

Small business insurance: Insure for the worst, hope for the best

*By Nicholas Schidowka, President
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Few things in life are riskier than launching and running a business. Neglecting business insurance needs can compound those risks. Protecting a business from financial disaster will not only preserve all the hard work and long hours that was put into it, but will also give the business owner some peace of mind.

A business owner has three types of small business insurance to consider, including one that is mandatory. Business owners who have employees *must* provide state-mandated coverage for injuries and illnesses that are job related through workers compensation insurance. While it is not mandated by law, business owners should also purchase business property insurance and liability insurance. Business property insurance will cover property, equipment and inventory while liability insurance will protect the business against potential liabilities in this litigious society.

Small Businesses
need three types
of insurance:
Property,
liability, and
workers
compensation.

Cleveland attorney Oleh Mahlay warns, "In this day and age of liability and lawsuits, a business owner can ill-afford to ignore insurance relative to their business."

Small business property insurance

Property insurance can be purchased on the basis of the property's actual value (the replacement cost minus depreciation), its replacement value (the cost of replacing an item without deducting for depreciation), or on an agreed-upon amount (commonly used for art objects and other unique items).

You can insure
your property by
categories or by
events, such as
fire, theft, or
vandalism.

Basic property insurance will generally cover a business owners' losses in the event of a fire or a lightning strike, and will pay the cost of removing property to protect it from further loss.

Additionally, a standard small business policy will usually cover losses from windstorm, hail, explosion, riot and civil commotion, and damage caused by aircraft, automobiles, or vandalism.

Optional coverage can insure against earthquakes, floods, building collapse, and glass breakage. Property insurance can be categorized by what is insured and by the events leading to a loss.

The Independent Insurance Agents of America offers a checklist:

- Buildings and other structures, leased or owned
- Furniture, equipment, and supplies

- Leased equipment
- Inventory
- Money and securities
- Records of accounts receivable
- Improvements and betterments you made to the premises
- Machinery
- Boilers
- Data processing equipment and media, including computers
- Valuable papers, books, and documents
- Mobile property, such as automobiles, trucks, and construction equipment
- Satellite dishes
- Signs, fences, and other outdoor property not attached to a building
- Intangible property (goodwill, trademarks, etc.)

Taking stock of your business property

It is important for a business owner to take a complete inventory of all business property, determine its value, and decide what's worth insuring. If the items that need insuring are not covered within the basic policy, adding more coverage may be necessary.

For example, a business owner will want to make sure the building is covered, as well as inventory, furniture, equipment, and supplies. Even if the business rents space, the lease may require certain types of insurance coverage. When renting property, it is important to note that while a building owner may carry all the necessary insurance on the building, the business owner's equipment, furniture and other business possessions will not likely be covered.

“As for home-based businesses,” adds Oleh Mahlay, “You should be careful in making sure your business work area and business property is identifiable from home and leisure use. This is important not only for business purposes but also for tax purposes if you take home-based business tax deductions.”

Named-peril policies will cover certain losses resulting only from those perils that the policy names; all-risk policies offer coverage for all perils except those specifically named in the policy. An all-risk policy is usually sufficient for the average small business, but keep in mind that all businesses, and thus their insurance needs, are different.

Find a company specializing in small-business insurance

Some insurance companies specialize in small-business insurance coverage. While shopping for business insurance, a business owner should keep in mind that coverage are not always standard between companies.

If your company has a variable growth pattern, you may want to adjust your coverage annually.

A common breakdown of a small business insurance policy would include: accounts receivable coverage up to \$25,000 (higher limits are available); coverage for contractors' equipment that is both at the job site and that is in transit; building materials that will become a permanent part of the structure, plus the labor involved with completing the installation; and peak-season coverage that automatically increases limits by 25 percent during peak inventory periods.

Deductibles for property insurance can be calculated on a per-claim or on an aggregate basis. The out-of-pocket cost for per-claim deductibles is often lower, so if a business owner is in a business that has a relatively low chance of filing a claim, he or she may consider this. Companies with a lot of claims would do well to consider calculations on an aggregate basis.

A business owner should make sure the full value of an item is insured and check the terms for reimbursement. Just because a \$1 million in coverage was purchased doesn't necessarily mean the whole amount is going to be applied in a given category of property. If a company has a variable growth pattern, the business owner may want to adjust coverage annually.

Liability insurance

Liability insurance will protect business assets in the event the business is sued. These days, with lawsuits clogging the courts, a business owner should maintain a proper amount of liability insurance to protect the business he or she has worked so hard to build. Any company can be sued for something it did — or even didn't do — that resulted in injury or property damage to someone else.

The expenses of defending yourself or your business against a lawsuit without insurance can be a substantial cost to you, regardless of whether or not the lawsuit has merit. Liability insurance will cover the cost of damages along with the legal fees and other costs associated with your defense in a lawsuit. In addition, many customers will demand that their vendors hold liability insurance.

“We require our vendors to carry general product liability insurance,” noted Taras Szmagala, attorney for Eaton Corporation. “Like most large companies, Eaton expects that its vendors will stand behind their products, and insurance is an important way to do that.”

Liability insurance will *not* protect you against claims arising from nonperformance of a contract, wrongful termination of employees, sexual harassment, or race and gender lawsuits. Usually a surety bond is taken out as performance insurance. Employment practices liability insurance (EPLI) protects your business against employment-related claims, such as sexual harassment.

Many small businesses have difficulty figuring out how much liability insurance they need. There are *some* guidelines to consider, but no standard formula. Determining the amount of liability insurance to buy is an important task, since the sky's the limit on lawsuits. A business owner can use a recent liability settlement in a related business as a guide, or the amount could be based on the total assets of the business.

Many businesses have difficulty figuring out how much liability they need. While there is no standard formula, consider these guidelines.

Some occupational licenses might require a set amount of liability insurance. If a business owner rents a business property, a set amount of liability is often required and is stated within the lease. The business owner should purchase an amount which they can reasonably afford, because the cost of insurance will be far less than the cost of a lawsuit.

Business owners policies

Many insurance companies have bundled property and liability coverage into what's commonly called a business owners policy (BOP). It allows the business owner to obtain broad coverage with affordable premiums.

Business owners who have a BOP will also want to consider adding additional coverage that may not otherwise be included. Property insurance can be tailored to fit the needs of a certain business since no two businesses are the same.

For example, a restaurant has different needs than a furniture store while a retail business with a lot of customer interaction and builders who are contractually obligated to erect an office building may face a greater amount of liability than a two-person accounting office. Therefore, liability above and beyond a BOP package should be considered.

The above article is meant to give a general overview of insurance policies; exact coverage and terminology could vary by insurance company. **Please refer to your policy for exact coverage details and terminology.**

About the Author

Nicholas Schidowka began his work in the insurance and financial services industry in 1997. In 2001 he obtained Ohio licenses in Property and Casualty insurance and Life and Health insurance. Since then, he has worked hard to provide various insurance services to

his customers including auto, business, health, home, and life. His professional and courteous approach to the insurance field has cultivated a diverse and loyal clientele in the Cleveland (Parma), Ohio area.

In 2007, Insurance Cleveland Agency LLC was formed. As an independent agency, Insurance Cleveland Agency has access to several different insurance carriers including Encompass (owned by Allstate), The Hartford, Ohio Casualty, Progressive Drive, Safeco, Travelers, Victoria (owned by Nationwide), Dairyland/Viking etc.

Insurance Cleveland Agency is pleased to announce the addition of Ivan Voytovych to their team! Mr. Voytovych is a highly qualified and valuable addition to the ICA team and helps the agency cater to the company's English, Ukrainian and Russian speaking customers.

Insurance Cleveland Agency is conveniently located off of Pearl Road and Highway 71 in the Islander Office complex. Office hours are Monday – Friday 9:00 am to 12:30 pm and 1:30 pm to 5:00 pm. Please call ahead for an appointment. We look forward to hearing from you in the near future!

Please give us a call at 440.866.0155, your free quote is waiting for you without any obligations. Many insurance policies are needlessly expensive and often out of date. We will work hard to give you the best service and there is a very good chance you can save money and improve your insurance at the same time.