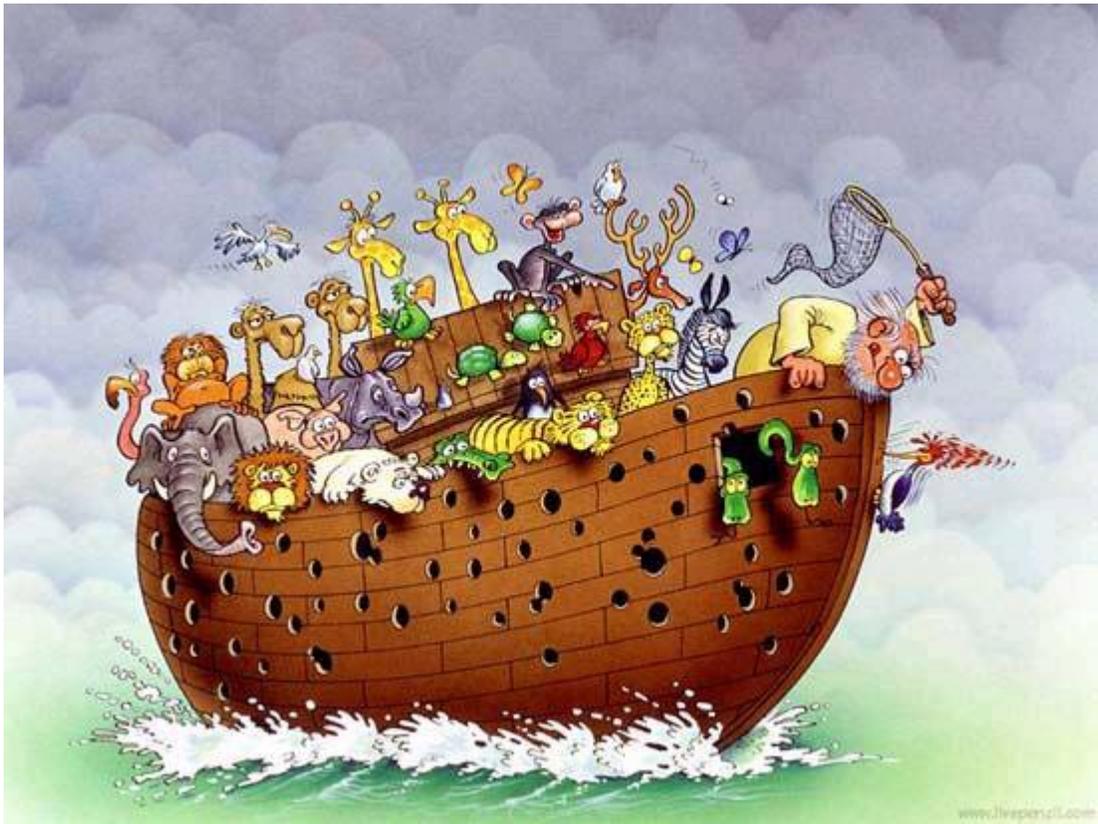


Understanding the Insurance Needs of Small Business



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BUSINESS INSURANCE INFORMATION

The success of a business, whether it's a tiny enterprise run out of a basement or a large corporation, is largely dependent on hard work and ingenuity. However, no matter how industrious you are, one disaster can wipe out all your profits and even destroy your business. The key to making sure that all the effort and money you have invested in a business doesn't disappear when a disaster strikes is to protect it with the appropriate insurance.

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.

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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.

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

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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

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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.

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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.

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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.

WHAT IS RISK MANAGEMENT?

Most entrepreneurs are risk takers, willing to invest resources with an expectation and hope, but no guarantee, of reward. But, from the viewpoint of insurance, "risk" is another word for "peril" and refers to things that can go wrong. Crime, vandalism, fire, a personal injury lawsuit, a computer virus, equipment breakdown, nondelivery of raw materials, death or illness of a key employee—the list of adverse events which can cause economic harm to your business or organization goes on.

Risk management is a broad topic. It involves taking steps to minimize the likelihood of things going wrong, a concept known as loss control. It also involves the purchasing of insurance to reduce the financial impact of adverse events on a company when, despite your best efforts, bad things happen. No one likes thinking about what could go wrong. Nevertheless, as a prudent manager, you should understand the risks your business faces. Until you identify risks, you can't make good decisions about managing them.

RISK MANAGEMENT REQUIRES LEADERSHIP

Risk management, particularly loss control, begins at the top of any organization. If the head of company makes it a point to emphasize safety, compliance, and lawful and ethical behavior, the rest of the organization is more likely to follow suit.

Risk management costs money, but the costs of not paying attention to safety concerns and not purchasing insurance can be far higher in the long run than any front-end savings. While small companies typically do not hire full-time risk managers, risk management should not be left to chance. Specific individuals should be required to take responsibility for safety and compliance programs as well as for insurance matters.

RESOURCES FOR RISK MANAGEMENT

Thanks to the Internet, all organizations have easy access to enormous amounts of information on risk management, including loss control measures, safety, compliance and disaster preparedness and recovery. Extensive checklists and suggestions of a general nature are available as well information tailored to specific types of businesses. Check the resources available from your insurance company.

One useful resource is your insurance agent. Invite the agent to tour your premises and discuss how you are currently managing risks. He or she will be able to evaluate your actions and offer suggestions.

Depending on the nature of your business, it may be a wise investment to engage a risk management consultant.

LOSS CONTROL AND INSURANCE

Effective loss control—reducing the number and size of losses—may impact both the availability and affordability of insurance.

A business that is indifferent to loss control may have a higher than average number of insurance claims. A really poor loss history can make it difficult to find insurance. Conversely, businesses that actively manage risks, and thereby control losses, will have fewer claims and will often see those efforts rewarded with lower insurance premiums.

PREVENTING FIRE LOSSES

Over time, experts have identified the most frequent causes of loss and how to reduce the extent of damage when accidents occur. Below are questions designed to help you decide whether you need to take additional precautions to control the risk of fire.

- Are employees trained in fire safety? Do they know exactly what to do if a fire starts? Is extra training given to those responsible for storage areas, housekeeping, maintenance and operations where there are open flames or flammable substances are used or stored?
- Do you have the right type, size and number of fire extinguishers? Your fire department or fire protection equipment supplier can advise you. Are the fire extinguishers serviced and tagged annually? Do you review with employees at least once a year where the fire extinguishers are and how to use them?
- If needed, have you modernized your electrical system? Faulty wiring causes a large percentage of nonresidential fires. Are electrical panels accessible, with at least three feet of clearance and labeled? Except for temporary use (or surge protection for sensitive electronics such as computers) electrical equipment should be plugged directly into an outlet, rather than into extension cords.
- Have you situated your business in a fire-resistant building—a structure made of noncombustible materials with firewalls (self-supporting solid walls running the full width and height of the building) that create barriers to the spread of fires?
- Does your building have a fire alarm system connected to the local fire department or an alarm company?
- Does your building have a sprinkler system to douse fires? If so, is it serviced, including a main drain test, at least annually? Is your sprinkler system the right one for your kind of building and the materials used in your business? Different types of buildings and contents require different types of fire suppression systems. Your insurance carrier, alarm company or local fire department can assist you in choosing the most appropriate type of system.
- Have smoke detectors been installed, and are they regularly tested?
- Have you posted "No Smoking" signs? Do you enforce the rule? Is there evidence of smoking?
- Do you regularly check your heating system?

REDUCING VULNERABILITY TO THEFT

Businesses face various types of theft, including burglary and robbery by outsiders, theft by insiders and identity theft.

Burglary – Burglary refers to crimes involving the unlawful entry of a structure with or without force. Burglary prevention starts with making your premises an unattractive target by creating barriers to illicit entry. Appropriate measures will vary depending on

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the type of business, the premises and the location. For some businesses, security needs may be met simply by leasing a professional office in a building with good security and assuring there are strong doors and appropriate locks. This is particularly true for organizations in low-crime areas without high-value goods on the premises.

An enterprise in a building with numerous entrances and windows, located in an area with a high-crime rate and having high-value goods on hand presents a different picture. Whatever type of business you have, your insurance agent, locksmith, police department and a security consultant can provide information on how to make your premises harder to burgle. They may recommend such improvements as steel doors that fit tightly into doorframes, shatterproof window glass, stronger window locks and a fence around the premises.

Exterior lighting deters burglars. The fewer dark places around your facility, the better. Don't let trees or shrubs grow around windows. These provide an opportunity for criminals to conceal what they are doing. Keep dumpsters away from the building.

Valuable property should be locked up to further deter theft. You may want to invest in an alarm system that rings in the police station or at a private security firm.

Robbery – Robberies involve the taking of valuables from another person(s) by force or threat of force. If you receive cash in your business, train employees what to do in case of robbery. Your local police department can assist you in developing training material. Limit the amounts of cash in cash registers.

Insider Crime – Many businesses put a great deal of effort into protecting their property from theft by outsiders but neglect to put an equal effort into preventing insider theft. Employers should not underestimate the risk of trusted employees stealing from the company.

Loss control experts at the Association of Certified Fraud Examiners ([ACFE](#)) encourage employers to adopt two strategies to prevent internal theft: increase the perceived probability of discovery and decrease the probability that an employee will commit the crime.

The ACFE recommends stringent accounting controls, which your accountant can help you create, and frequent audits. Having a policy that gives honest employees a way to report theft by their co-workers without fear of reprisal helps cut down insider theft, as does emphasis on ethical practices, rewarding company loyalty and having clear performance standards.

Identity Theft – Identity theft occurs when an individual uses someone else's personal information to commit fraud. Federal law requires businesses to provide identity theft victims with transaction records relating to their identity theft free of charge.

CONTROLLING LIABILITY RISKS

A person cannot prevail in a liability lawsuit against your business or you personally unless he or she can convince the judge, jury or other adjudicator that you breached your legal duty to that person. Examples of such duties include:

- Making a reasonable effort to maintain a safe environment for the public
- Refraining from slander
- Warning about an unsafe condition or product
- Investigating an employee's complaint of civil rights discrimination

In general, to reduce liability risks, you must behave lawfully and with demonstrable responsibility for the welfare of third parties—a group that includes your clients or customers, competitors and the general public. Additionally, you must obey a variety of civil rights laws and other laws that give rights to your employees (if you meet the criteria of a covered business).

If you can provide evidence that you took your responsibility seriously and made reasonable efforts to prevent harm to others, you are much less likely to be found liable. Evidence can be in a variety of forms, depending on the nature of the liability risk. A few examples are:

- Copies of communications with your customers or employees about safety and risk
- Records of your efforts to verify that someone you hired was not a risk to others
- Testimony that you provided warning signs or other warning signals regarding a hazardous condition on your property
- Evidence from other professionals in your field that the decisions you made and actions you took were consistent with acceptable professional standards
- Records that your equipment was regularly serviced by knowledgeable technicians

Notice that in most of these examples, some form of written record is involved. Documenting your efforts to behave lawfully can be vital to proving that you are not liable.

For almost any type of venture, you may find extensive and specific information on reducing liability risk exposures from your insurance agent and insurance company, trade association and the Internet. Briefly discussed here are some areas of concern that apply to many types of business. They include:

- **Slip and Fall Accidents**
- **Employment Practices Liability**
- **Hiring Practices and Liability Avoidance**

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Slip and Fall Accidents – These are one of the most common liability risks. Thousands of people are injured every year—some very seriously—in slip and fall accidents on business premises.

Employee training is critical to reducing your slip and fall loss exposure. All employees who are likely to be around third parties on your premises should be trained about what to do should someone suffer a fall. Medical care should be quickly provided to the injured person even if that means calling an ambulance. People who feel they were treated callously or indifferently are more likely to sue.

Elimination of slip and fall hazards should be a periodic scheduled activity. It may be helpful to use a checklist for this. Considerations for indoor areas include:

- **Lighting:** All areas should be adequately lighted, including hallways and stairs.
- **Exits:** Exits should be well marked, well lighted and clear of obstacles.
- **Stairs:** Handrails, steps and landings should be in good condition. Stair treads should be constructed of uniform height and width.
- **Housekeeping:** General housekeeping should be maintained and storage areas kept neat.
- **Carpeting:** Carpeting should be tight and smooth.
- **Floors:** Any changes in floor level should be clearly marked.
- **Doormats:** Doormats should be flat, slip resistant, cleaned and checked regularly in bad weather.
- **Spills:** There should be an effective procedure to assure that all spills are immediately cleaned up.

Considerations for outdoor areas include:

- **Walkways:** Walkways should be kept in good condition.
- **Lighting:** Lighting should be adequate.
- **Parking lot:** Potholes, cracks or uneven areas should be repaired.
- **Ice and snow:** There should be an effective procedure for assuring ice and snow are removed.

If there are treacherous areas—such as an uneven area of the sidewalk or a ripped carpet—consider marking them as such, using signs to warn people away and putting up barriers around them.

Employment Practices Liability – Federal law restricts employment decisions based on race and national origin, religion and creed, gender, age and disability. The restrictions on race, religion, gender and disability apply to businesses with 15 or more employees. The restrictions on age apply to businesses with 20 or more employees. An employee who feels discriminated against might sue making such charges as extreme emotional distress or wrongful termination. It is not a defense in such cases to say you didn't know your actions were unlawful.

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Larger employers typically provide formal training to management and employees on compliance with civil rights laws. As a smaller organization, you may feel you cannot afford the time or money for such programs. There are many lower cost ways of carrying out this training. The Equal Employment Opportunity Commission ([EEOC](#)), for one, has low cost materials just for small businesses.

Hiring Practices and Liability Avoidance – Immature, careless and irresponsible people are much more likely to engage in risky behaviors—from reckless driving, to sexual harassment, to cutting corners on safety rules, to stealing from their employers. Similarly, people who have drug and alcohol addictions are liable to present a variety of workplace dangers. The first step in cutting down on your liability exposure is to be as careful and thorough as possible about whom you hire. Failure to use a reasonable screening process for new hires could even expose you to negligent hiring liability.

Clear job descriptions and workplace rules, disseminated to all employees and applied consistently and without favoritism, can be a tremendous help in minimizing the risk of unacceptable behavior.

MANAGING PRODUCT LIABILITY RISKS

One of the most important ways to reduce potential product liability claims is keeping scrupulous records over the entire life of a product, from design to obsolescence. In the event of a product liability lawsuit, those records would be very important to show that you behaved with reasonable concern for the welfare of others.

To reduce the possibility of harm, your products should be carefully designed and fully tested to specifically identify possible product hazards all along the way. Provide the customer with thorough and detailed information about the product and appropriate warnings. Identify products for purposes of prompt recall and have a recall plan.

Loss control experts also recommend that you investigate, follow-up and document all customer complaints, even those that seem minor. This demonstrates your concern about your customers and shows that you take your duty to be responsible for the safety of your product seriously. Complaints could provide an early warning of a possible safety problem or other risk.

RISK MANAGEMENT FOR INFORMATION TECHNOLOGY

The greater the role that computers, the Internet and e-commerce play in your business, the more exposure you have to both property and liability risks involving information technology.

Digitally stored information is subject to many of the same risks as any other property (fire, flood, tornado, etc.) as well as special risks (computer viruses, malicious hackers, etc.). To prevent the loss of your accounts receivables, customer orders, client records or other such data, you should back up the data regularly and often and store the backup copies in a separate, secure location. Prevent data loss or corruption by viruses and hackers by keeping up-to-date antivirus software and firewalls on all your business computers.

If you rely on a Web site, either you or your Web site host should back up all critical material at least daily. To assure your Web site doesn't go down, a real-time "mirror image" of all your site data should be maintained so that it can be transferred immediately if the original site crashes for any reason.

Digital technology also presents liability risks. You could be sued if there is a breach of your security and sensitive information about others is exposed or stolen. Make sure you use reputable vendors. You could face a lawsuit claiming that your Web site uses another's copyrighted material or slanders someone. Some measures that could help control these risks include:

- Using a "security seal" from a reputable security certification organization to encrypt data
- Posting a formal privacy policy
- Having your legal counsel approve your Web site content and your privacy statement

REDUCING MOTOR VEHICLE RISKS

Traffic accidents are the number one cause of on-the-job fatalities. Effective risk management can reduce the number of injuries and deaths and the potential liability lawsuits that may result from accidents in which employees were involved.

These are some recommended practices:

- Before allowing anyone to drive company vehicles, check motor vehicle department records in any state where the person previously lived or worked.
- Prohibit driving and drinking or use of certain nonprescribed drugs.
- If intoxication or substance abuse is proven, have a safety-oriented procedure for dealing with it.

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- Implement and enforce a mandatory seat-belt policy for all drivers and passengers.
- Prohibit employees from using cell phones while driving. Require that they pull off the road before talking on a cell phone.
- Recognize that aggression and hostility are personality traits that may lead to accidents. Some drivers may need behavior modification training.
- Require drivers to report any off-duty accidents to the company. Review the motor vehicle records of your company drivers at least annually.
- Limit nonbusiness use of vehicles.
- Require employees that regularly drive vehicles in the course of their employment to complete a driver-training program that includes: safe following distance, speed awareness and control, and proper backing techniques.
- Implement a periodic safety inspection and maintenance program for all vehicles used for business purposes.
- Offer recognition to accident free drivers to encourage better driving overall.
- Make sure that your work schedule doesn't pressure drivers to speed, complete paperwork while driving or engage in other poor driving habits.
- Have a procedure for drivers to follow after any accident.
- Investigate the causes of all accidents and use the results as a training opportunity for all drivers.
- Use security measures to prevent theft and vandalism of vehicles stored on your property.

REDUCING THE RISK OF WORK-RELATED INJURIES

For most employers the cost of an employee's work-related injury is covered by workers compensation insurance, which pays for medical care and replaces some of the income that the injured employee lost while unable to work. There is no coverage, however, for the hidden costs to your organization of that injury, such as reduced efficiency, the cost of training replacements and increased overtime expenditures. The effects can be particularly pronounced in a smaller enterprise.

On-the-job injuries or vehicle accidents aren't limited to occupations that are obviously dangerous. In most years the top three causes of injuries in the workplace are overexertion (injuries caused from excessive lifting, pushing, pulling, holding, carrying or throwing of an object), falls on level ground and bodily reaction (injuries from bending, climbing, slipping or tripping without falling). Such injuries can affect workers in most environments. Whatever your industry, attention to such risks can pay dividends.

Employees should be trained to recognize hazards and to report them to the appropriate person so that the hazard can be corrected as soon as possible. Work requirements involving safety should take precedence over any other.

Any near miss, first aid incident, accident or other workplace injury-related event should be investigated. Where possible, the investigation should be carried out immediately by a team that includes both management and hourly employees, all of whom have been trained in incident investigation. The goal of investigations is to identify the cause of the accident or injury rather than assign blame and to correct any hazards or other problem found, such as poor communication.

Supervisors and managers should also be trained to recognize and correct unsafe behaviors that can lead to injuries, including rushing, frustration, complacency and fatigue.

Once a year a team should review all incidents from the prior year to see whether there are any patterns in the accidents and, if so, how to address the problems identified.

Each work site should confer with its fire and police departments and hospital about plans for all potential emergencies, including fire, explosion, accident, severe weather, loss of power and violence. Emergency drills should be used to ensure that employees know what to do and to assess the effectiveness of emergency plans.

Depending on the size and nature of your business, you may want to have employees on each work shift trained by qualified Red Cross instructors to provide first aid and CPR. Someone should be designated to keep first aid kits stocked and accessible.

For additional information, visit the Web site of the [Federal Occupational Safety and Health Administration](#). Other useful resources include your insurance agent and insurer, trade or industry organizations and the Internet.

DISASTER RESPONSE AND RECOVERY PLANNING

Every year disaster strikes a certain number of small businesses, whether it is fire, earthquake, hurricane, tornado or something else.

To reduce the destructive impact of these disasters, you should have a plan—both to respond to the immediate emergency and to get your business operating again, even if your usual premises and business equipment and materials have been destroyed. This requires careful advance planning. You may find helpful the publications and small business planning aids from the nonprofit [Institute for Business & Home Safety](#) (IBHS), an insurance industry organization whose purpose is to make homes and businesses safer from natural disasters.

Generally, risk management experts recommend the following actions as preparation for immediate disaster response:

- Write an emergency response plan, train employees how to use it and use drills to reinforce the training. Learn from the drills and improve the plan.
- Store emergency response supplies such as first-aid kits, flashlights, heavy gloves and battery powered radios.
- Plan for the backup resources you may need during an emergency, such as alternative sources of power and communications systems.
- Have a written plan of action to carry out immediately after the disaster to ensure the security of your building and contents. A typical plan includes such actions as:
 - Securing entry points to reduce the threat of unauthorized access
 - Ensuring your burglar alarm system is working
 - Hiring temporary security guards
 - Making any needed temporary repairs—for example, boarding up windows or doors and covering holes in the roof to protect your property. Plan ahead by knowing which contractors you would call if needed to perform this type of work and having their phone numbers (including cell-phone numbers) readily available.
 - Possibly relocating equipment and property to a protected area
 - As soon as feasible after the disaster, thoroughly inspect your property and record a complete description of all damage to it.
 - Keep damaged property for inspection unless circumstances make immediate disposal necessary. In that case, try to make a photographic record of any items that are being disposed of.
 - If you and your employees are involved in clean-up activities, use appropriate safety gear such as gloves, eye goggles, etc.

Understanding the Insurance Needs of Small Business

Consider how you would resume critical business operations quickly after the total destruction of your premises and the property located there. As part of the plan, you need to line up alternative facilities, replacement equipment, supply sources, etc. Here are some suggestions:

- For an alternative facility, you may want to consider making a reciprocal agreement with a competitor outside of your immediate area so that if either of you experiences a disaster, the other will temporarily share its facilities.
- If you rely primarily on suppliers in your local area, consider developing relationships with suppliers from further away in case your local suppliers are affected by the disaster.
- Have a communications plan for letting your customers know how to reach you if you cannot use your usual premises.
- Compile a list of important phone numbers, including cell phone numbers. The list should include company officials and employees (home and cell-phone numbers), local and state emergency agencies, major clients or customers, contractors, suppliers, realtors, financial institutions, insurance agents and claims representatives.
- Store the following information offsite:
 - A list of important phone numbers
 - A list of your insurance policies
 - An inventory of business equipment and other items (you may also want to have a videotape of these items)
 - Back ups of your business computer records
- Review your disaster recovery plan on a regular basis and communicate changes to key employees.

INSURING YOUR BUSINESS:
SMALL BUSINESS OWNERS' GUIDE TO INSURANCE

Welcome to the Insuring Your Business: Small Business Owner's Guide to Insurance. There are over seven million small businesses in the U.S., ranging from construction firms to grocery stores to home-based businesses. All have one thing in common: Without the right insurance coverage, each could be wiped out by a disaster or a lawsuit. In addition, almost all businesses are accountable for the safety of their workers and bear responsibility for injuries suffered on the job. This resource was designed to help you decide what kinds of insurance you need for your particular business. The navigation on the left shows general topics covered here. Click on one of the links below that best describes your business to find information about the specific coverages you should consider.

Insurance for Specific Businesses

- [Artisan Contractors](#)
- [Business Offices](#)
- [Construction](#)
- [E-Commerce](#)
- [Farm or Ranch](#)
- [Food Service Business](#)
- [Home-Based Businesses](#)
- [Lodging Business](#)
- [Manufacturers](#)
- [Nonprofit Organizations](#)
- [Professional Practices](#)
- [Real Estate and Rental Properties](#)
- [Retail Stores](#)
- [Service Businesses](#)

MORE INFORMATION ON COVERAGE

[Property](#)
[Liability](#)
[Business Vehicles](#)
[Workers Compensation](#)

INSURANCE FOR ARTISAN CONTRACTORS

The category of artisan contractors, also known as casual contractors, includes many occupations that involve skilled work with tools at the customer's premises. Carpenters, plumbers, electricians, roofers and tree surgeons are some of them. Also included are diverse other skilled service providers, such as interior decorators, piano tuners and exterminators.

Special insurance needs of this group include coverage for equipment and tools that are often moved around and for the value of work done for a customer until it is finished.

For many artisan contractors, the most cost effective and efficient way to obtain property and liability coverage is with a Businessowners Policy (BOP) especially tailored to their needs. Although marketed under a variety of names, these policies will typically have provisions similar to the BOP's.

PROPERTY INSURANCE

The BOP covers real estate and other property that your business owns that is located at the described business premises. If your business rents or leases its premises, the BOP provides coverage for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

Your biggest personal property loss exposures, however, may involve valuable machinery and equipment that moves around from job to job and is not covered by the standard property insurance. Such movable property is insured by contracts that insurers call "floaters."

An installer's floater covers all kinds of machinery and equipment during transit, installation and testing at a customer's premises. Even building materials may be covered, but the more usual coverage is for equipment or machinery that only contractors install, such as heating or air conditioning. The policy can be written to cover a single job or on a reporting form, meaning that you provide the insurer with information about each new contract you undertake.

A tools and equipment floater covers the insured property wherever it is used and may include such items as hand tools, power drills, hoisting machines and power pumps.

INSURANCE FOR BUSINESS OFFICES

An office is the primary or only premises for numerous types of small businesses, including, for example, employment, travel, collection, insurance, advertising and other agencies. Electronic equipment and data are vital to the operations of most such businesses. They also have the risk of lawsuits from disgruntled clients or customers.

For many office-based businesses, the most cost effective and efficient way to obtain property and liability coverage is with a [Businessowners Policy](#) (BOP) especially tailored to business offices and, in many cases, offices for a specific industry. Though marketed under a variety of names, these policies typically have provisions similar to the property insurance and liability insurance sections of the BOP, with the option to add various other coverages that you may need.

PROPERTY INSURANCE

The BOP covers real estate and other property your business owns. If your business rents or leases its premises, the BOP provides coverage for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

The BOP includes as part of the basic policy two types of coverage related to electronic data. Computer Operations Interruption Coverage pays for business income lost and extra expenses incurred as a result of many computer problems. Electronic Data Loss Coverage pays the cost to replace or restore electronic data destroyed or damaged as the result of causes of loss named in the policy. These include a computer virus or harmful code. For more coverage there are several endorsements you can choose to add to your BOP. You should discuss what electronic data your business uses with your insurance agent to assure you have the right coverages.

Coverage can easily be added to a BOP for such items as special equipment, fine arts, valuable papers and records or accounts receivable.

One coverage that can be vital to your company's survival in case of disaster is Business Income and Extra Expense Insurance (also known as Business Interruption Insurance). Business Interruption Insurance helps pay ongoing expenses while your business is unable to function after a loss and also helps make up for lost profits. Extra Expense Coverage helps you recover as quickly as possible by paying extras expenses caused by the loss—such as rent for temporary quarters. This coverage may be included in your package policy or it may be an optional addition.

A business office typically receives and processes payments from clients or customers, which can lead to a risk of theft by an employee. You may wish to consider adding Employee Dishonesty Insurance to your coverage.

LIABILITY INSURANCE

Liability risks are part of any business endeavor. A BOP provides a broad range of liability coverages—everything from slip and fall accidents to claims of libel or slander. At the same time, there are liability risks not covered by a BOP.

Should a client or customer sue claiming to have been harmed by something you did or failed to do, Errors and Omissions Insurance is critical for defense and payment of any damages.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR BUSINESS OFFICES

An office is the primary or only premises for numerous types of small businesses, including, for example, employment, travel, collection, insurance, advertising and other agencies. Electronic equipment and data are vital to the operations of most such businesses. They also have the risk of lawsuits from disgruntled clients or customers.

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BUSINESS VEHICLE INSURANCE

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Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR CONSTRUCTION CONTRACTORS

Your small construction business needs several of the same insurance coverages as any other business, as well as other types of insurance specific to your industry. If possible, use an insurance agent who has experience with your type of business and who works with insurance companies that specialize in construction risks. Your agent may be able to find policies that package property and liability coverages in one policy specifically to meet the needs of small construction firms.

PROPERTY INSURANCE

You may need property insurance to cover the real property your company owns and the personal property used in the business, such as office furnishings and computers. Your biggest personal property loss exposures, however, may involve valuable machinery and equipment that moves around from job to job and is not covered by standard property insurance. Such movable property is insured by contracts insurers call "floaters."

An installer's floater covers all kinds of machinery and equipment during transit, installation and testing at the purchaser's premises. Even building materials may be covered, but the more usual coverage is for equipment or machinery that only contractors install, such as heating or air conditioning. The policy can be written to cover a single job or on a reporting form, meaning that you provide the insurer with information about each new contract you undertake.

A contractor's equipment floater insures any type of movable equipment not meant to move on public highways. This includes such things as cranes, cement mixers, engines or power drills.

A tools and equipment floater covers the insured property, wherever it is used, and may include such items as hand tools, power drills, hoisting machines and power pumps.

While under construction, a building has an ever-increasing value as more of it is completed. To assure the building is covered relative to its value at the time of a loss, there is a special type of policy, known as Builders Risk Insurance. With this policy, if a tornado destroys the building when it is half finished, the policy (if it is for replacement value) covers one-half of the value the building would have had if completed. If a tornado wipes out the building when it is three-fourths finished, the policy covers three-fourths of the completed value. Alternatively, you can report an actual amount for value completed to the insurance company each month. That is the amount of coverage should a loss occur that month.

LIABILITY INSURANCE

Since there is always a possibility that someone will file a lawsuit against you claiming to have been harmed by your work, you will almost certainly need liability insurance.

You may want to require your subcontractors to have Owners and Contractors Protective Liability Coverage (OCP). This coverage protects either a property/businessowner or a general contractor from possible liability arising from the negligent acts of an independent contractor or subcontractor hired to perform work on behalf of the insured. The actual purchaser of the policy is the independent contractor or subcontractor, but the protection is for the benefit of the property/businessowner or general contractor for whom the work is being done.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your truck or other vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal truck for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INTERNET BUSINESS

If your business promotes or markets its products or services over the Internet, there are unique property and liability risks. For example, you are vulnerable to major loss exposures from malicious attacks, loss of service or theft of customer information from your database.

As use of the Internet has grown, insurers have worked to develop products that address the insurance needs of businesses that engage in e-commerce. This is an area of rapid evolution in the insurance industry.

For the majority of small businesses, the most efficient and cost effective way to obtain e-commerce-related coverage is with a Businessowners Policy (BOP), preferably one that is specifically tailored to your type of business. These policies roll a number of different types of coverage into one insurance contract. Though marketed under a variety of names, the policies typically have provisions similar to the property insurance and liability insurance sections of the BOP, with the option to add various other coverages that you may need.

PROPERTY INSURANCE

In addition to insuring your real and personal property and providing other coverage, the BOP includes as part of the basic policy two types of e-commerce-related property coverages. Computer Operations Interruption Coverage pays for business income lost and extra expenses incurred as a result of many computer problems. Electronic Data Loss Coverage pays the cost to replace or restore electronic data destroyed or damaged as the result of causes of loss named in the policy. These include a computer virus or harmful code. For more coverage, there are several endorsements you can choose to add to your BOP. You should discuss your needs with your agent.

LIABILITY INSURANCE

E-commerce creates liability risks. One is that a breach of your system may cause private information to be compromised. You can add the Electronic Data Liability Endorsement to your BOP to cover liability resulting from loss of electronic data that is caused by an "electronic data incident."

Another is the risk that someone could accuse you of libel, slander or advertising injury because of something published on your Web site. The BOP would provide coverage to defend you and pay any damages for which you are legally liable, up to the policy limit.

While these coverages help protect your e-commerce endeavor, there are events that would not be covered. For example, the Electronic Data Liability Endorsement, defines an "electronic data incident" as an "accident, negligent act, error or omission" that results in loss of electronic data. If the data loss is from some other cause—such as theft—there is no coverage. Insurers are working to develop products that will fill in this and other gaps in e-commerce insurance coverage.

WORKERS COMPENSATION

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR FARMS AND RANCHES

A family operated farm or ranch typically has a variety of real and personal property such as farm equipment, livestock and buildings. Losses can come from perils that affect any other kind of business, such as fire or windstorm, but also from unique risks, such as the death of livestock or destruction of crops by hail.

For most farms or ranches the most cost effective and efficient way to obtain property and liability coverage is with a package policy that combines a variety of coverages in a single contract, similar to a [Businessowners Policy](#) (BOP) but tailored to a farm or a ranch. Though marketed under a variety of names, these policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP, with the option to add various other coverages that you may need.

The advantage of this product is that it gives a broader range of coverage at a lower cost than is available by buying various separate policies for different risks.

PROPERTY COVERAGE

The property section of a farm package policy typically provides coverage for dwellings on the farm premises, including mobile homes, household personal property, both scheduled (listed) and unscheduled (unlisted) farm personal property and other farm structures. Mobile agricultural machinery and equipment is covered. Also covered is loss of use of any of this property when due to a covered cause of loss.

There are many other types of property insurance coverage that will be appropriate for some farming or ranching operations such as these:

- **Transportation Floater:** This provides coverage for an insured's property while in transit, either while being delivered to the insured or en route from the insured to the customer.
- **Livestock Coverage:** This provides coverage for loss due to death or necessary destruction of cattle, sheep, swine, goats, horses, mules and donkeys as a result of any of the basic causes of loss.
- **Crop Insurance:** This covers growing crops from loss or damage due to various perils, including hail and windstorm, damage by wildlife, adverse weather conditions, insect infestation and other perils. The federal government and private insurers provide various types of coverage for crops.

LIABILITY COVERAGE

Up to the policy limit, the liability section protects the farmer, rancher or similar agricultural establishment owner from claims alleging bodily injury or property damage caused by an incident involving the premises or operations of the insured. You have the option of adding additional coverage through endorsements. For example, if you lease employees from labor-leasing firms, there is an endorsement to add coverage for injury to leased workers.

BUSINESS VEHICLE INSURANCE

The farmer's package policy does not cover any vehicles—including cars, trucks or trailers—designed for use on public roadways. For these, you need separate motor vehicle insurance.

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business.

Should you be driving your truck for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. You may want to discuss with your insurance agent whether you need a business auto policy.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance, including, in some states, rules that are different for agricultural operations than for other businesses. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR FOOD SERVICE BUSINESSES

Whether your food service business is a café, deli, diner or gourmet restaurant all food service businesses have certain risks in common.

Your most cost effective and efficient way to obtain property and liability coverage will probably be with a **Businessowners Policy** (BOP) especially tailored to food service risks. Though marketed under a number of names, these policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP.

PROPERTY INSURANCE

The BOP covers real estate your business owns. If your business rents or leases its premises, the BOP provides coverage, in the event of a covered cause of loss, for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

The BOP also covers your equipment, dishes, food and other business property. Your basic policy will probably include two coverages that are often vital to business survival if there is a disaster: Business Income and Extra Expense Insurance (also known as Business Interruption Insurance). Business Income Insurance helps pay ongoing expenses while your business is unable to function after a loss and also helps make up for lost profits. Extra Expense Insurance helps you recover as quickly as possible by paying extra expenses caused by the loss—such as rent for temporary quarters. If these coverages are not part of your basic policy, you can add them for an additional premium.

Any business that serves food carries the risk that its product could cause food poisoning or transmit a communicable disease. Adding the Food Contamination Endorsement to your policy gives you insurance for this risk. With most policies, the insurer will pay for lost income if the restaurant is closed down by government authority and will also pay for clean up expenses, food replacement, medical tests for infected employees and additional advertising expenses to restore your reputation.

Other useful property coverages are:

- Spoilage: Covers the value of property spoiled as a result of a breakdown of your temperature control system due to conditions beyond your control.
- Mechanical Breakdown: Covers mechanical or electrical breakdown to your boilers, pressure vessels, refrigeration systems, piping and mechanical and electrical machines or apparatus that generate, transmit or simply use mechanical or electrical power.
- Outdoor Signs: Covers an outdoor sign not attached to the building
- Burglary and Robbery: Covers the risk of theft by outsiders
- Employee Dishonesty: Covers some risks of theft by your own employees

LIABILITY INSURANCE

Liability risks are part of any business endeavor. A BOP covers a broad range of potential liability situations—everything from slip and fall accidents to claims of libel or slander.

At the same time, there are liability risks not covered by a BOP. One that could prove costly to a business that serves alcohol is liquor liability. If you serve alcohol to someone who has already had too much to drink, you may be liable for any harm that person does. A Liquor Liability Endorsement covers your defense and any damages for which you are liable, up to the policy limit.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR HOME-BASED BUSINESSES

Whether you're doing medical billing, building birdhouses in your garage, running a day care center, auctioning art on eBay or any one of the myriad of other types of businesses people run from their homes, you may not have adequate insurance.

Many people think their homeowners policy is all they need. But a typical homeowners policy may not provide enough coverage. The usual limit is \$2,500 for your business equipment while at home and \$250 when it's off the premises.

Most homeowners policies specifically exclude business liabilities. Even though your at-home business may involve only yourself working just part time, you could still have liability risk. For example, someone may come to your home for a business purpose—such as delivering materials—and sustain an injury on your premises for which they believe you are responsible. Your homeowners policy would probably not cover the damages.

HOW TO ADD MORE COVERAGE

There are three ways to provide more property and liability insurance for your in-home business. The right choice will depend on the nature of your business, its annual receipts and the amount of coverage you need. They are:

- Endorsement to Your Homeowners Policy
- In-Home Business Insurance Policy
- Businessowners Policy (BOP)

Endorsement to Your Homeowners Policy

Your homeowners insurer may offer an endorsement to your homeowners policy that adds additional property coverage and some limited liability coverage. For less than \$20 a year, you may be able to double your standard policy limits for business equipment from \$2,500 to \$5,000. This option is usually limited to businesses that have less than a set amount of annual receipts, usually around \$5,000.

In-Home Business Insurance Policy

Some insurers offer specific in-home business insurance policies with some of the same features as larger commercial policies but with lower policy limits and at a lower premium. With this coverage, generally at a price of less than \$300 a year, you can insure your business property for \$10,000. The policy includes general liability coverage with the limit you choose, between \$300,000 and \$1 million.

Should you have to shut down your business because of damage to your house, the in-home policy will cover the income the business loses and ongoing expenses, such as payroll, for up to one year. The policy also provides limited coverage for loss of valuable documents, accounts receivable, offsite business property and use of equipment.

Understanding the Insurance Needs of Small Business

Businessowners Policy (BOP)

Many insurers offer small businessowners policies combining a wide variety of coverages in a single policy. You may want to talk to your insurance agent about whether the broader property and liability coverages you would get with a Businessowners Policy (BOP) are recommended for your business.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business.

Should you be driving your auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. You may want to discuss whether you need a business auto policy with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR SMALL LODGING BUSINESSES

Lodging businesses typically have substantial investments in their real property and furnishings. Smoking by guests and other hazards put the property at risk. The nature of the business, as one catering to the general public, creates the risk a guest or visitor will file a lawsuit claiming you are responsible for an injury. Given the risks, both property and liability insurance can be critical to the long-term success of the business.

The most cost effective and efficient way to obtain property and liability insurance coverage for your lodging business will usually be with a [Businessowners Policy](#) (BOP). Some insurers have tailored policies specifically to the insurance needs of smaller lodging businesses. Though marketed under many names, these policies typically have provisions similar to the property insurance and liability insurance sections of the BOP.

PROPERTY INSURANCE

Your package policy will cover your owned real estate, the furnishings and the equipment necessary to conduct your business.

There are several optional coverages you may wish to add to your property insurance, such as for:

- Outdoor signs not attached to your building
- Trees, shrubs and other outdoor landscaping that can be costly to replace
- Glass breakage

Your agent can help you decide what other property coverages you may need.

LIABILITY INSURANCE

In the event of a lawsuit by a guest or visitor, your liability insurance pays for legal defense and any damages for which you may be liable, up to the policy limit.

An additional coverage that most lodging establishments find essential is Innkeeper's Liability Insurance. This covers property belonging to guests while it is on the insured's premises and in the insured's possession. Up to the policy limit, this insurance pays any sums your business is legally obligated to pay as damages because of loss of, or damage to, a guest's property.

If you have a restaurant or bar, you should have a liquor liability policy to protect you from a lawsuit charging that you served or sold liquor to an intoxicated person who was subsequently involved in an accident. [Click here](#) for more information about insurance for food service businesses.

You may want to purchase an umbrella liability policy to increase your liability limits.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR SMALL MANUFACTURERS

Although the range of different products manufacturers produce is huge, with only a few exceptions the risk exposures differ more in degree than in kind.

Generally, the most cost effective and efficient way to provide property and liability insurance for your small manufacturing operation is with a [Businessowners Policy](#) (BOP). This type of policy offers a package of different coverages for a single premium. Insurers have put together packages tailored to many specific types of small manufacturers. Though marketed under a variety of names, these policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP, with the option to add various other coverages that you may need.

PROPERTY COVERAGE

The package policy covers real estate your business owns. If your plant rents or leases its premises, the policy provides coverage, in the event of a covered cause of loss, for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

The policy also covers your other business property—equipment, machinery, raw materials, inventory, etc. The insurer will require you to report periodically on values in raw materials, goods at various stages of production and finished inventory so that if there is a loss, the claim can be settled with correct values.

The basic policy usually includes two types of coverage related to electronic data. Computer Operations Interruption Coverage pays for business income lost and extra expenses incurred as a result of many computer problems. Electronic Data Loss Coverage pays the cost to replace or restore electronic data destroyed or damaged as the result of causes of loss named in the policy. These include a computer virus or harmful code. For more coverage, there are several endorsements you can choose to add to your BOP. You should discuss what electronic data your business uses with your insurance agent to assure you have the right coverages.

The basic policy usually includes two coverages that can be vital to your business survival if there is a disaster: Business Income and Extra Expense Insurance (also known as Business Interruption Insurance). Business Interruption Insurance helps pay ongoing expenses while your business is unable to function after a loss and also helps make up for lost profits. Extra Expense Coverage helps you recover as quickly as possible by paying extras expenses caused by the loss—such as rent for temporary quarters. If these aren't part of your basic policy you can probably add them for an additional premium.

Understanding the Insurance Needs of Small Business

There are numerous types of property coverage some businesses need that are not included in the basic policy. Among others, these include coverage for theft and burglary, employee dishonesty, mechanical breakdown or property of others in your care, custody or control. Be sure to discuss with your agent what additional property coverages you may want to add.

LIABILITY INSURANCE

Liability risks are part of any business endeavor. A package policy provides a broad range of liability coverages—everything from slip and fall accidents to claims of libel or slander. Probably the most important for the manufacturer is Products-Completed Operations Coverage. This provides for legal defense and payment of damages in the event there is a lawsuit charging that a product you manufactured injured the claimant.

Most package policies exclude any coverage for pollution or environmental damage. Coverage can be added through endorsements.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal truck or van for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR NONPROFIT ORGANIZATIONS

Understanding the Insurance Needs of Small Business

Like a business or a homeowner, a nonprofit organization needs to protect its property from loss from a fire, by theft and from many other hazards. Nonprofits can be lawsuit targets as well. Without insurance, a lawsuit could prove financially devastating. Whether a human services, arts, educational, civic or other type of nonprofit, your organization should be protected by liability insurance to cover defense costs and damages.

Some insurers specialize in coverage for nonprofits and may be able to best meet the insurance needs of your organization.

PROPERTY INSURANCE

There are many aspects to property insurance. If your organization owns real estate, you will want to insure the property. If it rents or leases its premises, you may want coverage for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

Depending on the particulars of your activity, you may want to add other coverages, such as Theft and Burglary, Employee Dishonesty or Electronic Data Loss.

LIABILITY INSURANCE

Nonprofits have no immunity from lawsuits. Clients, volunteers, vendors, donors or visitors may sue if they are accidentally injured on your premises or while on business for the organization. Someone may sue claiming libel or slander. Employees may sue claiming discrimination or sexual harassment. Liability insurance covers these risks.

Before buying insurance, it's a good idea to consider the particular loss exposures you have and to buy a policy that addresses them. If, for example, your organization is made up mostly of volunteers and has no paid staff, your best choice could be a policy that covers only volunteers.

BUSINESS VEHICLE INSURANCE

Vehicles owned by a nonprofit organization will need to be insured with a business auto policy.

Anyone driving a personal auto on business for a nonprofit organization will have coverage under his or her personal auto liability policy. If the personal policy has low limits, however, they could quickly be exhausted by an accident with serious injuries. An injured party might then sue the nonprofit group. You should discuss with your insurance agent whether the organization is adequately protected.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If your organization has three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR A PROFESSIONAL PRACTICE

Professional practices need the same types of insurance as any other business for property, workers compensation and vehicles. Many professionals view professional liability insurance as an even more critical coverage. Professionals are concerned that in today's litigious society, every mistake, suspected mistake or incident of client or patient dissatisfaction can lead to a lawsuit. Professional Liability Insurance protects them from the potentially ruinous economic consequences of this risk.

For many specialties, the most cost effective and efficient way to obtain property and liability coverage is with a specialized Businessowners Policy (BOP). Insurers have put together combinations of coverage specifically tailored to the needs of physicians, architects, accountants, attorneys and many other practices. These policies typically have provisions similar to the property insurance and liability insurance sections of the BOP.

PROPERTY INSURANCE

A package policy covers real estate and other property your business owns. If your practice rents or leases its premises, the policy provides coverage for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

The policy will probably include two coverages that are often critical for business recovery after a disaster: Business Income and Extra Expense Insurance (also known as Business Interruption Insurance). Business Interruption Insurance helps pay ongoing expenses while your business is unable to function after a loss and also helps make up for lost profits. Extra expense coverage helps you recover as quickly as possible by paying extra expenses caused by the loss—such as rent for temporary quarters.

With electronic data playing such an important role in business today, the policy will likely include such coverage as Computer Operations Interruption Coverage to pay for business income lost and extra expenses incurred as a result of computer problems. Electronic Data Loss Coverage pays the cost to replace or restore electronic data destroyed or damaged as the result of causes of loss named in the policy. These include a computer virus or harmful code. As needed, you can add even more coverage through endorsements. You should discuss your needs with your agent.

Coverage can easily be added to these policies for such items as special equipment, fine arts, valuable papers and records, and accounts receivable.

Professional practices should also consider adding Employee Dishonesty Insurance Coverage to protect against theft by their own employees.

LIABILITY INSURANCE

When you provide any type of advice, expertise or professional service you risk being sued by a customer, client or other third party who claims he or she was injured due to your negligent act, error or omission. Professional Liability Insurance, also known as Malpractice Insurance, and Errors and Omissions Liability Insurance pays the cost of your defense and any damages awarded, up to policy limits. Insurance companies have developed many specialized policy forms that respond to the individual risks characteristic of particular professions.

A practice also needs coverage for other potential liability risks it has in common with many other types of enterprises, such as a slip and fall claim or a libel or slander claim. [Click here](#) for information about the protections typically provided by liability insurance and about optional coverages you may wish to add.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR REAL ESTATE BUSINESSES

Generally, the most cost effective and efficient way to provide property and liability insurance for your small real estate business is with a Businessowners Policy (BOP) specifically tailored to the type of real estate you sell. These policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP. If you don't find coverage in a package policy, you can buy property and liability insurance separately.

PROPERTY INSURANCE

The policy covers the structures described in the policy. Accurate descriptions of the properties, as well as inventories of furnishings and equipment, are important to having the coverage you expect and avoiding any ambiguity if you have a claim.

Most policies include coverage for fixtures, machinery and equipment owned by the building owner, attached to a described building and permanently installed. Coverage for some similar items not permanently installed can be added by endorsement. Coverage may also extend to outdoor fixtures and include property, like lawnmowers and snow blowers, which are used to service the premises.

There are many types of coverage that can be added to the basic property insurance, including these common ones:

- **Ordinance or Law:** If a building is damaged by a covered cause of loss, this insurance pays for costs caused by the enforcement of any ordinance or law requiring demolition of the undamaged portion or for the increased cost of construction to rebuild with mandated construction materials.
- **Debris Removal:** This coverage increases the basic limit of insurance (often \$5,000) to cover the cost for debris removal necessitated by loss to a covered property.
- **Outdoor Trees, Shrubs, Plants:** This covers the cost to replace landscaping plants lost as the result of a covered cause of loss.
- **Glass Breakage:** This insurance covers the cost to replace plate and other glass, including cost of supporting bars or frames and cost of lettering and ornamentation.
- **Signs Coverage:** This coverage insures electrical signs against many accidental causes of loss.
- **Boiler and Machinery Insurance:** This coverage pays for loss or damage resulting from accidents to pressure and refrigeration equipment, including boilers, air conditioning and refrigerating equipment; mechanical objects; electrical objects; and turbine objects.

Depending on the location of the insured property, it may be wise to add coverage for earthquake and/or flood.

LIABILITY INSURANCE

[Click here](#) for general information about the protections typically provided by liability insurance and coverages that you may wish to add.

Of particular importance if you are selling real estate may be Errors and Omissions Insurance, which protects you if there is a lawsuit charging that something you did or failed to do caused the claimant bodily or personal injury. This coverage provides for your legal defense and pays any damages for which you are liable, up to the policy limit.

Another type of coverage you may find useful is Owners and Contractors Protective Liability Coverage (OCP). It protects a property/businessowner from possible liability arising from the negligent acts of an independent contractor or subcontractor hired to perform work on behalf of the insured. The actual purchaser of the policy is the independent contractor or subcontractor, but the protection is for the benefit of the property/businessowner for whom the work is being done.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

INSURANCE FOR SMALL RETAIL STORES

Whether selling jewelry or garden plants, bicycles or lingerie, retail establishments typically have some features in common. For one, they usually have inventory that needs to be protected from physical perils, such as fire or theft. They also have a good deal of store traffic from the general public, raising the risk of third-party bodily injury claims.

Generally, the most cost effective and efficient way to provide property and liability insurance for your small retail business is with a Businessowners Policy (BOP) specifically tailored to small retail stores. Though marketed under a variety of names, policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP, with the option to add various other coverages that you may need.

PROPERTY COVERAGE

The BOP covers real estate your business owns. If your store rents or leases its premises, the BOP provides coverage, in the event of a covered cause of loss, for tenants' improvements and betterments. These are fixtures, alterations, installations, or additions that you have put into the space that cannot legally be removed from the landlord's premises.

The BOP insures your other business property (in addition to real estate) and your inventory. The policy recognizes that many retailers experience seasonal variations in value. For the majority, Christmas is the big selling season, but for others, the biggest season may be summer. The BOP accommodates seasonally fluctuating inventory value with an automatic 25 percent increase in your policy limit for business personal property, which includes inventory. The seasonal escalator applies only if you have insured business personal property to at least 100 percent of your average monthly values during either the 12 months preceding the loss or the period of time you have been in business as of the date of the loss, whichever is less.

The higher your inventory's value, the more attractive a target it is for thieves. Risk management can help reduce this risk, but can never entirely eliminate it. To protect from potential losses, you will probably wish to add Burglary and Robbery Coverage to your BOP. Employee dishonesty is another risk for which you can add protection. The BOP already covers your risk of accepting bogus money orders and counterfeit money, although you may want to add higher limits.

Understanding the Insurance Needs of Small Business

Depending on the nature of your retail business, other coverages that may be appropriate to add include:

- Spoilage: If you sell items—such as cut flowers or food—that must be kept under controlled temperature conditions to avoid spoiling or perishing, you can add spoilage coverage for the value of property spoiled as a result of a breakdown of the temperature control system due to conditions beyond your control.
- Food Contamination: If you sell food, there is a risk that it could cause food poisoning or transmit a communicable disease from an employee of your business. You can cover this risk with a Food Contamination Endorsement.
- Mechanical Breakdown: This option provides coverage for mechanical or electrical breakdown to your boilers, pressure vessels, refrigeration systems, piping and mechanical and electrical machines, and apparatus that generate, transmit or use mechanical or electrical power.
- Outdoor Signs: The basic BOP doesn't cover an outdoor sign not attached to the building, but you can add this coverage as a separate endorsement.

Another thing to consider is insuring your merchandise while it is in transit. Although it will usually be insured by the transportation company that is delivering it, the limit may not be high enough nor the coverage sufficiently extensive. You can add more coverage with a “transportation floater.” This form of insurance covers your property while it is being transported from one point to another or in the care, custody or control of others.

LIABILITY COVERAGE

The liability coverage in the BOP protects your business from many liability loss exposures. For most stores, a frequent risk is that a customer could be injured in a slip and fall accident. While the BOP covers your liability in such accidents, up to the policy limit, it's also important to manage the risk to keep insurance claims down.

As a seller of products, there is also the risk that someone could sustain bodily injury or other harm from something you sold. This risk, too, is covered by the BOP.

If your business involves selling on the Internet, you can find out more about insurance issues on the e-commerce page of this Web site.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

MORE INFORMATION ON COVERAGE

[Property](#)

[Liability](#)

[Business Vehicles](#)

[Workers Compensation](#)

INSURANCE FOR SERVICE BUSINESSES

A relatively generic business office is the primary or only premises for numerous types of small service businesses, including, for example, employment, travel, collection, insurance, advertising and other agencies as well as for brokerage and consulting firms.

Other service businesses—such as hair salons, Internet service providers or photographers—require a substantial amount of service-specific equipment to provide their service.

Both types of businesses have risks in common. For example, all are at risk of lawsuits claiming that they failed to provide a service as promised or expected.

For many types of service businesses, the most cost effective and efficient way to obtain property and liability coverage is with a Businessowners Policy (BOP) tailored to their specific industry. Although marketed under a number of different names, these policies will typically have provisions similar to the property insurance and liability insurance sections of the BOP.

PROPERTY INSURANCE

If your business owns the building it occupies, the policy covers that property. If your business rents or leases its premises, the policy provides coverage for tenants' improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

Your policy will probably include two coverages that can be critical to enabling your business to recover after a disaster: Business Income and Extra Expense Insurance (also known as Business Interruption Insurance). Business Interruption Insurance helps pay ongoing expenses while your business is unable to function after a loss and also helps make up for lost profits. Extra Expense Coverage helps you recover as quickly as possible by paying extra expenses caused by the loss—such as rent for temporary quarters.

The BOP includes as part of the basic policy two types of coverage related to electronic data. Computer Operations Interruption Coverage pays for business income lost and extra expenses incurred as a result of many computer problems. Electronic Data Loss Coverage pays the cost to replace or restore electronic data destroyed or damaged as the result of causes of loss named in the policy. These include a computer virus or harmful code. For more coverage, there are several endorsements you can choose to add. You should discuss your needs with your agent.

Coverage can easily be added to these policies for such items as special equipment, fine arts, valuable papers and records, and accounts receivable.

Understanding the Insurance Needs of Small Business

The more high-value merchandise on the business premises, the higher the possibility that it will be a target for theft. Robbery and Burglary Insurance may be needed as well as Employee Dishonesty Insurance to protect against theft by insiders. You can add these coverages to your package policy.

LIABILITY INSURANCE

If you provide any type of advice, expertise or professional service you risk being sued by a customer, client or other third party who claims he or she was injured due to your negligent act, error or omission. Professional Liability Insurance, also called Malpractice Insurance, and Errors and Omissions Liability Insurance, pays the cost of your defense and any damages awarded, up to policy limits. Insurance companies have developed many specialized policy forms that respond to the individual risks characteristic of particular businesses.

You also need coverage for other potential liability risks you have in common with many other types of enterprises, such as a slip and fall accident or a libel or slander claim. [Click here](#) for information about the protections typically provided by liability insurance and about coverages that you may wish to add.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

Should you be driving your personal auto for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you or your employees use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

ROLE OF PROPERTY INSURANCE

Insurers are in the unique position of having encyclopedic information about the many different ways your business property could be damaged or destroyed, from fire and flooding to embezzlement. Property is also vulnerable as a result of a variety of other events such as electrical surges, accidental activation of a chemical sprinkler system or a computer virus.

Because insurers know so much about what can go wrong, they can provide your business with the insurance coverages your particular type of enterprise requires. Without appropriate insurance, property losses can easily cause the entire enterprise to fail.

The purpose of property insurance for the small business is to provide critical financial assistance in the event of a loss, so that the enterprise can continue to operate with as little disruption as possible.

Property insurance alone is seldom enough, however. It should be but one part of an overall risk management and disaster recovery plan. On average, businesses that devote resources to risk reduction and risk control have fewer insurance claims. Firms with a good record on claims generally have more insurers competing for their business, so that they are able to find coverage more easily and often at a lower price than companies that have more losses.

We cover here, in a general way, many of the more common types of property coverage. You can obtain full information about your particular policy by reading the policy itself and discussing your coverage needs with your agent or insurance company.

PROPERTY INSURANCE POLICIES

Insurers offer small businessowners a huge variety of property insurance policies. There are policies that cover only a single peril, or cause of loss, such as a fire insurance policy, a crime policy or an electronic equipment policy. The particulars of the policies vary from insurer to insurer.

And there are policies that include several different coverages in a single “package.” The majority of small businessowners find it more convenient and economical to purchase a package policy, which provides protection against many types of loss in a single policy. Insurers may create their own insurance policies. Many rely in part on a package policy format from ISO. This policy is generally referred to in the insurance industry as the Businessowners Policy (BOP). The BOP is revised periodically. The discussion here is based on provisions of the 2004 revision to the BOP.

PROPERTY COVERAGE IN THE BOP

The BOP covers any buildings the business owns and much of the property needed to run the business.

Specifically, the policy covers:

- Buildings as named in the policy "Declarations," generally the first pages of the policy. Structures are covered as well as permanently installed fixtures, machinery and equipment; outdoor fixtures; items you use to maintain or service the building, such as appliances; and additions under construction. You can choose to insure your buildings at their "actual cash value"—what they are worth—or their "replacement cost"—what it would cost to replace them with new construction. To keep up with the increasing cost of rebuilding, the policy's limit of insurance for covered buildings will automatically rise by a set percentage each year. Be sure to discuss with your agent whether you should purchase the standard building coverage or replacement cost coverage.
- Building contents, although there are a few exceptions. The policy covers most property on or near the business premises that is used in the business. This would include such things as machinery, computers, raw materials or inventory. You also have coverage for any leased property, which you are contractually obligated to insure.
- Property of others that is in your care, custody and control to the extent you are legally liable for that property. This coverage is particularly important to a business, such as a computer repair shop, that earns revenue from servicing the property of others.

WHAT ABOUT A BUSINESS THAT LEASES OR RENTS ITS PREMISES?

If your business rents or leases its premises, your lease should describe your obligations with respect to insurance. If you are the sole tenant, you may be responsible for insuring the building. You may be responsible for continuing to pay rent even if the building is destroyed. Should a fire destroy the building, will the landlord or the tenant be responsible for debris removal? You may want to review your lease with your insurance agent to be sure your property insurance covers your obligations.

For those who rent, the BOP provides coverage for tenants' improvements and betterments. These are fixtures, alterations, installations or additions that you have put into the space that cannot legally be removed from the landlord's premises.

COVERED CAUSES OF LOSS

Insurance contracts always describe in some way the perils being insured against. One type of BOP names the covered causes of loss. Another uses what insurers may call the “special form,” which states that all causes of loss are covered except those that are excluded by name. Because the special form provides broader coverage, premiums for this type of BOP may be higher.

In the BOP format that names covered causes of loss, those included are fire, lightning, most explosions, windstorm or hail, smoke from accidental fire, aircraft or vehicles (not including those owned or operated by the business itself), riot or civil commotion, vandalism, automatic sprinkler leakage, sinkhole collapse, building collapse, volcanic action and certain types of damage from water or other liquids.

CAUSES OF LOSS THAT AREN'T COVERED

A number of events that can cause property loss are not covered by the basic BOP. Some, such as employee dishonesty or breakdown of a steam boiler, are excluded from the basic BOP, but you can add coverage to it by payment of an additional premium. Some events, such as wear and tear, aren't covered because they don't meet the basic criteria for insurance of being accidental and unpredictable. (Regular maintenance of property is your responsibility.) Coverage for other events, such as flood and earthquake, aren't needed by all businesses. Separate policies are available. Nuclear reaction and war are considered to be uninsurable, since insurers cannot predict with any degree of accuracy the frequency of such events or amount of damage likely to occur.

The following are some of the other events that can cause damage that are usually excluded from the basic BOP: power failure (except when it causes loss or damage to computers and electronic data); failure of computer hardware or software; robbery and burglary; most instances of pollution; and changes in humidity or temperature. Also excluded is coverage for missing property where there is no physical evidence to show what happened to the property, such as with a shortage discovered after taking inventory.

Be sure you understand what causes of loss are and aren't covered by your policy. Discuss with your agent the extent to which your business risks a loss from any of these excluded events and whether you should purchase coverage for these particular risks if it is available.

PROPERTY THAT ISN'T COVERED

The basic BOP excludes some types of property from its coverage. For many of these items, such as money and securities or outdoor signs, insurance is available as an addition to the BOP for an additional premium. For items such as motor vehicles or boats, however, you will need to purchase a separate policy. Excluded property usually includes:

- Any vehicles subject to motor vehicle registration, including aircraft, autos and trucks
- Bullion, money or securities
- Land, water, growing crops, lawns, trees, shrubs or plants
- Outdoor fences and signs not attached to the building

You should discuss with your agent what property is and isn't covered by your policy, as well as whether you may need to purchase additional coverage for some types of property excluded from the basic BOP coverage. Since most businesses, for example, own or use vehicles, they should consider business automobile insurance.

IS THERE ANY COVERAGE FOR POLLUTION?

Coverage for pollution is limited to cleaning up pollution that was caused by a covered cause of loss occurring during the policy period. For example, if vandals opened drums of a toxic chemical and poured it on the ground, the insurer would cover the cost of the cleanup, up to the policy limit, since vandalism is a covered cause of loss. On the other hand, if the toxic chemical slowly leaked into the ground because the drum was defective and had a tiny hole in it, you would not have coverage under the BOP. A defect in the drum is not a covered cause of loss under your property policy. (For help with cleanup costs in this hypothetical situation, you might find compensation from the liability insurance of the drum manufacturer or seller of the chemical.)

BUSINESS INCOME AND EXTRA EXPENSE COVERAGE

If your main business premises are destroyed along with much of the property you used to operate, this loss, though devastating, may be only just one part of the total. You should consider purchasing Business Income and Extra Expense Insurance (also known as Business Interruption Insurance).

Understanding the Insurance Needs of Small Business

Every day you are unable to operate is a day of lost income, for you personally and for the business. If the property damage or loss prevents you from providing products or services to your customers or clients, they may go elsewhere and many of them may never return. If you are to keep your employees, you must continue to pay their wages, even when the business is generating much less than normal income. It is little wonder that many businesses that lack insurance to cover the potential ongoing economic effects of a serious destructive event are unable to survive. A survey by the National Association of Insurance Commissioners found that only 35 percent of small businesses, defined as firms with fewer than 100 employees, have business interruption insurance.

Prudent businesses have disaster recovery plans that include insurance to cover lost income and extra expenses that can result from getting back on track after a covered loss.

Because coverage for lost income and extra expenses is so important to continued business survival, it is part of the standard BOP. The policy covers actual loss of net business income that would have been earned had it not been necessary to suspend operations due to a covered cause of loss. The policy also covers continuing normal operating expenses such as utility payments and payroll.

The insurer will pay, as well, extra expenses that you incur to avoid or minimize the suspension of operations. Such extra expenses often include costs to relocate, and to equip and to operate replacement premises, as well as expenses to repair or to replace property and to restore lost information on damaged valuable papers and records.

Generally, these coverages are triggered only when you have a direct loss from a covered cause of loss. If the cause of loss is an earthquake, there will be no coverage under the BOP. If your business must be closed due to someone else's loss, there is no coverage. For example, your business could be an accounting firm located on the third floor of a large building. If there is a fire on the ground floor of the building, which does no damage in your office but causes the building to be shut down for repairs for a month, your BOP would not provide coverage for lost business income and extra expenses, since you did not have a direct loss yourself.

SEASONAL VARIATIONS IN VALUE

Your business may be one of the many that experience seasonal variations in the value of inventory, raw materials and other items. A complete loss at the height of the summer if you sell ice cream or during the winter holiday season if you have a retail operation may be several times larger than during the rest of the year. To protect against a loss in the busy season, the BOP provides for an automatic 25 percent increase in your policy limit for business personal property. The seasonal escalator applies only if you have insured your business personal property to at least 100 percent of your average monthly values during either the 12 months preceding the loss or the period of time you have been in business as of the date of the loss, whichever is less.

OTHER LOSSES AND EXPENSES COVERED BY THE BOP

The BOP includes numerous other coverages to protect your business from a variety of accidental events that could wreck havoc on your financial well being. These include:

- Actions of Civil Authorities
- Bogus Money Orders and Counterfeit Money
- Business Income from Dependent Properties
- Computer Operations Interruption
- Debris Removal
- Electronic Data Loss
- Expense to Preserve the Value of Property
- Fire Extinguisher Recharge
- Forgery or Alteration
- Fungi, Rot and Bacteria
- Window Glass Breakage Expenses

Actions of Civil Authorities – Sometimes physical damage to property other than your own leads the police or other civil authorities to prevent you from having access to your own premises. If the loss at the other property is due to a cause covered by your policy, then the insurer will pay for your actual loss of business income and any necessary extra expense caused by the action of civil authorities.

By way of example, assume you own a hair salon. An explosion has significantly damaged other businesses near you, although your own premises suffered no physical damage. The police close off the whole block for a week, preventing your business from operating from that location. Your insurer will cover your lost income and extra expense caused by this action.

Bogus Money Orders and Counterfeit Money – Should your business make the good faith mistake of accepting bogus money orders or counterfeit money, the insurer will pay up to \$1,000 to cover the loss.

Business Income from Dependent Properties – This coverage, which may also be called "Contingent Business Income" or "Contingent Business Interruption," applies when your business is dependent on another operation and the other operation is unable to conduct its usual business because it has been damaged by a cause of loss that is covered by your policy. Should you suffer a loss due to such damage at the premises of a business you depend on ("dependent property"), the insurer will pay for the actual loss of business income you sustain.

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For example, you've designed a new type of folding beach chair and you have many orders to ship it in time for the summer selling season. Your chairs are manufactured at the Contract Furniture Factory (CFF). Due to damage from a fire, CFF is unable to make your chairs. Should neither you nor CFF have a backup manufacturer who can fulfill the contract, you will lose income from the orders you cannot ship. Your insurer will pay for the net income loss you suffer as a result. If, however, damage at CFF is due to an earthquake and you don't have earthquake insurance this coverage will not apply since the damage at the dependent property was not due to a covered cause of loss.

Computer Operations Interruption – Should computer operations be interrupted due to a covered cause of loss, your insurer will pay up to \$10,000 for business income lost and extra expenses incurred as a result of the computer problem. In addition to other causes of loss, this coverage applies to a loss caused by a computer virus, harmful code or other harmful instructions entered into your computer system or a network to which it is connected. There is no coverage, however, for loss or damage caused by the actions of any employee, including temporary or leased employees, or by anyone you hire to work on your computer system.

Debris Removal – When a building is destroyed or damaged by fire, wind or other peril, debris is left that must be removed before reconstruction can occur. The business policy, within certain conditions, covers the cost of removing debris left behind as a result of a covered cause of loss.

There is an extra \$10,000 of coverage for debris removal should the limit of insurance be reached before debris removal has been factored in.

Electronic Data Loss – In the event electronic data is destroyed or damaged as the result of a covered cause of loss, the insurer will pay the cost to replace or restore it. Causes of loss that apply to this coverage include a computer virus, harmful code or other harmful instructions entered into your computer system or a network to which it is connected. The coverage applies as well to cyber extortionists who threaten to bring your computer system down with a code or virus if you don't meet their demands. There is no coverage, however, for loss or damage caused by the actions of any employee, including temporary or leased employees or by anyone you hire to work on your computer system. (Negligent work by third parties should be covered by their liability insurance.)

Expense to Preserve the Value of Property – To preserve the value of property, it may be necessary to move it from the insured premises to another location. For example, if a major storm is predicted and your building has no basement, you may want to move some of your high-value inventory to a safer location. The property policy covers such property while it is being transported and for up to 10 days after it is moved to the alternative location.

Fire Extinguisher Systems Recharge Expense – If your fire extinguishing system is discharged (other than during installation or testing), the insurer will pay to have it recharged or replaced, whichever costs less.

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Forgery or Alteration – The insurer will pay up to \$2,500 (unless you buy a higher limit) for losses resulting directly from forgery or alteration of any check, draft, promissory note or similar promise of payment in money that you or your agent issued or that someone impersonating you or your agent issued.

Fungi, Rot and Bacteria – Your BOP insurer typically limits the situations in which it will pay for loss or damage caused by fungi, wet or dry rot, or bacteria. Usually, the insurer will pay up to \$15,000 only when the underlying cause of the damage is a specified cause of loss other than fire or lightning that occurs during the policy period and only if you used all reasonable means to save and preserve the property from further damage at the time of and after that occurrence.

Window Glass Breakage Expense – Where glass has been broken, the insurer will pay expenses to put up temporary boards if repair or replacement of damaged glass is delayed.

ADDITIONAL COVERAGES YOU MAY NEED

The standard Businessowners Policy (BOP) recognizes that some types of coverage are important for some customers but not for others. It makes provision for adding coverage through what insurers may refer to as "optional coverages," coverage extensions and endorsements. These are among the coverages you may choose to add to your BOP with the payment of an additional premium:

- Accounts Receivable
- Adding Additional Insureds
- Burglary and Robbery
- Computer Fraud and Funds Transfer Fraud
- Earthquake and Volcano Coverage
- Employee Dishonesty
- Food Contamination
- Mechanical Breakdown
- Money and Securities
- More Coverage for Valuable Papers, Records and Electronic Media
- Newly Acquired or Constructed Property
- Outdoor Property
- Outdoor Signs
- Personal Effects
- Personal Property Off Premises
- Spoilage Coverage

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- Utility Services—Direct Damage
- Valuable Papers and Records
- Water Back-up and Sump Overflow

Accounts Receivable – As part of your risk management plan, to the extent feasible, you should keep backup copies of your accounts receivable in a separate location. For some businesses, however, it may be in the nature of the business that accounts receivable records are vulnerable to property loss. If needed, you may extend coverage under your BOP. The accounts receivable extension obligates the insurer to pay amounts due from your customers that you are unable to collect. The limit is up to \$10,000 per occurrence for records located on the premises described in the policy "Declarations" or \$5,000 for records located elsewhere.

Adding Additional Insureds – In many situations, a business is required by contract or law to add coverage to its BOP for other parties who usually have property at risk that is in the care of the insured. Such parties typically include managers or lessors of a rented or leased premises and mortgage holders. You can add coverage to your BOP with an Endorsement Adding Additional Insureds.

Computer Fraud and Funds Transfer Fraud – Your business may run the risk that someone will cause an unauthorized transfer of funds from your bank account, whether through electronic or written instructions. The Endorsement for Computer Fraud and Funds Transfer Fraud covers this risk. The insurer pays for the loss of money and securities resulting directly from a fraudulent instruction instructing a financial institution to transfer, pay, or deliver money or securities from your “transfer account.” The endorsement defines a “transfer account” as “an account maintained by you at a financial institution from which you can initiate the transfer, payment or delivery of money and securities.”

Burglary and Robbery – If your business has high-value goods that are attractive to criminals, loss control will go a long way to reducing the threat of theft or burglary. Optional burglary and robbery coverage, however, may be a wise part of the risk management plan.

Burglary means taking of property from inside the described premises by a person unlawfully accessing the premises as evidenced by marks of forcible entry or exit. Robbery means unlawfully taking property from a person who has the property in his or her care and custody.

The insurer covers the property on the business premises, while it is at a bank or savings institution, when it is in the custody of any employee or businessowner in his or her living quarters or while it is in transit between any of these places.

Coverage is limited to \$2,500 for furs, watches, jewelry, precious metals, patterns, dies, molds and forms. If additional coverage for such property is needed, it can be purchased separately.

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Earthquake and Volcano Coverage – You may add this endorsement to your BOP to protect your business property from losses due to these perils. A different method of calculating deductibles, as a percentage of the coverage rather than as a flat dollar amount, may apply to this coverage.

Electronic Commerce – If your business relies on e-commerce—that is, business activity conducted over the Internet—you may want to add the Endorsement for Electronic Commerce to your BOP. The insurer covers your lost income and extra expenses in the event your ability to conduct e-commerce is slowed down or stopped due to the causes of loss covered by the BOP. The endorsement also provides coverage for the cost of reconstructing electronic data if it is lost due to a covered cause of loss or if it is stolen by someone other than an employee, volunteer worker or contractor.

Employee Dishonesty – Burglary and robbery insurance does not cover losses caused by employees or authorized representatives who commit dishonest acts. Employee Dishonesty Insurance provides this coverage.

Most experts agree that businessowners tend to greatly underestimate their vulnerability to theft by their own employees. According to the Association of Certified Fraud Examiners (ACFE), the average business loses 6 percent of its total annual revenue to employee fraud. The ACFE says smaller companies, particularly those with fewer than 500 employees, are most susceptible to these losses. Virtually any business with employees is at risk of losses caused by employee dishonesty. As with other causes of loss, effective loss control measures can go a long way toward reducing this loss exposure.

Employee Dishonesty Insurance covers losses caused by temporary or leased workers as well as employees. Many employee fraud schemes go on for years before they are detected. If you have added this coverage to your BOP, your insurer will pay for a covered loss or damage sustained during the policy period and discovered no later than one year from the end of the policy period.

Food Contamination – If you are involved in a food business, there is always some risk that food you sell could cause food poisoning or transmit a communicable disease from an employee of your business. This risk can, of course, be reduced and controlled by following a good risk management plan, but it can never be totally eliminated.

The Endorsement for Food Contamination provides coverage for most of the expenses you would incur if food you sold caused food poisoning or disease. Coverage includes the cost of additional advertising to restore your reputation.

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Mechanical Breakdown – This option provides coverage for mechanical or electrical breakdown to your boilers, pressure vessels, refrigeration systems, piping, and mechanical and electrical machines or apparatus that generate, transmit or simply use mechanical or electrical power. For many businesses that depend on such equipment, a breakdown means the inability to operate and loss of income. If you run a sawmill and the saw breaks down, for example, you're effectively out of business until the saw is repaired. Mechanical breakdown coverage might be a wise investment to cover this type of risk.

Money and Securities – You have the option to add coverage for money and securities to your policy. The insurer covers the property on the business premises, while it is at a bank or savings institution, when it is in the custody of any employee or businessowner in his or her living quarters or while it is in transit between any of these places.

More Coverage for Valuable Papers and Records – As part of your loss control plan, to the extent feasible, you should keep backup copies of records in a separate location and valuable papers in a fire proof safe or a bank safety deposit box.

For some businesses, however, it may be in the nature of the business that certain valuable papers and records are vulnerable to property loss. Should you lose valuable papers and records as the result of a covered cause of loss, your basic BOP will pay the expense, up to your policy limit, to reconstruct the records.

If needed, you may add more coverage to your BOP for the cost to reconstruct valuable papers and records, including those that exist on electronic media. The covered property includes documents, manuscripts and records (including abstracts, books, deeds, drawings, films, maps or mortgages). It also includes electronic data processing, recording or storage media; data stored on such media; and programming records used for electronic data processing or electronically controlled equipment.

Newly Acquired or Constructed Property – If your policy covers buildings, you may extend the coverage to newly acquired buildings intended for similar use as the insured building or as a warehouse. This coverage also applies to new buildings while being constructed on the premises described in your policy. Any newly acquired business personal property is also covered. This is temporary coverage that provides time to report the new property to your insurer. The coverage expires 30 days after you acquire the property or begin construction.

Outdoor Property – You may extend your policy's coverage to apply to outdoor items, including signs, fences, shrubs and plants, and satellite dishes. Debris removal of these items is included. The most the insurer will pay under this extension is \$2,500 and not more than \$500 for any one tree, shrub or plant.

Outdoor Signs – For some businessowners, the only outdoor asset not covered by their basic BOP that they wish to insure is outdoor signs not connected to their building. The BOP provides an option to add just this coverage.

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Personal Effects – You may extend your coverage to apply to personal effects owned by officers, managers and anyone who works at the company. There is a \$2,500 limit on this coverage. It does not apply to loss or damage by theft.

Spoilage Coverage – If you are in a business that involves supplies, inventory or other materials that must be maintained under controlled temperature or humidity conditions for preservation and that are susceptible to loss or damage if the controlled temperature or humidity conditions change, you will probably want to add the Endorsement for Spoilage Coverage to your BOP. The covered causes of loss are mechanical breakdown of your refrigeration or humidity control system and power outages due to conditions beyond your control. The insurer will cover the cost of property that is spoiled by these causes.

Utility Services—Direct Damage – Loss of water, communication or power service could be costly to many businesses. The Endorsement for Utility Services—Direct Damage will cover the loss caused by interruption of one or more utility services; but only when the interruption is caused by a covered cause of loss to the property supplying water, communication services or power. In other words, if your phone service goes out because of lightning damage to the phone company's property, that is covered because a BOP covers losses from lightning. If, on the other hand, your phone service goes out because of flood damage to the phone company's property, that is not covered because a BOP doesn't cover flood losses.

Water Backup and Sump Overflow – Property loss caused by water backup from a sewer or drain or sump overflow are excluded from your BOP. If these are significant risks to your business, you may need to add the Endorsement for Water Backup and Sump Overflow to your policy.

LIABILITY INSURANCE

Given the possibility of a lawsuit should someone claim to have been harmed by your work, you will almost certainly need liability insurance.

If working as a subcontractor, your customer may require you to have Owners and Contractors Protective Liability (OCP) coverage. This protects either a property/businessowner or a general contractor from possible liability arising from the negligent acts of an independent contractor or subcontractor hired to perform work on behalf of the insured. The actual purchaser of the policy is the independent contractor or subcontractor, but the protection is for the benefit of the property/businessowner or general contractor for whom the work is being done.

WHY DO I NEED LIABILITY INSURANCE?

Good liability risk management can reduce the chances that your business will be sued, but it can never eliminate the risk entirely. You or a member of your organization can make a mistake that injures someone or damages property. Your mistake could harm the reputation or interfere with the privacy of a customer, client, competitor or member of the general public. When such injuries occur, you may be legally liable to pay damages to someone who suffers a loss due to your actions or inaction.

Depending on the degree of harm and the number of people injured and/or value of property damaged, a lawsuit could bankrupt your business. Even if your organization is ultimately cleared of any wrongdoing, a determined plaintiff can keep you tied up in legal proceedings for a long time, entailing significant cost to defend yourself. Liability insurance pays the cost of your defense and protects your assets.

HOW ARE LIABILITY AND DAMAGES DETERMINED?

Everyone in society has a duty to take reasonable care that his or her actions do not injure others. The same rule applies to business entities. Not repairing a pothole in a parking lot, not lighting a dark stairway, failing to train workers how to do their jobs safely and legally or failing to provide directions for the safe use of a product can constitute negligence if a client, customer or member of the general public is injured as a result. The legal meaning of negligence is failure to exercise reasonable care.

If the parties do not agree to settle a liability lawsuit, there may be a trial. Or, the parties may agree to use some alternative means of dispute resolution, such as arbitration, and be bound by the arbitrator's ruling.

The law of the state where the lawsuit is filed sets the rules for the determination of liability and damages. The amount of damages imposed in any particular case is, of course, in part a function of the economic losses the plaintiff can prove he or she has endured due to the defendant's negligence. In some states plaintiffs may also be awarded damages for pain and suffering and other noneconomic losses.

WHAT KIND OF LIABILITY POLICY SHOULD I GET?

For small businesses the most efficient and least expensive way to purchase liability insurance is usually as part of the Businessowners Policy (BOP) which combines property and liability insurance in one contract. Alternatively, a business may purchase a Commercial General Liability (CGL) policy. You should discuss with your agent which policy is best for you.

WHAT TYPES OF DAMAGES ARE COVERED BY THE BOP?

Your liability insurer will pay damages that you are legally obligated to pay as a result of “bodily injury,” “property damage” or “personal and advertising injury,” up to the policy limits and subject to your deductible. Punitive damages are generally not covered, although there may be some exceptions.

Bodily injury means injury, sickness, disease or death; it may include injuries that are emotional or mental, such as post traumatic stress syndrome or humiliation.

Personal and advertising injury includes libel, slander or any defamatory or disparaging material or a publication or utterance in violation of an individual's right of privacy; infringing the privacy or copyright rights of another in your advertisement; wrongful entry or eviction, or other invasion of the right of private occupancy; and false arrest or wrongful detention.

WHAT IS COVERED MEDICAL EXPENSES?

For the most part, your BOP liability coverage is for situations where a third party claims you were negligent and sues for damages. The medical payments coverage is an exception, as it pays medical expenses for bodily injury to third parties that occurs on premises you own or rent or as a result of your operations regardless of fault.

People are less likely to sue you if they receive prompt medical payments to cover the costs of any injuries they have sustained for which they could claim your business or organization is liable. Medical Payments coverage gets the payments to them without their having to file a lawsuit or go to court and engage in a protracted claims process. This coverage also allows your insurer to pay small nuisance claims without the need for costly legal expenses.

People who commit insurance fraud usually know that for claims below a certain amount, insurers prefer to pay the claim or settle rather than incur the legal costs to defend against the claim. If you have a relatively high limit for medical payments, your insurer can more readily dispose of a lot of smaller claims. However, submitting multiple medical expense claims could negatively impact your insurance claims history. If you are in a business with significant traffic from the public, such as a retail store, be sure to discuss the possible consequences of your medical payments limit on your claims history with your agent.

WHO IS INSURED?

BOP liability coverage insures a sole proprietor, partners or partners named in the policy "Declarations," but only with respect to their duties on behalf of the business. The spouses of sole proprietors or partners are also covered. If your organization has officers and directors, they are insured, as are your stockholders, but, once again, and this applies to all parties, only with respect to their duties or liabilities in connection with the business. Employees and volunteer workers are insured for acts committed within the scope of their employment in your business.

THE INSURER'S RIGHTS AND DUTIES

- The insurer may investigate any event that has led to a liability claim.
- The insurer has a duty to defend the insured in any lawsuit seeking damages for a covered type of injury or damage.
- At its discretion, the insurer may settle any claim or lawsuit.
- The insurer's right and duty to defend and pay claims ends when the applicable limits of insurance as specified in your policy "Declarations" are used up in the payment of judgments, settlements or medical expenses.
- The insurer bears the cost of providing a defense; this cost is not part of your policy's coverage limits.

WHAT IS AN "OCCURRENCE?"

Your liability policy often refers to an "occurrence." The ISO BOP (1) defines an "occurrence" as "an accident, including continuous or repeated exposure to substantially the same harmful conditions." An accident is an event that causes injury to the body, property, person or reputation of a third party whom you did not intend to injure. (The designation "third party" means a party other than you or the insurer. It is a third party who claims or sues for damages as a result of an occurrence. You are the first party and the insurer is the second.) An explosion or a car accident are each examples of an occurrence that could result in bodily injury and/or property damage.

The phrase "continuous or repeated exposure to substantially the same harmful conditions" in the definition of occurrence makes clear that the insurer covers situations where harm was done because of an ongoing situation. For example, a person who lived near a commercial chicken farm might claim to have developed allergic asthma as a result of breathing dust from the chicken farm over many months.

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WHEN IS AN OCCURRENCE COVERED?

Property damage or bodily injury is covered when it meets these three conditions:

- It is caused by an “occurrence”
- It is in the "coverage territory"
- It is during the "policy period"

Coverage Territory - Coverage territory is for the most part confined to the United States, including its territories and possessions, and Puerto Rico and Canada. It extends to international waters or airspace only when the travel is between destinations in the United States, including territories and possessions, and Puerto Rico and Canada.

There are three situations, however, when the coverage territory extends to injuries or damage anywhere in the world, so long as the lawsuit is brought in the United States and it involves:

1. Goods or products you made or sold in the United States, including its territories and possessions, and Puerto Rico and Canada.
2. The activities of someone from your business in another part of the world who is away from his or her home in the United States, including its territories and possessions, and Puerto Rico or Canada only for a short time.
3. Personal or advertising offenses facilitated through the Internet or similar electronic communications.

Policy Period - The policy period comprises the dates on which the coverage begins and ends. The standard form of liability policy covers only injuries and damages that you (or an authorized employee) come to know about within the policy period. The policy covers personal and advertising injury only when the offense was committed during the policy period.

If there are further developments regarding a bodily injury or property damage that first becomes known to you and about which you give notice to your insurer during the policy period, that insurer continues on that claim beyond the policy period.

For example, Mae Hoover, a customer, sues you after she slips on ice in your parking lot and breaks a wrist. You turn the suit over to your insurer, ABC Insurance. A few months later, you change your liability policy to XYZ Insurance. A month after you go with XYZ, Mae amends her original lawsuit. She now contends that her wrist has not healed properly and seeks additional medical payments for the cost of surgery and higher damages for her lost income, expenses to her family because of her injury and for pain and suffering. Even though ABC is no longer your liability insurer, Mae's claim and the new developments continue to be handled by ABC, the insurer who handled the claim at the time it originally occurred.

HOW ARE POLICY LIMITS APPLIED?

The limits of your coverage are set forth in your policy "Declarations." The policy describes how the limits will be applied. The amounts are the most the insurer will pay, regardless of the number of persons or organizations making claims or bringing suits against you.

The most the insurer will pay for either (1) all damages because of all bodily injuries, property damage and medical expenses arising out of any one "occurrence" or (2) personal and advertising injury sustained by any one person or organization depends on the circumstances. A single occurrence can produce many costly liability claims. If a fire due to your negligence spread from your building to destroy several neighboring structures and caused a death, the value of all the claims against you could be significant even though there was only one occurrence. Regardless of the circumstances, the payment must fall within the liability and medical expenses limit shown in the policy's "Declarations" page.

In addition to these limits for one occurrence, the policy has aggregate limits. These apply when you have more than one occurrence that results in bodily injury and/or property damage during the policy period. Aggregate limits are divided into two sections:

- The most the insurer will pay for all bodily injury and property damages that result from the products-completed operations hazard is twice the liability and medical expenses limit.

- The most the insurer will pay for all bodily injury and property damages that result from occurrences other than those included under the products completed operations hazard, plus medical expenses, plus all covered personal and advertising injury, is twice the liability and medical expenses limit.

For higher coverage limits, you will need an umbrella policy.

WHAT IS THE "PRODUCTS COMPLETED OPERATIONS" HAZARD?

If you manufacture, sell or distribute a product, there is the possibility that it could cause bodily injury or property damage for which you would be legally liable. Even if you only sell or distribute the product, you could still be liable depending on the circumstances.

If you provide a tangible service, such as installing heating systems, there is the risk that negligence could result in damage caused by your work after your work is done (a "completed operation"). For example, a contractor installs a steam heating system and three months later it leaks and causes property damage.

The "products completed operations" hazard covers each of the above risks under certain conditions.

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When a product is involved, to be covered, the injury or damage must occur away from your own premises—unless your business includes the selling, handling or distribution of your product for consumption on premises you own or rent.

With respect to property damage as the result of completed operations, “property damage” means physical damage to tangible property, including loss of use of that property. Intangible property, such as digital data, would not be covered.

DAMAGE TO PREMISES YOU RENT

If you rent or lease a building or part of a building, you could have a fire liability risk. Should a fire caused by your negligence burn your rented premises and other property owned by your landlord, you could be liable for the damage. If you rent or lease business premises, be sure to discuss with your agent how much insurance you need to cover your fire liability exposure.

WHAT IS NOT COVERED?

A number of situations, people and circumstances are excluded from the standard BOP liability coverage. There are various reasons. Injuries to employees are excluded because employees are usually covered for work-related injuries by workers compensation insurance. Liability for pollution or in connection with professional services is excluded because only some businesses need that coverage and it can be purchased separately. Auto liability is excluded because it is covered by a businessowners auto policy. Damage to your own property is excluded because it is covered by your property insurance.

The standard policy form does not provide coverage for a recall of products, work or impaired property due to a suspected defect, deficiency, inadequacy or dangerous condition. You may purchase a Product Withdrawal Expense Endorsement to cover some of this risk.

YOUR DUTIES REGARDING ANY CLAIM

By acting quickly, your insurer can often settle a liability claim and head off a costly lawsuit. For this reason, insurers require that you inform them as soon as practicable when you are aware of an occurrence that may result in a claim, even if no lawsuit has been filed. As part of your insurance contract, you are required to give this notice and to provide information about the occurrence, including names and addresses of anyone injured and any witnesses, as well as the nature of any injuries or damage. You also agree to cooperate fully in the investigation of the incident.

Other than for first aid, you will not have insurance coverage for any payments or expenses you make or agree to make without the insurer’s consent.

ENDORSEMENTS TO BOP LIABILITY COVERAGE

Endorsements are additions to insurance contracts that change the coverage. Endorsements can add liability coverage for specific circumstances to the BOP. Among those most commonly added are:

- Employment Practices Liability
- Liquor Liability
- Employee Benefits Liability

Employment Practices Liability Endorsement – If your business has even a few employees, you cannot entirely avoid the risk of a lawsuit charging you with some type of employment discrimination, whether based on sex, race, age or any one of a number of other characteristics. This is typically one of those exposures—much like the exposure to theft by trusted insiders—that employers tend to think “won’t happen here.”

Unfortunately, even if you have an excellent risk management program, an employment practices lawsuit can happen in any business. For example, you may fire a worker for poor job performance only to find he or she files a lawsuit charging that the real reason for the termination was race, religion, age or some other protected characteristic. Regardless of whether the employee can ultimately prove the charges, you may be tied up in a legal defense for a long time. Even if you think you’ve done nothing wrong, you could be found liable for discrimination and responsible for the payment of a large damage award.

The Employment Practices Liability Endorsement provides coverage for violations of seven different federal antidiscrimination statutes named in the endorsement, as well as for violations of similar state and local statutes.

You must choose a supplemental limit and deductible for this coverage that is separate from any of your policy's other limits. As part of the contract, you give the insurer the right to defend against any claim. The insurer may offer to settle a claim. If you do not consent to the settlement, the most the insurer will pay on the claim is the amount it offered in settlement.

Liquor Liability Endorsement – People who are intoxicated can harm others. If your business involves serving liquor for a charge, or if a license is required for you to serve liquor (even if you do not charge for it), your BOP liability coverage does not cover your liability exposure—the possibility that someone you served could cause a car accident, for example. The Liquor Liability Endorsement provides coverage for bodily injury or property damage for which an insured may be held liable by reason of any of the following:

- Causing or contributing to the intoxication of any person
- Furnishing alcoholic beverages to a person under the legal drinking age or under the influence of alcohol

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- Violating any statute, ordinance or regulation relating to the sale, gift, distribution or use of alcoholic beverages

Employee Benefits Liability Endorsement – If you have employee benefits programs, there is a risk you will be sued by employees or retirees charging there was negligent administration and management of the benefit plan. Even though you may use a professional benefits administrator, the personal assets of your in-house plan fiduciaries may be at risk if they are responsible for errors, omissions or breach of their fiduciary duties. The Employee Benefits Liability Endorsement covers this liability exposure.

SPECIAL COVERAGES

Depending on the nature of your business and its risk exposures you may need one or more of the following types of liability coverages:

- Umbrella Liability Insurance
- Errors and Omissions Liability Coverage/Professional Liability Insurance
- Directors and Officers (D&O) Liability Insurance

Umbrella Liability Insurance – A big difference between property and liability risks is that you can put a value on the property you have at risk, but there is no way to predict the amount of damages you could be required to pay as the result of a catastrophic accident. If, for example, you were found liable in a school bus accident that injured children, the damages could be in the millions of dollars.

Umbrella Liability—also known as Excess Liability Insurance—provides extra protection for catastrophic events. The primary policies are called “underlying” policies and are specifically listed, along with their limits, on the umbrella policy. Typically, the underlying policies are your primary general liability, auto liability and the employer’s liability section of your workers comp policy. The umbrella coverage starts to pay when a covered loss exhausts the primary policy’s per occurrence limit.

Most umbrella policies exclude employment practices liability, professional liability, product recall coverage, workers compensation and coverage for asbestos-related claims, pollution, war and terrorism.

Errors and Omissions Liability Coverage/Professional Liability Insurance – If you provide any type of advice, expertise or professional service, you risk being sued by a customer, client or other party who claims he or she was injured due to your negligent act, error or omission. This type of negligence is sometimes referred to as “malpractice.” Professional Liability Insurance, also called Errors and Omissions Liability Insurance, pays the cost of your defense and any damages awarded, up to policy limits. Insurance companies have developed many specialized policy forms that respond to the individual risks characteristic of particular professions and services.

Understanding the Insurance Needs of Small Business

Directors and Officers Liability Insurance (D&O) – D&O Insurance protects past, present and future directors and officers of a for-profit or nonprofit corporation from damages arising out of alleged or actual wrongful acts committed in their capacity as directors and officers. Some policies extend the same coverage to employees. The policies provide protection in the event of any actual or alleged error, omission, misstatement, misleading statement or breach of duty.

Many policies will also cover the corporate entity for claims involving the sale or purchase of the company's securities. A D&O policy does not cover exposures properly covered under other policies, such as bodily injury or property damage, which are covered under general liability.

HOW MUCH LIABILITY COVERAGE DO I NEED?

The amount of liability coverage a business needs depends on perceived risk. You should first consider the amount of risk inherently associated with your business. For example, a business that manufactures or distributes power tools is at a greater risk of being sued than one that distributes towels and would therefore need more liability insurance. You can usually get a good sense of lawsuits involving your type of business through your trade association. Ask your agent for help assessing your liability risk.

KEEPING PREMIUMS DOWN

As with other types of insurance, the general rule for liability insurance, from an insurer's perspective, is that your past claims history is a good predictor of your future claims. The greater the risk of future claims, the higher the premium. Good liability risk management is critical both to keeping premiums under control and avoiding losses.

Higher deductibles are another means of lowering premiums. Make sure that in the event of a loss, you can afford to pay the deductible you select.

WHAT IS "CLAIMS MADE" COVERAGE?

There are two types of liability coverages: "occurrence" and "claims made." Most liability insurance is written on what insurers call an "occurrence" basis. With this type of coverage, you are contractually obligated to notify the insurer as soon as you become aware that an event—that is, the "occurrence"—has caused, or seems likely to result in, bodily injury or property damage for which you may be legally liable. That insurer stays with the claim until it is resolved, however long that may be. Even if you later buy liability coverage from a different insurer, the insurer to whom you originally reported the occurrence stays with the claim.

Understanding the Insurance Needs of Small Business

With “claims made” liability coverage, your current insurer covers all the claims you make during the policy’s coverage period, even those claims due to injury or damage that is the result of an occurrence prior to the current policy period. This type of policy is most prevalent in areas such as Professional Liability Insurance, where there can be many years between an occurrence and the recognition of damage or bodily injury. It could, for example, be years after an architect designs a building before part of the building collapses and the owner sues the architect claiming that the collapse was the result of errors in the design. With a “claims made” policy, the insurer that insures the architect for professional liability at the time the claim is made covers the claim.

BUSINESS VEHICLE INSURANCE

Your personal auto policy probably provides coverage for some business use of your truck, van or other vehicle. A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. For those vehicles you must have a business auto policy.

If you’re driving a truck you own personally for a business purpose and get into an accident for which you are liable, an injured person could sue you personally. Will your personal auto policy have enough coverage to pay all the damages? If not, a lawsuit may be filed against your business. If you use personal vehicles for business, you want to be sure you have high enough limits to protect your business. You should discuss this with your insurance agent.

WHAT IS BUSINESS VEHICLE INSURANCE?

As a businessowner, you need some of the same insurance coverages for the cars, trucks, vans or other vehicles you use in your business as you do for vehicles used for personal travel.

Your Businessowners Policy (BOP) does not provide any coverage for vehicles, so you must have a separate policy.

Most states require you to purchase liability insurance for bodily injury and property damage that may result from a vehicle accident occurring while you or someone from your organization is driving on business. Many states also require you to have uninsured/underinsured motorists coverage and/or medical payments coverage (known as Personal Injury Protection (PIP) in some states). You can also purchase physical damage coverage for vehicles your business owns, leases or hires.

The Business Auto Coverage Form (BACF) is the most commonly used contract for providing business auto liability insurance. Although the form refers only to “autos,” autos are defined to include cars, trucks, trailers, vans or other vehicles designed for use on public roads.

Understanding the Insurance Needs of Small Business

Each vehicle you use in your business can be separately “scheduled,” or listed on your policy along with corresponding coverages. In other words, you can choose different coverages, for your various vehicles, depending on the vehicle’s characteristics and the coverage you need for it.

Do I Need a Business Auto Policy?

Your insurance agent will ask in detail how you use vehicles in your business; who will be driving them; whether you own, rent or lease; and whether you and your employees are likely to be driving their own cars for your business. The answers to these questions will indicate the types of coverage you need.

In general, only a BACF can provide the level of liability protection—the recommended minimum is \$500,000—that even a small business needs to cover the potential damages in a serious accident.

Will My Personal Auto Policy Cover Business Use?

Your personal auto policy provides coverage for some business use of your vehicle. Similarly, your employees’ personal auto policies cover some business use of their vehicles too.

A personal auto policy is unlikely to provide coverage, however, if the vehicle in question is used primarily in business. It will not provide coverage for any vehicle owned by a business. The personal auto policy, whether yours or your employee’s, may not have enough coverage to protect your business.

For example, imagine you are driving your car to a business meeting while having an intense conversation on your cell phone with one of your sales reps. By the time you notice a van ahead of you has stopped to make a left turn, it’s too late to avoid a collision. The driver and five passengers are injured in the accident. They sue you and your company.

If you have only a personal auto policy, your insurer will probably defend you personally and pay the claim—up to the policy limit. Your personal auto policy insurer will not defend or pay damages on behalf of your business, however.

For a very serious accident or one with a number of injured people, your personal auto policy may not be enough to cover the damages. In that event, the injured parties would likely sue to collect damages from your business.

If you or your employees are driving personal vehicles on business and relying on your personal auto policies, be sure you and they have sufficient liability coverage to protect your business in the event of a serious auto accident.

Do not expect to rely on a personal umbrella policy for any claims that arise from business use of a vehicle. Typically, the personal umbrella excludes all claims occurring in the course of a business endeavor.

What Vehicles Are Covered?

The scope of coverage in the business auto policy can be either broad or narrow, depending on your choice of options. It could, for example, be written to apply only to one specifically described auto. Or, as an example of very broad coverage, the policy could be written to apply to the named insured's liability exposures arising out of the use of any auto.

In general, you have three options for which vehicles you choose to cover.

- Autos your business owns
- All autos your business owns, hires or leases
- All autos used for the business, including those that your business does not own, hire or lease

Most businesses should buy the third type, since that is the only coverage that protects the business from liability when an employee or owner is driving a personal vehicle on business.

Be Sure the Right Insured Is on the Policy

An insurance contract usually requires that the owner of a vehicle be named in the policy "Declarations" as the "principal insured." If you drive any of the same vehicles for both business and pleasure, make sure you tell your insurance agent who holds the vehicle's title, you personally or your company. This will avoid problems if you need to file a claim or a claim is filed against you.

Physical Damage Coverage

The three types of physical damage coverage for motor vehicles are collision, comprehensive and specified perils.

- Collision coverage is for losses that result from the collision of a covered vehicle with any object or from the vehicle overturning.
- Comprehensive coverage is the broadest form of auto physical damage coverage, because it provides for losses from any cause except collision and overturn (insured under collision coverage) and a few policy exclusions, such as wear and tear, mechanical breakdown and acts of war. Among the causes of loss covered under comprehensive are flood, fire, theft, glass breakage, falling objects, explosion, earthquake or colliding with a wild bird or animal.
- Specified perils coverage covers many of the same perils as comprehensive, but because it covers only "named" perils—those specifically named in the policy—it has a lower premium. It is sometimes referred to as "fire, theft and Combined Additional Coverage (CAC)"

Understanding the Insurance Needs of Small Business

If your businesses has a large fleet of vehicles, over time, it may be more costly to insure the fleet for physical damage than it is to retain the risk, that is, pay for any physical damage directly rather than by insurance.

Regardless of how many vehicles your business has, it may be cost effective to carry physical damage coverage only on the newer or more valuable vehicles.

What Will the Insurer Pay for Physical Damage?

The amount an insurer will pay on an auto physical damage or theft claim depends on the market value, known as Actual Cash Value (ACV), of the vehicle at the time of the loss. The most that will be paid is the lesser of the ACV or the cost to repair or replace the vehicle with one of like kind and quality. In the event of a total loss, the ACV is adjusted for depreciation and the vehicle's physical condition. Thus, the older the vehicle and the worse its condition, the more its value has depreciated and the less the insurer will pay.

The insurance company may pay you the value of the loss in money or, at its choice, it may repair or replace the damaged or stolen vehicle. In case of a theft, it may return the stolen vehicle to you with payment for any damage caused by the theft.

Liability Coverage

The liability portion of the BACF obligates the insurer to pay all damages the business is legally obligated to pay because of bodily injury or property damage caused by a covered vehicle, up to the policy limits.

When there is an auto liability lawsuit against the insured business, where the loss is covered by the policy, the insurer is obligated to defend the business or settle the lawsuit. The decision whether to contest or settle the case is entirely at the insurer's discretion.

The insurer's duty to defend or settle ends when the insurance policy limits are exhausted. By way of example, imagine that three people are injured in an accident in which you or one of your employees is at fault. The policy limit is exhausted in judgments or settlements for the first two claimants. That leaves your business liable to pay the award directly, should there be a judgment in favor of the third person.

Punitive damages may be awarded in cases of gross negligence, such as drunk or reckless driving. By law in a number of states, a BACF cannot cover any punitive damages for which you may be liable. Even in states where coverage for punitive damages is allowed, your policy may exclude them.

Understanding the Insurance Needs of Small Business

How Much Liability Coverage Does My Business Need?

Many insurers recommend a business auto coverage limit of \$1,000,000, with \$500,000 as the minimum. The higher limit does not add a great deal to the premium, considering the amount of additional protection it provides.

What is a Combined Single Limit (CSL)?

Unlike personal auto policies that have separate limits for bodily injury and property damage liability (split limits), the BACF commonly has a Combined Single Limit (CSL). This creates higher limits for both bodily injury and property damage coverages, including per occurrence limits. Although you can purchase other limits, the most common commercial automobile CSLs for a small business are \$500,000 and \$1,000,000.

Does a Business Umbrella Cover Autos?

If you have a business umbrella policy, it would provide protection for owned, hired and non-owned autos, if the umbrella shows the auto liability policy as an underlying policy for which it provides coverage.

What Coverage Do I Need if My Employees Use Company Vehicles for Personal Business?

Some businesses let employees drive company vehicles home and use them for personal purposes in the evenings or on weekends. So long as these vehicles are scheduled on your business auto policy and the appropriate "coverage auto symbols" are shown on the "Declarations" page, you have coverage for owned autos taken home by employees.

Employees' own personal auto policies will not cover their use of a company car unless the car has been specifically borrowed as a temporary replacement for the employee's own car while it is unavailable. In addition, employees who lease, hire, rent or borrow autos for their personal use are not covered by their employer's business auto policy.

When Your Business Vehicle Is Also Your Personal Vehicle

Sometimes employees or executives of a company or other persons who are supplied with a vehicle owned by the company have only that vehicle. They do not own a personal vehicle nor do they obtain personal automobile coverage. The BACF does not cover personal use of the vehicle in this situation. To close this coverage gap, you need to add the Drive Other Car Coverage Endorsement to your BACF. This provides insurance while the named individual or a member of his or her family is driving a car borrowed from a third party.

What Coverage Do I Need if Employees Drive Their Personal Vehicles on Business?

If your employees drive their own cars for business purposes—to visit clients, for example—your business could wind up liable for property damage and bodily injuries resulting from a traffic accident for which an employee was at fault.

Sometimes businessowners don't notice they have this exposure. Consider these scenarios:

- Your office manager stops by the office supply store to pick up some items for work on her way back from lunch.
- On the way home, a supervisor stops by a client's office to leave a product sample.
- While on vacation, a salesperson driving his personal vehicle makes a brief stop to visit a customer.

These are all situations where a business can find itself liable for an auto accident with damages higher than the policy limit of the employee's personal auto policy.

To protect your business from these liability risks, you can add the Non-owned Auto Liability Endorsement to your BACF. It provides coverage when employees drive their own vehicles on business. This BACF coverage is excess over the limits provided by the employee's personal auto coverage. If the employee's limits are low—such as only to satisfy state financial responsibility limits—then it is critically important for the business to have this non-owned auto protection.

You Are Liable if You Allow a Bad Driver on the Road

You are legally liable when you allow someone to drive one of your vehicles. If you fail to take reasonable steps to determine that the driver is qualified to drive or if you allow someone to drive whom you know has a poor driving record and that person causes an accident, you could be liable for negligent entrustment. Any damages awarded for negligent entrustment would be on top of liability for the accident itself.

A case of negligent entrustment arises when someone allows another person to use a vehicle knowing or having reason to know that the use of the vehicle by that person creates a risk of harm to others.

Your organization is responsible for verifying a driver's qualifications before entrusting him or her with a vehicle. Do not entrust a bad driver with a vehicle—not even for a quick errand.

Understanding the Insurance Needs of Small Business

Keeping Premiums Down

The best way to keep your BACF premiums down is to avoid accidents. Driving safety should be emphasized. Drivers should not be so pressured to produce that they feel compelled to drive unsafely. All vehicles should be well maintained.

Ask your agent whether your insurance company has business auto safety resources that you can use to help your organization be accident free. For more information on reducing the risk of auto accidents, [click here](#).

WORKERS COMPENSATION INSURANCE

States have varying rules about when an employer must provide workers compensation insurance. If you have three or more employees, you should check with your state department of workers compensation to see if you are required to provide workers comp insurance.

WHAT IS WORKERS COMPENSATION INSURANCE?

Employers are legally obligated to take reasonable care to assure that their workplaces are safe. Nevertheless, accidents happen. When they do, workers compensation insurance provides coverage.

Workers compensation insurance serves two purposes: It assures that injured workers get medical care and compensation for a portion of the income they lose while they are unable to return to work and it usually protects employers from lawsuits by workers injured while working.

Workers receive benefits regardless of who was at fault in the accident. If a worker is killed while working, workers comp (as it is often abbreviated) provides death benefits for the worker's dependents.

EACH STATE IS DIFFERENT

Workers compensation systems are established by statutes in each state. State laws and court decisions control the program in that state and no two states have exactly the same laws and regulations.

States determine such features as the amount of benefits to which an employee is entitled, what impairments and injuries are covered, how impairments are to be evaluated and how medical care is to be delivered. In addition, states dictate whether workers compensation insurance is provided by state-run agencies and by private insurance companies or by the state alone. States also establish how claims are to be handled, how disputes are resolved and they may devise strategies, such as limits on chiropractic care, to control costs.

To learn about the requirements where you live, visit your state's workers compensation department Web site.

Understanding the Insurance Needs of Small Business

If your business expands to another state, you may have to deal with very different rules in the new state. The discussion here covers the general features of workers compensation programs.

WHAT INJURIES ARE COVERED?

Injuries employees sustain on the workplace premises or anywhere else while the employee is acting in the “course and scope” of employment are covered if their employer has workers comp insurance. For example, the leading cause of workers comp death claims is traffic accidents that occur when the employee is in a vehicle for work purposes, whether the trip is made in the company’s car or the employee’s own vehicle. Accidents driving to and from work are not covered.

In addition to injuries from accidents, workers comp covers injuries employees may sustain from other events that may occur while they are working, including workplace violence, terrorist attacks and natural disasters.

Workers comp insurance also covers certain illnesses and occupational diseases (defined in the state statutes) contracted as a result of employment. For example, employees who work with toxic chemicals can be made ill by exposure to the chemicals.

WHAT TREATMENT DO INJURED WORKERS RECEIVE?

Injured workers receive all medically necessary and appropriate treatment. With medical costs soaring, many states have adopted measures designed to rein in expenditures. These include utilization management guidelines, which describe acceptable treatment protocols and diagnostic tests for specific injuries.

WHAT BENEFITS DO INJURED WORKERS RECEIVE?

Income replacement benefits are based on whether the disability is total or partial and whether it is permanent or temporary. Impairment is generally defined as a reduction in earnings capacity, sometimes using the American Medical Association’s criteria.

Most states require that benefits be paid for the duration of the disability, but some specify a maximum number of weeks, particularly for temporary disabilities. The benefit amount is a percentage of the worker’s weekly wage (actual or state average).

DO I HAVE TO BUY WORKERS COMPENSATION INSURANCE?

In most states sole proprietors and partnerships aren’t required to purchase workers compensation unless and until they have employees who aren’t owners. Most states will allow sole proprietors and partners to cover themselves for workers comp if they choose to. Some states don’t require employees to be covered if they are paid solely on commission.

Understanding the Insurance Needs of Small Business

Employees are generally defined as people performing services at the direction of the employer, for hire, including minors and workers who are not citizens.

Many states exempt employers with only a few employees from mandatory coverage laws. The threshold number of employees that triggers mandatory insurance is either three, four or five, depending on the state. Texas is the only state in which workers comp insurance is truly optional.

In some states, businessowners' immediate family members—parents, spouse and children—who work for the firm may not have to be counted as employees for purposes of determining whether you must have workers comp insurance. These exceptions usually do not apply to other family members, such as sisters, brothers or in-laws.

Under some laws, independent contractors are not considered to be your employees. However, for the purpose of workers comp insurance, most states will treat an uninsured contractor or subcontractor or employees of an uninsured subcontractor as your employee—meaning you may be liable if he or she is injured while working for you. To avoid any unintended liability, larger companies often require any contractors or subcontractors doing work for them to provide proof they have workers comp insurance.

Regardless of whether insurance is required and regardless of how few employees you have, if an employee protected by the state statute is injured or killed in the course of working for you, you may be legally liable. One claim for a serious employee injury could bankrupt many small businesses. Insurance, through the payment of premiums for workers comp coverage, provides a predictable cost for handling this risk.

WHO SELLS WORKERS COMP INSURANCE?

Workers comp insurance is not part of your Businessowners Policy (BOP). It must be purchased as a separate insurance policy.

Each state has its own rules about where employers may buy workers comp insurance. In a few states all employers must buy their workers comp insurance from a state monopoly insurer, known as a state fund. In a number of other states, insurance may be purchased from the state fund or from private insurers. In the states that have them, state funds may serve as an insurer of last resort for businesses that cannot find coverage from a private insurer.

HOW ARE PREMIUMS SET?

Premiums are based on the employer's industry classification code and payroll. Premiums for the most dangerous enterprises, such as trash hauling or logging, may be much higher than premiums for an accounting firm.

Understanding the Insurance Needs of Small Business

Location has also become a factor in workers comp premiums. Since the terrorist attacks of September 11, 2001, workers compensation insurers have been taking a closer look at their exposures to catastrophes, both natural and man-made. For businesses located in an area at high risk of catastrophe, premiums may be higher, regardless of the nature of the business itself.

Employers with an annual premium above a certain amount are usually eligible for experience rating, which adjusts the premium up or down depending on the claims history of the company relative to other companies in that industry category. Businesses with higher than average claims will pay a higher premium and those with lower claims will generally pay less.

Experience rating is more sensitive to the number of claims (loss frequency) than the dollar value of claims (loss severity). This is because of the insurance industry maxim, "frequency breeds severity." Insurers know from experience that where more accidents occur, there is a greater likelihood of big losses. A greater number of accidents indicates that overall in working conditions are not as safe as an environment where fewer accidents occur, even if in a given year the few accidents that occurred were more costly.

WHAT ARE MY COSTS FOR WORKERS COMP?

Your costs include insurance premiums, payments made under deductibles and the administrative costs of handling claims and making reports to the state and your insurer.

UNDERSTANDING YOUR WORKERS COMP POLICY

Usually a workers comp policy has two parts: "Part One, Workers Compensation" and "Part Two, Employers' Liability."

Under "Part One", the insurer contracts to pay whatever the state-required amounts of compensation may be. Unlike other types of insurance, workers comp coverage has no ceiling or limit on the policy amount. The insurance company accepts a transfer of the employer's entire statutory obligation—whatever the employer is legally obligated to pay as a result of the injury.

"Part Two" of the policy provides coverage for an employer who is sued by an employee for work-related bodily injury or illness that isn't subject to state statutory benefits. It has a monetary limit.

Employers' liability also insures an employer in some other situations. One is so-called "third-party over suits," where an injured worker files suit against someone other than the employer (a third party) and that third party then seeks to hold the employer responsible. For example, an employee injured while working with a machine might file suit against the manufacturer of the machine. The manufacturer might then sue the employer claiming that the cause of the injury was modifications the employer made to the machine or improper use. Another situation where this liability coverage applies is when the spouse of an injured worker sues the employer for loss of consortium.

YOUR OBLIGATIONS

In most states you are required to keep records of accidents. You must report work-related accidents to the state workers compensation board and to your insurer within a specified number of days.

Studies suggest that the faster the insurer receives notice of an injury and can initiate medical treatment and benefits, the faster the injured worker recuperates and returns to work. To help get medical treatment to the injured worker faster, some insurers help employers file promptly a "first notice of injury" with the state agency responsible for overseeing the workers compensation system, a step which can trigger the claim process.

THE IMPORTANCE OF GETTING AN INJURED WORKER BACK TO WORK

Long absences from work can have a lasting negative impact on workers' future employment opportunities and thus on their economic well being. A study of injured workers in Wisconsin by the Workers Compensation Research Institute found that the duration of time off from work and periods of subsequent unemployment are lower for injured workers who return to their pre-injury employer than for those who change employers.

Effective communication by employers is critical to facilitate the injured worker's return to work. You should explain to workers how the workers compensation system works and that they are required to report an accident immediately and get medical attention promptly.

Your expectations relative to work-related injuries or accidents should be part of the employee handbook (if there is one), conveyed to new employees as part of orientation, posted on bulletin boards and communicated periodically in safety reviews.

Communicate regularly with employees who are off work due to a work-related injury. Workers who know they are thought about, missed and still part of the workplace team are generally more eager to return. Some insurers will keep employers informed about how the employee's treatment is progressing.

Another aspect of the return-to-work process is successful reintegration into the workplace. Workers comp insurers help you assess the injured worker's needs and capabilities and encourage you to let workers know, in advance of any injury, that you will try to modify work activities to accommodate those who are disabled.

ARE MY EMPLOYEES COVERED WHEN THEY WORK OR TRAVEL IN OTHER STATES?

Your workers comp policy covers claims made only in the states named in the policy "Declarations." If an employee is injured while working in another state, and that state has benefits more generous than the state(s) named in your policy, the employee could file a workers comp claim in the other state and it would not be covered by your policy.

The solution is in the "Other States" section of the policy, which allows you to list states where employees might work from time to time so there will be coverage for claims filed in those states.

The "Other States" portion of the policy cannot be used to cover claims in states where coverage must be obtained from the state workers compensation fund.

"Other States" coverage is intended to provide protection only for incidental exposures in states where the employer does not operate as of the effective date of the policy. If you set up an operating entity in another state, notify your insurer, as this state should be added to the "Declarations" page of the policy.

FACTORS THAT AFFECT YOUR PREMIUMS

Premiums for workers comp vary among the states. In states where benefits are more generous, premiums for workers comp insurance may be correspondingly greater. In most states, workers comp benefits continue even after the worker begins to collect Social Security and Medicare.

However, benefits are only one part of the equation. In some states with low benefits and costs, premiums may be high due to the inefficiency of the system for awarding benefits. The generally increasing cost of medical care impacts premiums as well. Although states are working to make changes, for the most part, workers comp doesn't have the types of cost control measures that have been applied to health insurance. Workers comp claimants do not have to pay deductibles. In many states they may visit as many doctors and specialists as they like. There is generally no requirement for doctors to prescribe generic rather than brand name drugs.

ASSIGNED RISK PLANS OR POOLS

An assigned risk plan or pool is a means of providing insurance for businesses that may not be able to get workers comp insurance in the private market. High-risk businesses, businesses with a history of many claims and businesses in new industries without a previous industry claims history are the most likely to get insurance through the assigned risk plan.

Typically, the employer or the agent applies to the plan. The application is then assigned to an insurance company that the state has designated to write the policy. Premiums in assigned risk pools often carry a surcharge over the regular premium rate.

WHAT IS A SECOND INJURY FUND?

About half the states have second injury funds to encourage the hiring of workers who are partly disabled but still able to work. Employers would be reluctant to hire such workers due to the risk they could sustain an injury that would combine with the prior injury or condition to cause a disability. Without second injury funds, the new employer would be liable for the entire cost of the claim. When a partially disabled employee suffers a second injury, part of the cost of the second injury is apportioned to the second injury fund.

Some states discontinued their second injury funds following passage of the Americans with Disabilities Act (ADA). Although the ADA requires employers to maintain confidentiality about employees' disabilities, the confidentiality rule does not apply to communications with state workers compensation authorities or second injury funds.

WHAT CAN I DO TO REDUCE MY WORKERS COMP PREMIUMS?

- Manage Your Risks
- Take Advantage of Saving Opportunities
- Be Sure Your Premium is Correctly Figured
- Raise Your Deductibles
- Try to Avoid Assigned Risk
- Coordinate Disability Programs

Manage Your Risks – Most small companies do not believe they can afford to hire a risk manager. Nevertheless, someone in the company should have a continuing responsibility for loss control and the management of workers comp claims. This involves a variety of programs to keep workers safe, the medical management of claims and early return to work for any injured workers.

In some states insurers must provide accident prevention services to employers. Even if not required to do so by law, the majority of workers comp insurers can help you improve safety.

In some states, employers are required by law to set up safety committees and other programs to deal with unsafe conditions in the workplace. Even when not required by law, safety committees can be very effective at reducing accidents. For example, after UPS set up worker safety committees at each of its locations to identify the most frequent workplace accidents and took measures to reduce them, injuries that caused workers to take time off from work decreased by 59 percent.

You may also be legally required to have a written injury and illness prevention program. Again, even if not legally required to do so, having and following a written program can help reduce accidents.

Understanding the Insurance Needs of Small Business

Take Advantage of Savings Available in Your State – Several states allow merit rating credits. Smaller businesses that typically pay \$5,000 in premiums or less may be entitled to a credit of 5 to 15 percent if they have not had any lost-work-time claims during a designated period. In some states there are premium credits for drug- and alcohol-free workplace programs and safety programs. Some insurers may give you a discount if you hire a professional risk management firm to help you with your safety program.

Be Sure Your Premium Is Figured Correctly – Make sure you have been placed in the right industry category. Check that the insurer's payroll computation adjusts for overtime pay and allocates the payroll of different employees correctly.

Raise Your Deductibles – A majority of states provide for optional medical deductibles in workers comp insurance policies as a cost saving measure. Deductibles tend to encourage greater safety consciousness on the part of the employer who must pay the deductible amount.

Try to Avoid Assigned Risk – Cutting down on your claims is the best way to stay out of the state's assigned risk plan, or insurer of last resort, which usually costs more. You may have been put into assigned risk without knowing it. Ask your agent to check on your status.

If you have been put in assigned risk, find out from your state workers comp agency if rates are higher. If they are, make a concerted effort to get other insurance. Just because one agent is unable to find something better for you doesn't necessarily mean that it doesn't exist. Talk with other agents, investigate group self insurance programs that may be available in your state and talk with other people in your industry and owners of other businesses of similar size and age and with a similar risk level.

Coordinate Disability Programs – This option isn't available everywhere, but in some states businesses are trying to bring costs under control through the coordination of workers compensation, health care and disability benefit plans. The integration of workers compensation and other employee benefit programs is a broad concept that ranges from a simple marketing approach that promises savings from using the same insurer for both coverages to programs that offer a managed care approach to the management of all types of disability, regardless of whether they are work-related.

Besides limiting overlapping programs and streamlining administration, proponents say the change to a broad approach addresses the increasing difficulty of distinguishing between work- and nonwork-related injuries and illnesses, such as injuries due to repetitive motion and mental stress claims. It improves productivity, since nonwork-related disabilities are managed with the same focus of getting the employees back to work as work-related cases.

CAN AN EMPLOYEE WHO HAS AN ACCIDENT SUE ME?

Prior to the states' adoption of the workers compensation system in the first half of the Twentieth Century, injured workers sued their employers after workplace accidents. This was a long, cumbersome and costly process from which the worker might gain nothing if the court failed to find the employer totally responsible for the injury. With so few employers liable for workplace accidents, support for injured workers and the families of deceased workers was a societal problem.

The workers compensation system was adopted to provide injured workers and their dependents timely compensation became regardless of who was at fault for a workplace accident. As part of the compromise that made the employer liable for work-related injury and disease costs regardless of fault, the employee surrendered the right to sue the employer for injuries. For the most part, the system works as intended. Injured workers accept workers comp payments and do not sue. This is why workers comp is referred to as the employee's "exclusive remedy."

Nevertheless, there are certainly instances where "exclusive remedy" may not apply and injured workers may sue their employers. Conditions under which such suits are lawful vary among the states. In Florida, for example, injured employees may sue their employers in the following situations:

- The employer commits an intentional and deliberate harmful act or engages in conduct that is certain to result in injury or death
 - An employee sexually harasses another employee
 - The employer violates the law prohibiting the firing, coercing or intimidating of an employee due to a workers comp claim
 - The employer has violated federal law regarding housing and transportation of migrant workers
 - The injury is excluded from coverage by workers compensation (such as a claim for psychological stress injury without any physical injury, a type of claim that is not compensable by workers comp in Florida)