

Insurance Essentials

This section is designed to help small business owners make informed decisions regarding their insurance needs.

Liability, Fire, Theft and Health

Most business owners think of insurance as a tax, an expensive necessity to be kept at a minimum. It isn't. It is a form of risk management essential to all businesses. As risk takers, entrepreneurs test their abilities in the marketplace every day. By reducing the financial consequences of fires, accidents, thefts or other unforeseen events beyond the entrepreneur's control, insurance improves a risk taker's odds.

Do I Really Need it?

Legal requirements: In Massachusetts, if you have any employees, you are required to carry workers' compensation and disability benefits insurance. If you own a car or truck for business you need auto insurance. Often a landlord will require you to maintain a certain level of liability coverage as a condition of your lease. Your bank or your investors might require you to maintain life, business interruption, fire or other types of insurance to protect their investments.

The benefits of coverage: Insurance isn't just protection against disaster. It has positive benefits and advantages few business owners realize. Employee programs such as health benefits can help you retain good employees. Borrowing against equity in your life insurance or retirement fund is one way to raise capital for expansion. It can also improve your bank and supplier credit. In addition, you can insure against your loss of business income as well as your lost goods in a fire or other incident.

Insurance Planning

It is important to design an insurance program that suits your business needs and risks. A lifetime of work and dreams can be lost in a minute if you don't have adequate coverage. Deciding what coverage is adequate takes planning and forethought, just like other aspects of your business. The first step should be to enlist the help of a professional insurance agent, broker or consultant who can explain the types of coverage available and can help develop an effective insurance program for your business.

Understand your risks: The key to an adequate plan is to understand the risks of your business. They will range from the loss of business due to fire or your own protracted disability to unforeseen events like a broken display window or goods partially damaged from a flooded storeroom. Obviously, everyone has different concerns. A young, single person may have less concern for the consequences of personal injury than a middle aged father of five.

Assess the costs: On a sheet of paper list all the possible risks you face. Evaluate the losses you will suffer from each. Cover your largest loss exposure first. Use as high a deductible as you can afford, since the cost of a policy varies depending on how much risk you are willing to shoulder. Avoid duplicative insurance, but don't shortchange your business with less coverage than you actually need. Finally, review your program periodically. The coverage you start with may be inadequate for the amount of business you do after six months.

Groups of Insurance Professionals

Agents: Agents are licensed representatives of insurance companies who are responsible for marketing the company's products. They usually earn commissions based on their sales. They might represent only one company (captive), or several companies (independent).

Brokers: Brokers are licensed representatives who represent a number of different carriers. They earn commissions based on their sales. Brokers are construed to represent the buyer.

Consultants: Insurance consultants can help evaluate a business's needs, design a plan and recommend the most economical carrier. But for small businesses, a qualified agent/broker can do the same thing. The consultant is paid by the buyer, based on a contract or agreement.

Determine the Financial Stability of the Carrier

Remember that when you select a carrier, you should base your decision not only on the plan it offers, but also on its reputation, stability and record in serving the small business market. Ask for a copy of its rating by A.M. Best & Co., Standard & Poor's, or Duff & Phelps from the broker, agent or the company itself. These organizations are the ones that provide an opinion as to an insurer's financial strength and ability to meet ongoing obligations to policyholders. The opinions are based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. (However, these ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations.)

Types of Coverage

Insurance coverage is available for just about every conceivable risk you might face as a business owner. But the cost and specific coverage of policies vary widely among insurers. Just what is available and how you can use it to manage your business's risk should be carefully discussed with a trained professional agent, broker or consultant. Generally, coverage falls under some of the following categories:

Property Insurance: covers the gamut of possible loss of property from a multitude of perils (fire, smoke, explosion and vandalism). Often you can buy comprehensive "all-risk" coverage. You can cover the property for its cash value at the time of loss, replacement costs or an appraised value. You can insure against loss of property you don't own such as a customer's television. You may need special protection for accounts, bills, currency, deeds, etc. You can insure against the loss of goods in transport as well as your car or truck against theft and collision damage.

Liability Insurance: covers your legal liabilities from accidents and other injuries. In addition to bodily injury, you can be covered for personal injuries as well--libel, slander, etc. You could also be liable for others under contract to you, a circumstance that is also insurable.

Auto Insurance: covers your liabilities for injury and the cost of repairing a car or truck in case of an accident. It doesn't cover loss of cargo that you have to insure separately. You can also insure yourself against accidents with uninsured drivers.

Workers' Compensation and Disability Insurance: are required by Massachusetts if you have any employees. Workers' compensation covers employees for loss of income and medical expenses through job related accidents, while disability insurance covers them for loss of income if they become disabled off the job. In addition to your employees, you can also cover yourself for loss of income if you are disabled. Starting entrepreneurs often overlook insuring themselves in the event they become disabled. But consider the consequences to your family should you lose your ability to work for an extended period of time. Various levels of risk can be covered.

Business Interruption Insurance: coverage protects you in case a fire or other peril shuts your business down. It can cover employees' salaries, taxes, rent, utilities, etc. You can also protect against business losses if a peril shuts down a key supplier, losses affected by utilities' failures, or losses when an insured peril doesn't shut you down but seriously disrupts your business.

Crime Insurance: can be purchased to protect against burglaries, robberies as well as employee theft. Federal crime insurance is often available for small businesses in high risk areas for which insurers will not write policies.

Employee Benefits: such as group life and health insurance, and retirement income programs provide additional security for your employees and are often crucial to keeping good workers. Also, key-man insurance protects the business against financial loss caused by the death of a partner or invaluable employee.

Health Insurance: for the business owner, is another type of coverage an entrepreneur often overlooks. But the cost of healthcare can be expensive. Along with all the other risks you evaluate, consider your health, and devise a program that meets what you consider an acceptable level of risk. High deductibles in healthcare insurance can often reduce the cost of coverage significantly while protecting you against catastrophic illness.

Business Life Insurance: is important as your business actions don't just affect you. Your family and employees are affected. What happens to a business when the proprietor dies? Does it close? Does a life of family savings go down the drain? Various types of coverage are available that cover numerous problems that arise upon the death of business owners or partners. Among them are sole proprietorship insurance which provides for maintenance of the business on the proprietor's death; and partnership or corporation insurance to retire partner or shareholder interests upon their death.

Source: New York City Business Solutions