



## **Small Business Insurance:** *What you need to know to help protect your livelihood*

As a small business owner, you face a variety of risks that can put your livelihood in jeopardy. The right business insurance coverage not only provides protection and peace of mind, but should also be a significant part of your overall business management strategy.

Unfortunately, insurance can be complicated. And with so much else to attend to, who has the time to acquaint themselves with all the ins and outs. Thankfully, you don't have to. This brief guide, including information compiled from **The National Association of Insurance Commissioners (NAIC)**, offers a quick overview of some universal business insurance terms, coverages and scenarios. It should help you understand the most common risks and how to keep your business adequately protected.

Here are some of the basic types of business insurance:

### **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

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.



## **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.

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. Bear in mind that even trespassers can sue you if they fall and get hurt on your business premises!

## **Workers' Compensation Insurance**

Workers' compensation insurance protects a business owner from claims by employees who experience a work-related injury or illness – either sustained on business premises or due to business operations. In all states, most companies are required to carry workers' compensation insurance for their employees. You will need a separate workers' compensation policy for this type of coverage. Check with your state insurance department to see what is required for your small business.

Typically, workers' compensation covers the employee's medical expenses, rehabilitation costs and lost wages. If you do not have workers' compensation and one of your employees is injured on the job, your business may be liable for any medical expenses that individual incurs. You might also face fines and penalties for noncompliance.

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.

## **Commercial Auto Insurance**

All motorized vehicles, whether used for personal or business purposes, need auto insurance. Automobile liability insurance – required by most states – covers medical expenses for injured persons and damages to the property of other individuals as a result of a motor vehicle accident caused by the insured's negligence.

While the types of coverage provided by personal and commercial auto insurance policies are essentially the same, there are important distinctions. Typically, commercial auto insurance policies have higher liability limits, for example \$1 million. They also may have provisions that cover rented and other non-owned vehicles, including employees' cars driven for company business.

Several factors related to ownership and use of vehicles determine whether a personal or commercial policy is appropriate. These include:

- Who owns or leases the vehicle – you individually or the business as an entity
- Who drives the vehicle – you or your employees
- How the vehicle is principally used – for example, transporting people, delivering packages or carrying hazardous materials



## **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.

## **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.

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.

## Glossary of Business Insurance Terms

**Liability Insurance** Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

**Physical Damage** Damage done to objects belonging to your business. As opposed to "liability," which concerns injury to persons or property damage caused to another person.

**Employee Benefits Coverage** Coverage designed to provide financial protection against oversights and mistakes that result in depriving your employees of benefits (i.e., health and life insurance coverage) provided by your company.

**Personal Insurance** Property/casualty insurance products that are designed for and bought by individuals, not businesses. These can include homeowners and automobile policies.

**Property** In the commercial lines context, this refers to the physical premises and equipment of your business and the physical premises and possessions of your customers, clients and others.

**General Liability** Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

**Crime Insurance** Property coverages for the perils of burglary, theft and robbery.

**Inland Marine** Coverage for shipments that do not involve ocean transport. Covers articles in

transit by all forms of land and air transportation as well as bridges, tunnels and other means of transportation and communication.

**Garage** Coverage for a business whose primary service involves repairing or storing of automobiles and/or trucks. Examples would include auto repair shop, fleet maintenance shop, auto body shop, etc.

**Basic Form** Coverage for your items if they are damaged by one of the following eleven "basic" causes of loss: fire; lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, or volcanic action.

**Broad Coverage** Coverage for the 11 causes of loss included in the basic form, along with three additional causes of loss: falling objects, weight of ice, sleet or snow, and accidental water damage.

**Special Coverage** exception of those specifically excluded. Offers more comprehensive insurance protection than the basic or broad forms.

**Special Deluxe Form** For Farm/Ranch policyholders, this further extends protection beyond Special Coverage. Pays for the cost to repair or rebuild a home up to a maximum of 120% of the limit applying to the damaged building, and provides Replacement Cost Coverage for the contents of the home. Extended coverage for jewelry, watches and furs is automatically provided with this Form.