may act as an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium. In the insurance industry, both agents and brokers may be known as “producers.”

As important as anything else in finding the right agent is the level of professional confidence and personal comfort you feel with that person. One source of help is the Internet, which has opened up new avenues for purchasing small business insurance. Some insurance companies give customers the option of getting quotes online. In addition, there are insurance hubs that offer quotes from several insurers. These online services generally put the client in touch with an agent.

WORKING WITH YOUR AGENT

Your insurance professional can provide invaluable advice. Ask your agent what you can do to reduce risks like fire or work-related accidents and about the procedures that should be in place to minimize losses in case your business is hit with a major disaster. To ensure that you have the right coverages and the appropriate amount of insurance, you need to keep your insurance professional informed about any major changes in your business on an ongoing basis. This includes major purchases as well as changes to your building, the nature of your operation and in the number of employees.

WHO REGULATES INSURANCE?

Insurance is regulated by the individual states. Many states have publications and information on their Web sites to assist small businesses with understanding and finding insurance, as well as a great deal of other consumer insurance information. Most states have telephone helplines so that you can call and ask questions about insurance.

Should you wish to make a complaint about an agent or company, you should file it with your state insurance department. A listing of [state insurance department](#) information is included on the I.I.I. Web site.