Is Your Business Properly Insured? Find out by Asking Your Insurer the Four Most Important Questions

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? Running a successful business in today?s economy is no easy feat. In addition to typical risks such as theft and fire, there are a host of other risks that are unique to each particular type of business. So it is essential that businessowners, now more than ever, make sure they buy the right type and amount of insurance and update their policies annually to include improvements, major purchases and increased rebuilding costs as well as any liability risks, according to the Insurance Information Institute (I.I.I.).

?One of the biggest mistakes business owners make is that they don't buy the right type of insurance and often have gaps in their coverage,? said Loretta Worters, vice president, I.I.I. ?Businessowners should contact their insurance agent or company representative annually to make sure that their insurance is adequate.?

A Businessowners Policy (BOP) is recommended for most small businesses (usually 100 employees or less), as it is often the most affordable way to obtain broad coverage. BOPs are sort of ?off the shelf? policies combining many of the basic coverages needed by a typical small business into a standard package at a premium that is generally less than would be required to purchase these coverages separately. Combining both property and liability insurance, a BOP will cover your business in the event of property damage, suspended operations, lawsuits resulting from bodily injury or property damage to others, etc.

BOPs do NOT cover professional liability, auto insurance, workers compensation or health and disability insurance. You will need separate insurance policies to cover professional services, vehicles and your employees.

For medium-sized and larger businesses, there are more comprehensive commercial policies. To properly insure your business, the I.I.I. suggests that you ask your agent or company representative these four important questions to determine the right type of policy and amount of coverage:

1. Do I have enough insurance to rebuild my business property and replace all of my merchandise and possessions?

A Building and Personal Property coverage (BPP) policy is commonly used to cover any combination of the following three broad categories: the building, your business personal property and the personal property of

others. Usually the covered building is owned by the insured. However, a lessee might insure a leased building when required to do so by the terms of the lease.

Your Business Personal Property coverage includes seven specific categories:

- 1. Furniture and fixtures
- 2. Machinery and equipment
- 3. Stock (i.e., merchandise held in storage, including raw materials, work in-progress and finished goods)
- 4. All other personal property owned by you and used in your business
- 5. Labor, materials or services furnished or arranged by you on the personal property of others
- 6. If a tenant, the improvements or betterments you have made
- 7. Leased personal property which you have a contractual responsibility to insure

It is vital that the value of your property be accurately reported and updated annually to reflect inflation and other increases in cost.

2. Do I have enough insurance to protect the personal property of my employees?

In order to protect the property of your employees, you will need to add Personal Effects and Property of Others coverage to your policy. This coverage permits the insured to extend up to \$2,500 worth of its business personal property coverage to personal effects of the insured and its officers, partners or employees and personal property of others in the insured's care, custody or control. The personal effects coverage does not include theft, even if theft is a covered cause of loss under the policy.

If the \$2,500 limit is inadequate to cover personal property to others in the insured's possession, a higher limit can be purchased.

3. Do I have enough insurance to keep my business open?

A business that has to close down completely while the premises are being repaired may lose out to competitors. A quick resumption of business after a disaster is essential. That is why business interruption insurance is so important.

?Make sure the policy limits are sufficient to cover your company for more than a few days,? said Worters. ?After a major disaster, it can take more time than many people anticipate to get a business back on track. There is generally a 48-hour waiting period before business interruption coverage kicks in,? she added. ?Too many businessowners fail to think about how they would manage if a fire or other disaster damaged their business premises so that it was temporarily unusable.?

The price of the policy is related to the risk of a fire or other disaster damaging your premises. All other things being equal, the price would probably be higher for a restaurant than a real estate agency, for example, because of the greater risk of fire. Also a real estate agency can more easily operate out of another location.

There are typically three types of business interruption insurance. You can purchase any one of these or any combination of them that would make sense for your business:

■ Business income coverage - Compensates you for lost income if your company has to vacate its premises due to disaster-related damage that is covered under your property insurance policy. Business income insurance covers the profits you would have earned, based on your financial records, had the disaster not occurred. The policy also covers operating expenses, such as electricity, that continue even though business activities have come to a temporary halt.

Review your annual financial records with your accountant to determine your annual net profit (total revenue minus total expenses). You should also have an approximate idea of how much profit you make (and would therefore lose) during a typical year. Purchase enough business income coverage to protect at least this amount of revenue.)

■ Extra income coverage - Reimburses your company for a reasonable sum of money that it spends, over and above normal operating expenses, to avoid having to shut down during the restoration period.

In order to calculate how much extra expense coverage you will need, an appraisal of your office building or any other operating locations should be made as well as a detailed inventory, not only of your product stock but also of your existing office equipment.

■ Contingent business interruption insurance - Protects a business owner's earnings following physical loss or damage to the property of the insured's suppliers or customers, as opposed to its own property. Companies today are heavily dependent on raw materials from key suppliers to make the products they sell. What happens if the supplier suffers a loss and cannot continue to deliver the product?

Make sure to determine how much revenue would be lost if you were unable to receive your product from your main supplier or if your main customers were unable to buy from you.

4. Do I have enough insurance to protect my assets from a lawsuit?

The only way to protect your assets is to carry adequate business liability insurance. A Commercial General Liability (CGL) insurance policy is the first line of defense against many common claims. CGL policies cover claims in four basic categories of business liability:

- Bodily injury
- Property damage
- Personal injury (including slander or libel)
- Advertising injury (damage from slander or false advertising)

In addition to covering the claims listed above, CGL policies also cover the cost of defending or settling claims. General liability insurance policies always state a maximum amount that the insurer will pay during the policy period. There are two major forms of liability insurance policies that can be purchased: occurrence and claims paid.

- An **occurrence** policy covers you for a specific dollar amount for each individual year. For example, if you carry an occurrence policy for \$100,000/\$300,000* in 1999 and a claim is made against you in 2010 when you have a \$1 million/\$3 million policy, the insurance company is liable for no more than a \$100,000 for that particular claim. So, if you are successfully sued for \$250,000, you will be personally responsible for the \$150,000 beyond your coverage. Despite inflation, rising jury awards and the increasing amount of money being asked for in lawsuits, the insurance company is still only responsible for the limits you carried at the time the injury occurred, not when the claim was made.
- A **claims-made** policy covers you for the policy amount you have when the claim is made. This is an advantage because every time you increase your policy limits, you are now covered for the higher limits for every year you have carried the claims-made policy. This increased coverage keeps pace with inflation and rising awards.

For related audio, go to I.I.I. Provides Tips to Make Sure Your Business is Not Underinsured.

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^{*}The first number (\$100,000) is the maximum amount your policy will pay to each person involved in an insurance claim. The second number (\$300,000) is the maximum total dollar amount your policy will pay for a single accident regardless of the number of people filing claims.