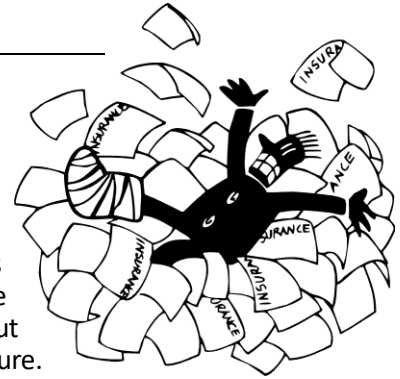


Business Insurance

1. Business Insurance Overview

Insurance agents have a saying: "Don't think you can't afford insurance. You can't afford not to have insurance." Those words aren't just a sales pitch. What threatens a business, threatens everyone – owner, employees, customers, and community. Even if it were not required in some cases, buying insurance would still be a smart move - and a responsible one as well. Another saying explains why a business needs insurance: "Hope for the best, but prepare for the worst." An entrepreneur wouldn't get far without both high hopes and realistic expectations. Insurance fits into that picture.

Deciding on an insurance package should be an integral part of a business's start-up plan. The policies must be in effect before the doors open.



Many entrepreneurs will tell you that the element of risk, the possibility of loss, is part of the attraction of starting a business. It might be closer to the truth to say that managing risk is the attraction – in particular, managing speculative risk, or risk that holds the possibility of either gain or loss. Speculative risk is undertaken freely. It can be partly controlled to improve the chance for gain and lessen the chance for loss. When an ice cream manufacturer offers a new flavor, it is taking a speculative risk: the new flavor could be a bestseller, or it could be a flop. The company can increase the chances of success by first carrying out market research and taste tests. Then they hope for the best.

2. Insurance as Risk Management

Running a business has other, less appealing risks. Pure risk, as the name suggests, is the chance of loss with no chance of gain. Managing pure risk consists of avoiding or reducing it. For example, kitchen fires are a pure risk in running a restaurant. Restaurant owners could avoid the risk by serving only cold foods, probably an unprofitable scenario. But they can reduce the risk by enforcing safety rules for using the stove. Knowing that fire is possible, they keep fire extinguishers on the premises. They prepare for the worst.

There is another option for managing pure risk: risk transfer, which means shifting risk to another party. For business owners, that means purchasing business insurance. An insurance company takes on a client's risk. Insurance companies are experts in risk management. An insurance policy is a written contract between the insurer and the policyholder. The policy details the coverage, the protection provided, and lists the premium (the amount of money the business pays for coverage). It also shows the deductible, which is the amount the insured must first pay before the insurance company is required to chip in.

3. Types of Business Insurance

What does a business owner need to insure? Everything! At least that's how it may seem to the new entrepreneur. From a company's inventory to its reputation to the health of its employees – there's a special sort of policy for each. The business owner's job is to choose the coverage the operation should have from among the many types available. The three most common insurance needs are workers' compensation, property insurance, and liability insurance.

Workers' Compensation

Workers' compensation insurance covers losses to employees due to job-related injury or illness. It's no-fault insurance, meaning it pays regardless of who is responsible. Workers' compensation is required in every state, and every state has its own coverage requirements. Generally, the policy pays employees' medical bills and reimburses them for lost wages. It pays for physical therapy or job training if the injury makes returning to the old job impossible. In case of death, the insurance covers funeral expenses and survivors' benefits to a spouse and dependents.

4. Property Insurance

Property insurance protects a business's possessions in the event of fire, theft, or damage from the weather. A basic policy could cover the building, its furnishings, and the equipment, supplies, cash, and inventory stored there or offsite. Construction firms and home remodelers often leave equipment at the work site or in clients' homes, for instance. Property can be insured for its actual worth, called cash value. However, experts recommend insuring property for its replacement cost, the cost of replacing it at current prices, which is

usually higher. Property insurance also covers electronic data and software lost to physical damage or computer malfunction.

Vehicles owned by or used for business are insured under a separate policy. These policies provide additional coverage for damage and injury caused to, or by, the vehicle or driver. Personal auto policies don't apply to commercial uses.

Yet another option in a property insurance policy is business interruption insurance. This covers losses if a business can't operate due to a covered event, such as a storm or fire. The insurer uses company records to determine what the business would have earned during the shutdown, and covers ongoing expenses that must be paid despite the closure, such as utility bills. Some policies cover the expense of running the business from a different location. A hair stylist, for example, might rent space in another salon while her shop is closed to repair a broken water main.

5. Liability Insurance

Of all the risks entrepreneurs face, the chance that their inexperience or negligence could hurt someone physically or financially is one of the scariest. Liability insurance eases some of those concerns by providing protection when a business's action, or lack of action, injures another party. As with property insurance, different policies cover different risks. The three main types of policies are described here.

- General Liability. This type of policy covers expenses related to injuries sustained on the business premises. It also covers injuries or damage due to employee carelessness at work.
 - Product Liability. A product liability policy protects a business from losses caused by a product it produced or developed. This coverage is particularly important to manufacturers and food producers and processors.
 - Professional Liability. This policy differs from product liability in that it covers harm done by a business's actions, or failure to act.
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6. Reducing Business Risk

Insurance manages risk by transferring it from the business owner to the insurance provider. Another form of risk management is risk reduction. This involves limiting the chances that a policy-covered event will occur.

Practicing risk reduction has three major benefits:

- It avoids property repairs, legal fees, and other expenses resulting from an accident, legal incident, or other misfortune.
 - Practicing prevention tends to lower insurance premiums.
 - Reducing risk saves the emotional and financial drain of filing a claim when something bad happens and then waiting to collect from an insurance company.
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7. Common Forms of Business Insurance

- Property Insurance: This type of policy covers your building and the surrounding property (if you own) from fire, storms, accidents, theft, and vandalism. In addition, an entrepreneur can add a supplement to his or her property insurance called a "rider" - to insure against floods and earthquakes.
- Vehicle Insurance: This type of policy covers cars, trucks, and other vehicles owned by the business. It is similar to personal vehicle insurance.
- Liability Insurance: This type of policy covers the business's legal responsibility for the harm it may cause to others resulting from your activities, those of your employees or of your product.
- Workers' Compensation Insurance: This coverage 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. Employers are required by law to have workers' compensation insurance, except in the state of Texas.
- Malpractice Insurance: This type of policy protects against financial loss arising from negligence in providing professional services.
- Bonding: This type of policy covers a business from losses caused by the negligence or dishonesty of an employee or by the failure of a business to complete a contract.
- Other Forms of Business Insurance: Business Interruption Insurance; Life Insurance (for entrepreneur and/or employees); Health Insurance (for entrepreneur and/or employees); and Disability Insurance

What Coverage Should I Have?

1. Juanita Jiminez thought she had found the perfect location for her new restaurant and catering business. She had found a restaurant for sale on a small bluff overlooking the river; the restaurant had a large tree-lined patio, so Juanita would be able to attract customers interested in outdoor dining. Juanita decided to talk to a former owner of the restaurant to get more information. The former owner told Juanita that his restaurant had flourished until two years ago, when the river flooded and caused extensive water damage. While he had made all of the necessary repairs to the restaurant, he was never able to recover financially, so he eventually went out of business. This concerned Juanita, and she wondered if her ideal spot was really ideal. In addition, the former owner informed Juanita that the city was located on a "fault" line and at the edge of "tornado" alley. What type of insurance should Juanita carry?

2. Congratulations! You just decided to go out on your own and open a medical practice to serve the needs of your small community. There are a thousand decisions to make to ensure that your business is successful, but one thing is for certain: you're going to need to be insured. What type of insurance should you carry?

3. You run a small landscaping business employing approximately 50 people. You can't seem to hold on to employees and one thing you keep hearing is that people are leaving your business for employers with better employee benefits. If you want to retain your employees, what type of insurance should you consider for your staff?