



AN OVERVIEW OF BUSINESS INSURANCE TYPES

Statistics show that many business owners tend to be remiss when it comes to various insurance coverages. Sometimes it is because of a lack of funds to adequately pay for the recommended coverages. Other times it is simply because the business owner just didn't know about the types of coverage that should be maintained.

In case the latter applies, the purpose of this report is to give a brief overview on the various types of insurance coverage to consider. The lack of awareness of the required coverages is especially prominent in situations where the business(or a portion of it) is being operated out of your home. The potential for disaster looms large here, since most regular home owner's policies become practically null and void if you start using the home for business purposes.

The following is a rundown on different coverages a business owner should consider:

Office-in-home coverage

If you work out of your home, you will find that your original homeowner's policy may become nullified such that you now have little protection at all for fire, theft, and accidents. It is imperative that your insurance carrier be notified so a change in coverage can be made to incorporate the commercial activity in your home.

Even if you do not have any employees other than yourself working in the home, you can jeopardize your entire coverage by failing to disclose to the insurance carrier you are running a business in your home. If a delivery person, or client should get hurt, you could find yourself without any coverage.

Similarly, if you have business equipment in the home and any accidental damages occur, or any thefts, you may find you have no coverage. Most homeowner plans limit the coverage for various "business type" items such as computers. So you will need to disclose to your insurance carrier about your business at home and adjust your coverage with appropriate riders or new policy coverages.

Worker's Compensation

If you will be paying anyone who falls under the category of an employee, this coverage is a must. With so many lawsuits in today's world, and with such huge settlement awards, it could be economic suicide to lack this type of coverage.

If you are planning to use "free-lancers" instead(or independent contractors), make sure these people actually qualify as true independents. There are a number of issues in the current 2000 tax codes that help to determine whether a person is a true independent or a disguised employee. The burden of proof rests with you. These various tests try to determine who really controls the worker overall. The less actual control you have over this person, the more likely independent contractor status is possible. Note that even if the person you use is truly an independent contractor, it may still become your responsibility to make sure they have up-to-date insurance coverage on themselves or their workers. Otherwise, you may still be held liable.



Keep in mind that worker's compensation rates vary according to the category of the worker. The riskier the type of job classification for worker's compensation rules, the higher the rate. Be very specific with your insurance carrier in describing the job duties of the employee. If you have any doubt as to the rate you are being charged, you can review the classifications in various insurance manuals that list all the codes. Beyond this you may also request an insurance review. Beyond that, you may call the state appeals board, and beyond that the state insurance department for a hearing.

Business Interruption Insurance

In effect, this insurance covers the situation where your business has to be shut down for a while due to an unforeseen, accidental circumstance like a fire, or flood. The policy will pay you a certain amount depending on the coverage you select within allowable insurance carrier guidelines. This keeps the cash flow going while you are trying to get the business going again.

Disability Insurance

Did you know that you are statistically more likely to become disabled than to die at a premature age? Yet disability insurance is one of the most frequently overlooked – or underused – coverages for businesses. That's for two reasons. First, the business owner usually has more places to spend money than the money itself. Couple that with "denial" nearly everyone uses when it comes to illness or injury, and the result is that disability insurance is sacrificed. Also, it can be an expensive policy for the potential payout, especially for certain occupations.

So, how can a compromise be reached here? One, consider getting a smaller amount of disability coverage to lower the rates. Two, have the coverage kick in after a longer waiting period. Instead of a 60 day period, use 180 days, or even 1 year. That way, you are covered for the worst possible situation where you become disabled for the long term. Let the short term prospects go on the assumption that you will be able to "scratch by" for this period.

Health Insurance

For small businesses, this coverage can be expensive, especially if you are covering employees. The four ways to cut down on the costs of this insurance are: 1) Increase the amount of the deductible; 2) Reduce the types of coverage; 3) Use a shared, or co-pay cost system with the employees; or, 4) Find a better group plan to use as the carrier.

Business Liability Coverage

This insurance handles the situation where someone may get hurt while in association with your business activities, or unplanned damages occur. Examples: a customer tripping on your rug; a business owner/employee damaging a client's property; a theft or embezzlement; inventory damage due to fire, flood, etc.



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Your coverage can vary widely. A mistake many business owners make is in not adjusting this coverage as they become more successful. They may have had minimal coverage in the beginning because the cash flow to pay for more just wasn't there at the time. But then they forget to review and change the coverage as time goes on. The value of the business equipment increases, the number of clients increase, the bank accounts increase. Then the unplanned for event occurs, and the result of this could be a larger lawsuit or damage settlement than the insurance covers. This could have disastrous results.

Sometimes these policies can be "piggybacked" with a homeowners policy and/or an umbrella-type policy to maximize the coverage and minimize the cost.

Keyperson/Buy-Sell Insurance

For businesses where there are partners, or key people whose demise could seriously hurt the operation and value of the business, this insurance can save the day.

Buy-sell insurance addresses the situation where the surviving business partner(s) are able to pay the heirs of the partner who died the allowable value of the deceased partner's share of the business. Many times a business has value to it, but not enough liquid assets to pay out this value. If there were no insurance, the business would have to be sold, or parts of it would have to be sold, to pay the heirs. A second benefit of this type of coverage is that it frees up the business to the surviving owners instead of forcing them to deal with one of the heirs on a day-to-day basis from then on. Keyperson insurance deals with the issue of death also, but not necessarily that of a partner. You may have a particular employee whose expertise is crucial to the business. This person is literally almost irreplaceable. This insurance coverage protects you from a total loss.

Life Insurance

From a business standpoint, life insurance serves two main functions. It leaves a nest egg to your designated heirs to replace the economic loss of your value to the business. Also, it provides liquidity to cover any estate taxes that may be owed on the business. If your business has any economic value at your death, there may be federal and/or state estate/inheritance taxes to be paid. If there isn't enough cash to pay them, the business may have to be sold. This could cause problems. The business may not be easily salable, and it may have to be discounted heavily to get a quick enough sale to pay the taxes. Proper life insurance can relieve your survivors of being forced to make decisions that they—or you—didn't want to make.

Vehicle Insurance

If you begin using your vehicle for business, the type of coverage you had on it prior may not suffice anymore. This is especially true if others will be using your vehicle, or driving in it with you on business. Vehicle insurance coverage is notoriously unyielding if you violate any of the use provisions, or mileage provisions. So be sure to review this carefully with your carrier if you will be using a vehicle for the business.



Conclusion

It's a good idea to consult with your insurance carrier **BEFORE** you begin a business, or change a business, to get advice on the types of coverage you may need. This is true especially if you are using any portion of your home for running the business, or if you are using any of your vehicles for the business.

Don't assume the same types and amounts of coverages you started with in the business should remain static. As your business develops, the needs, and coverage amounts usually change along with it. Don't be left improperly covered. Remember, once you need the coverage protection it is too late to discover it is inadequate, or, worse, there is no coverage because you failed to properly notify the carrier of a change in your situation.