

Protecting Your Business: Commercial Insurance A Brief Introduction

Commercial Insurance

Much like you would insure your home and auto, your business needs insurance, too. In fact, commercial insurance is important to have to protect your business assets and ensure that you can continue to operate after a loss occurs. Regardless whether you plan to operate as a sole proprietor, LLC, C-corp, or any other type of entity, there is a commercial insurance plan designed to protect you and your business.

The types of insurance that we will focus on are as follows:

- Property
- General Liability
- Commercial Auto
- Crime
- Inland Marine
- Employment Practices Liability Insurance (EPLI)
- Professional Liability
- Workers Compensation & Employers Liability

When do I need to purchase commercial insurance?

When you begin planning to open your business, having commercial insurance should be part of your plan and should be implemented from day one of opening your doors for business.

What type of insurance do I need?

This will depend on the type of business that you operate. For instance, most small businesses will qualify for a package of coverages known as the Business Owners Policy (commonly called the BOP). This policy takes several types of insurance coverage that is discussed in more detail below and packages them. If the insured's type of business does not qualify for the BOP program, it can be written on a Commercial Package Policy (the policy number for this usually contains the CPP prefix). If the business is very small or has very specific needs that a package cannot meet or is not cost effective, the coverages desired can be written in a monoline policy (usually referred to with a CAP prefix).

Also, there are several specialty programs that companies have to attract certain types of businesses. Churches are often written on Religious Institutions Policies and Garage/auto repair risks are often written on Garage Owners Policies.

Property:

Essentially this will be your building that you own or rent (as many commercial leases require the occupant to carry the insurance on the property while they occupy it), your office contents with certain exceptions and restrictions, and business income and/or extra expense coverage.

I'm sure most of you are familiar with buildings and contents being insured on your homeowner policy. The commercial policy is similar in that you have the option of purchasing coverage on a *Replacement Cost* basis or on *Actual Cash Value (ACV)*. Replacement cost valuation on your business policy means the insurance company will replace your property with new property. On ACV coverage, claims would be paid out based on replacement cost minus depreciation of the assets.

When deciding how much property insurance you need, you will also have the option of deciding on a coinsurance amount. This is essentially a way for insurance companies to make sure the property is adequately insured at the time of a loss. Most losses are partial losses, i.e. a fire in a \$100,000 building might do \$20,000 of damage. The insurance companies want the proper premium for insuring the building because they would have paid for the damage whether it was \$5000, \$20000, or even the full limit of insurance \$100,000. If you do not carry at least the limit of insurance that is necessary (as determined by the coinsurance) you would pay a coinsurance penalty at the time of the loss. What you need to know for now is that you typically have the option of selecting 80%, 90%, or 100% coinsurance. In the case of our \$100,000 building, if you elected 80% coinsurance, you would need to insure the building for at least \$80,000 to be considered fully ensured. At 90% coinsurance, you would insure your building for at least \$90,000 to avoid a coinsurance penalty. Without getting into all the details, the claims adjust essentially looks at how much insurance you DID carry versus how much you SHOULD have carried. If the "did" divided by the "should" is less than the coinsurance percentage, then the coinsurance penalty would be applied in paying the claim. Note that this is in addition to any deductible that you would have.

Business income coverage is important to help your business stay solvent while you are recovering from a loss. Let's say you own a 4 family rental dwelling and you get \$2,000 per month in rental income from those apartments. If your rental dwelling was to burn down you would lose that \$2,000 per month because your tenants would be forced to find somewhere else to live. Business income coverage could provide you with that

\$2,000 per month while the building is repaired or rebuilt. This coverage also works for stores and manufacturing facilities as well.

You might still have a commercial property insurance need even if you don't own or rent a building. Personal lines and homeowner policies often exclude business uses with few minor exceptions such as a small home office. You would need to review your homeowner's policy to determine if your home office had any business coverage.

General Liability

There's a not-so-old saying that "You don't have to be worth a million dollars to be sued for a million dollars". Indeed we live in a litigious society. If you own a business and a customer is injured while on your premises or while using a product that you made and/or sold, you have opened yourself up to being held liable for injury or damages. The general liability coverage is designed to protect businesses from losing assets (such as cash!) by virtue of making a mistake or an unfortunate event occurring that is related to the organization's operations.

In commercial insurance, most general liability policies contain a per occurrence limit, a general aggregate limit, and separate aggregate limits for products/completed operations and personal injury/advertising injury.

The cost of general liability coverage is based on the type of business. For instance, most warehouses are based on area (square footage); car washes are based on gross sales; a home builder's subcontracted work is based on total cost; apartment complexes are based on the number of units.

General liability policies often have some added coverage options built into the policy, like Medical payments to third parties (typically \$5,000 or \$10,000) or fire damage to premises rented to you (usually \$50,000, \$100,000, or \$300,000).

Commercial Auto

If you own or lease a vehicle and use it in the course of your business, you probably have a commercial auto exposure. Most personal auto policies exclude coverage for the vehicles while they are being used for business purposes. The commercial auto policy is very similar to the personal auto policy in that you have liability coverage, comp & collision, uninsured/underinsured motorist, and have the option to purchase towing, Gap coverage, and rental reimbursement. The commercial auto coverage typically has much higher limits of insurance available than the personal auto policy and can be written in split limits or a Combined Single Limit (CSL). The notion of carrying \$1 million in auto liability may seem absurdly high, but similar to the general liability coverage it is responding to the fact that you don't have to have a million to be sued for

it. \$1 million CSL is fairly typical in commercial auto policies whereas most personal lines policies would top out at the \$250/500/100 split limits.

Crime

There are several types of crime coverage available for purchase, but we will focus mostly on Employee Dishonesty. Embezzlement can cost a business thousands and jeopardize the continuity of the business. Crime Coverage A is coverage that protects business owners for losses that occur when an employee has stolen money, checks, or securities. Coverage A can also be used to protect employers' retirement accounts (such as 401(k)) against the employee who acts as plan administrator misusing other employees' money.

There are also other types of crime coverage that protect the insured against safe robbery or burglary, forgery/alteration, theft/mysterious disappearance, computer fraud, and extortion.

Inland Marine

The term inland marine dates back to when ocean marine insurance was heavily used for items being shipped over seas. Once the item reached the other side of the ocean it was no longer insured as the insurance was only to protect the cargo from a sinking ship. Thus the term inland marine was born. Items that are easily movable and/or are transported frequently will fall under this category. Inland marine is a category of insurance that has several types of coverages available.

Electronic Data Processing Equipment (known as EDP coverage). This is for your computers, software, etc. Laptops would be a perfect example but it could also be desktops, printers, scanners, copiers, fax machines, etc.

Contractor's Equipment. Contractors are notorious for having large dollar values of tools kept in their truck, and are constantly using these tools at various job sites. This coverage is intended for businesses with equipment that is easily transported and/or moved frequently.

Signs coverage. If you have a business location, you probably have a sign. Some policies will cover your sign under the property section if it is attached to the building that you occupy or if it is within 1,000 ft of your building. This coverage can be purchased on the inland marine section if it is not covered under the property portion.

There are many more inland marine coverages, your unique business or situation would dictate what coverages you need. Your agent should be able to help you select coverage once you explain to them how your business operates.

Employment Practices Liability Insurance (known as EPLI)

Once your business has been started and you start to hire employees you will want to look into obtaining this coverage. This coverage is designed to protect you when an employee claims s/he was sexually harassed, wrongfully terminated, or somehow discriminated against, etc.

Professional Liability

If your business centers around you providing a service or professional advice, you probably have a professional liability exposure. The more common types of professionals that come to mind are doctors, lawyers, accountants, architects, engineers, real estate agents, and insurance agents. Professional liability insurance is not limited to exclusively these individuals though. Increasing number of businesses that provide services instead of products are blurring the lines between the liability being part of the general liability policy or the professional policy. You can almost bet that if it requires a state license to operate the business, it probably has a professional liability exposure. HVAC contractors, dieticians, pharmacists, computer programmers, and the list goes on and on.

Workers Compensation and Employers Liability Insurance

In Ohio, we operate as a monopolistic state with regard to workers compensation insurance. This means businesses must purchase (pay into) the State of Ohio Bureau of Worker's Compensation plan. More information on this can be found on the State of Ohio's website.

<http://www.ohiobwc.com/>

If you operate in Kentucky or Indiana though, you would need to purchase workers compensation insurance through an insurance company. In Indiana, the state requires that employers at least carry insurance limits of \$100,000 per accident/\$100,000 per employee/\$500,000 policy aggregate limit. This is no-fault coverage so it does not matter if the employee's actions caused the injury. Coverage can be with or without a deductible and can be written for higher limits of 500/500/500 or \$1million.

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