

Insurance Needs of U.S. Businesses

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Insurance Needs of U.S. Businesses

Overview I. Business Insurance

Business insurance protects the contents of a business against fire, theft and other losses. It can also protect a business in cases of liability. Depending on the corporate structure, a business may also require personal insurance. In this section, we introduce several types of insurance—from the legal requirements to the most commonly used. This is only a starting point and we strongly urge every business to consult an insurance professional prior to starting its U.S. operations. The U.S. is a very litigious society and the laws change constantly so while having insurance is not always mandatory, it is prudent to purchase basic insurance policies.

The insurance premiums will be calculated based on an assessment of potential risk in terms of loss. Coverage will be more expensive if a company is operating a relatively high-risk business. The best way to ensure that a company has proper coverage is to develop a working relationship with a qualified commercial insurance advisor familiar with the general type of its business and particular operations.

One way to save money is to combine policies to form a single policy. For example, commercial multi-peril insurance may include liability, business and commercial property insurance. Business owner programs (BOP) generally combine property and liability coverage into one policy. Coverage does not include professional liability insurance. A second component of BOP is Business Interruption insurance. BOP plans can be modified to contain other types of property coverage. Under some conditions, a small or medium-sized business (less than 20 employees and gross revenues below \$1 million qualify) may be eligible to purchase a BOP.

Section 1.01 General Liability Insurance

Business liability may take many forms in the pursuit of normal activity. General liability insurance covers damages a company may be responsible for due to actions or negligence on its part or on the part of someone representing the business when such actions result in bodily injury, property damage, medical payments, and/or personal injury for customers or visitors on its premises. It also covers property damage for which the business owner or its employees are responsible. Factors that go into determining the extent of the needed coverage include the products the company produces and sells, the industry in which it is engaged, and its customer base.

Section 1.02 Property

Property insurance is meant to insure that the company can continue to do business in case of events such as theft, fire or vandalism where buildings, equipment, inventory and other property may be destroyed or impaired. Property insurance varies greatly in type and coverage. The key factors involved in purchasing property insurance is to determine how much one will need to replace or rebuild equipment, buildings and/or inventory.

(a) COMMERCIAL PROPERTY INSURANCE CLASSIFICATION

Commercial property insurance falls under two general classifications of policies: named-peril policies and all-risk policies. A named-peril policy protects against losses resulting from only those perils the policy explicitly names and may require separate policies to be taken out by property class. On the other hand, an all-risk policy protects against all perils except those



specifically named. While all-risk offers broader coverage than a named-peril policy, the size and complexity of your business should drive your decision of choosing one type over the other.

(b) COMMERCIAL PROPERTY INSURANCE GENERAL FORMS

Property insurance takes three general forms: basic, broad and special. Basic usually covers damage from common causes such as fire, lightning, windstorm, vehicles, aircraft and civil commotion. Broad form refers to damage from basic threats plus water damage, collapse, glass breakage, weight of snow, ice or sleet, and sprinkler leakage. Finally, special form will cover loss under any threat except loss specifically excluded from the policy. General exclusions include flood, earth movement, war, wear and tear, insects and vermin.

(c) SPECIALIZED COMMERCIAL PROPERTY INSURANCE COVERAGE

Supplemental policies can generally be purchased to cover special threats but they are also generally quite expensive. Typical specialized policies a company may want to investigate include:

- **Flood** -- If your business is located in a flood zone, it should consider a flood insurance policy.
- **Crime** -- Crime insurance protects a business against on-premise burglary, off-premise robbery, embezzlement, employee theft and more.
- **Inland Marine** -- Protects items of value *in transit*, such as valuable tools, artwork or jewelry.
- **Automobile** - In addition to collision damage, this insurance protects from perils such as fire, wind, hail or vandalism.
- **Cargo** -- Covers losses to inventory or goods on board a company truck.
- **Fire** -- Standardized in the U.S., these policies cover losses from fire and lightning.

(d) PURCHASING COMMERCIAL PROPERTY INSURANCE

Property insurance may be purchased in one of three ways: actual value (replacement cost minus depreciation), replacement value (the cost of replacing an item without deducting for depreciation), or agreed-upon amount (commonly used for art objects and other unique items). You may purchase additional coverage for any item not covered by the basic policy.

Section 1.03 Business Interruption

A complement to property insurance is business interruption insurance, which reimburses a business for the loss of earnings, should its operation be interrupted. Coverage generally includes fixed expenses between the time when a company is rendered unable to conduct business to the time when it can restore operations, for example taxes, utilities and other ongoing expenses.

Section 1.04 "Key Man"

If you or another individual is critical to the operation of your business, purchasing "key man" insurance could be considered in the event of illness or death or to ensure operational continuity during an ownership transition under these circumstances. Often a voluntary purchase, however, banks or government loan programs make this insurance obligatory.

Section 1.05 Automobile

Business automobile insurance protects a company against liability for bodily injury and property damage on vehicles specifically designated as business vehicles as well as personal



vehicles used for business relative to ownership, operation and maintenance of said vehicles. Any business vehicle should retain liability and replacement coverage.

Section 1.06 Office and Director

This policy protects a company in the event that an officer or director of the corporation may become personally liable for their actions on behalf of the company.

Section 1.07 Home Office

A home office is not automatically covered under a standard homeowner's policy. One may need to upgrade or purchase additional coverage.

Section 1.08 Professional Liability

In the U.S., a company can be held liable for rendering or failing to render services of a professional nature. Once mandatory only for doctors, this is the fastest rising policy for professionals and consultants as the financial risks continue to escalate. Businesses involved in everything from advertising to engineering should consider coverage. This is high premium insurance in a high-risk environment where consumer claims can literally wipe out a business—be it from the lawsuit or just the attorney's fees to fight the claims. Business liability coverage could be considered as life insurance for a business.

SIDEBAR: Clearly, defense is the best offense and a business can mitigate the risk of being sued by remaining within its boundaries of expertise. Effectively communicating with employees and customers is equally important to avoiding a lawsuit. A company's constituents should be clear as to the service it offers and how and when the service will be performed. In turn, the company should clearly understand the client's needs and concerns. As a business, you also want to make sure that your actions and decisions are well documented. Redundancy is also a powerful preventive tool. Where doctors will recommend a second opinion or send a patient to a specialist, a business should engage a CPA to check its tax returns before filing them- this will limit the business' liability, and a lawyer should check any legal work done. The key goal: to double check the work and share liability in every case. The most formal method of communication is documentation. Be it a letter of engagement or a termination of a project or employee, you need to confirm receipt of these documents. Everything in between can be a phone call, fax or meeting minutes. Document important organizational changes—structural, financial, accounting, key management changes—especially those relevant to clients. (Source: *Adopted from the article, Malpractice Insurance - Avoiding Malpractice Claims by James Rooney, MostChoice.com*)

Section 1.09 Workers' Compensation

If a business employs three or more people, workers' compensation insurance must be carried to provide protection to those injured in on-the-job accidents. The employer is obligated to pay for stated damages in the event of a work related injury or illness whether minor or major, temporary or permanent. Covered expenses include medical expenses, loss of work time, and alternative training or related costs. A business may be allowed to take out separate coverage for employer's liability in case of an employee comp claim. A business may be exempt from worker's compensation only under certain conditions and then only if it has no employees.

Section 1.10 Crime Protection

Crime protection insurance will reimburse a business for any losses due employee dishonesty (defined as loss of your business and personal property, money and securities caused by dishonest acts committed by your employees), forgery and alteration, robbery, burglary, safe burglary, theft, disappearance, destruction, computer fraud and extortion. Coverage is dependent on the policy a company chooses.



Section 1.11 Umbrella Policies

If a company requires or desires broad coverage for liability not taken care of by its other insurance, it may take out an umbrella policy. A typical umbrella policy takes over from other insurance policies when or if its losses or fees exceed the maximum amount covered by that policy.

Section 1.12 Life Insurance

Generally, when large loans are issued to a business, the owner is required to have life insurance coverage, especially if he or she has personally guaranteed the loan.

Overview II. Health insurance

In the U.S. providing employees with health insurance is optional. However, a business may need to offer this insurance to attract skilled labor. Health insurance takes several forms in the U.S. A business may purchase and offer group insurance at a discount from individual policies. Health insurance may cover medical, dental and eye plans.

Section 2.01 Individual

(a) PREFERRED PROVIDER ORGANIZATIONS (PPOs)

PPOs make arrangements for lower fees with a network of health care providers. Policyholders have a financial incentive to stay within that network as staying in network means less out of pocket money and less paperwork. PPOs may not cover preventive care services but you may refer yourself to an in network specialist.

(b) HEALTH MAINTENANCE ORGANIZATIONS (HMOs)

Least expensive and least flexible of the available health plans, HMOs tend to be geared more toward members of group plans than individuals. In exchange for no or a low co-payment, low premiums and minimal paperwork, an HMO requires that you only see its doctors, and that your primary care physician provide a referral before you see a specialist. Only under the direst circumstances may you proceed to an emergency room without pre-approval.

(c) POINT-OF-SERVICE (POS)

Similar to a PPO, a POS works through a Primary Care Physician (PCP). You'll choose your PCP from among the plan's network of doctors. You may choose to go out of network but expect a reduction in coverage and a deductible to activate. Specialist referrals usually go through your PCP. Again, you can still choose to refer yourself, but will likely pay more out of pocket.

(d) FEE-FOR-SERVICE OR INDEMNITY COVERAGE

Once the norm, this type of coverage affords you complete autonomy when it comes to choosing doctors, hospitals and other health care providers. You can refer yourself to any specialist without getting permission, and the insurance company doesn't get to decide whether the visit was necessary.

(e) GROUP

Group Health insurance is similar in form to individual health insurance although it places fewer application requirements on the individual. Also, the law provides some protections for a group policy not available to owners of individual plans. Group plans often have a waiting period and employment requirements. Having group health insurance does not guarantee coverage. Follow federal and state laws as they apply to you for coverage. To evaluate any plan, consider if the plan has a network of doctors, if policyholders may go in and out of that network, if routine, preventative care is covered, and how prescriptions are covered and charged. In the U.S. today, 40% of the costs of medical care is the costs of drugs.



Section 2.02 Reference Sources

New York State Department of Labor

Turkish-American Business Organization of Chicago

Small Business Administration

Delaware Division of Corporations

MostChoice.com

Thelen, Reid & Priest, LLC

Property Casualty Insurance: A Small Business Guide, Empire State Development & Insurance

Department Division for Small Business

Health New York.com



Appendix I: Glossary

Accounts Receivable/Valuable Papers. Coverage for loss or damage to your documents and records caused by or resulting from a covered cause of loss.

Bailee Coverage. Provides protection for your customer's property in your care, custody and control. Drycleaners, jewelry repair shops and others may need this coverage.

Boiler & Machinery. Systems breakdown coverage for equipment and machinery exposures.

Bonds. The bonding company guarantees the promise of and will answer for the failure of a person to deliver a promise to another. There are several different kinds of bonds available: 1. Contract bonds 2. License and permit bonds 3. Public official bonds 4. Judicial or court bonds 5. Federal surety bonds.

Business Income. Provides coverage (usually up to 12 months) for loss of earnings and/or extra expense you sustain from an event covered by your policy.

Commercial Property. In most cases, this provides coverage for "risks of direct physical loss" to your buildings and your business personal property. Losses from things like earthquakes, floods, decay and normal wear are not covered here.

Commercial Umbrella. Provides broad higher limits of liability (usually 1 million and up) for catastrophic losses against the company in excess of your primary policy limits.

Crime. There are 10 covered causes of loss in the crime policy. Some policies only cover one, while others cover more than one. They are: employee dishonesty, forgery and alteration, robbery, burglary, safe burglary, theft, disappearance, destruction, computer fraud and extortion.

Directors & Officers Liability. (D&O) Protects the personal assets of the directors and officers in the event they are sued over the performance of their company related duties.

Employee Dishonesty. Coverage for loss of your business and personal property, money and securities caused by dishonest acts committed by your employees.

Employment Practices Liability. Protects the company against employment-related liability issues. Things like sexual harassment lawsuits, failure to promote, wrongful termination and discrimination are covered here.

Electronic Data Processing. Covers your computer equipment and software.

Equipment Floater. Coverage for direct physical loss to almost any type of portable or mobile contractor's equipment not approved for public road use, rental reimbursement is often added as well.

Garage Keepers. Coverage for a customer's auto or auto equipment in the care, custody and control of the insured caused by or resulting from a covered cause of loss.

Garage Liability. Coverage for liability and physical damage for dealerships, used car operations, repair shops, body shops, and service stations. This coverage combines components of the general liability, commercial auto and non-owned auto policies.

General Liability. Coverage to protect your business against claims of bodily injury or property damage to others, arising out of injury on your premises, products you make or advertising and personal exposures. Claims are subject to occurrence and aggregate limits.

Glass and Sign: Coverage for loss or damage to windows and outdoor signs caused by or resulting from a covered cause of loss.

Hired and Non-Owned Auto. Gives coverage for exposures due to non-owned, borrowed, hired or leased vehicles used for business purposes that are not in the company, employee, or a company family member's name.

Installation/ Builders Risk. Coverage for structures being built and temporary structures and building site.

Money and Securities. Coverage for theft, disappearance or destruction at your premises, at a bank, or while in transit. Coverage is sometimes automatically increased for special holidays.

Motor Truck Cargo. Coverage for damage to property being transported on trucks. There are two different kinds of coverage, one for carriers who are held legally liable for damage to the property of others and one for damage to owners transporting their property on their own trucks.

Off Premise Power Failure. Covers loss of earnings due to interruption of service from off premise utilities and communication services.

Professional Liability. Also called E&O, provides protection when you are held legally liable for how you rendered or failed to render professional services.

Tenants Legal Liability. Coverage for damages of a building in which you are held legally liable that you are renting.

Workers' Compensation. Protection for your employees for on the job, or job-related injuries. Covers with or without regard to legal liability their medical expenses, rehabilitation costs, lost wages and pain and suffering. In most states, this is a required coverage if you have over three employees.

Source: Mostchoice.com

