

THE HUMAN LINK

by Jim Lucci

Management Motivational Associates



Business insurance: Are you covered?

I have been asked to review some issues regarding business insurance, partially in light of this past fall's hurricane problems on which I reported in the October and November issues of the World Fence News.

Most of us have come to view insurance as a "necessary evil," and would all like to use those premiums that we pay for some other worthwhile endeavors! Unfortunately, we don't live in a perfect world. I am duty bound to take the approach that, in order to be in business these days, you and your firm must be adequately protected in many different ways, and that includes carrying appropriate insurance coverages. Our column and comments are not intended to give legal advice, but are meant to give you suggestions and perhaps guidance.

With that said, I will start by suggesting that, while you may not be required by law to have general liability, property damage or other similar types of insurance coverage for your business, very few companies can realistically operate without some form of such "optional" insurance.

Chief among those types is general liability and property insurance. In some situations, life insurance, which some might call "optional," may also be important as well.

Regarding *general liability insurance*: Your business, and in many cases, you personally, can need this kind of coverage if someone is injured on or by your property, or if damage occurs either while on your business premises or as a result of your business operations. Liability for damage (or injury) may be due to negligence imposed by law or assumed by contract.

For instance, if one of your customers slips on your floor and sustains a permanent injury, that slip could put you out of business if you are not insured against liability. The same could be true if one of your employees breaks or dam-

ages valuable property while on or in a customer's location.

A liability insurance policy typically provides legal defense against a suit and reimbursement of damages, up to the policy limits, if you are found liable. To insure the broadest possible protection of your assets, it is generally advisable to have an insurance professional negotiate the specific coverage suitable to your particular business needs.

We now need to mention *property insurance*, which is the kind of insurance which protects you against loss caused by the destruction of a part or all of your property by fire, windstorm, explosion, falling aircraft, riot and other disasters. In other words, property insurance protects the physical assets of your company from financial loss.

It also provides compensation if the business' building and equipment are damaged or destroyed.

I would suggest that you get together with your insurance professional and review what you have in the way of coverage, what it covers and what is not covered, and what deductibles apply. (The deductible is the amount the insurance company requires you to pay in the event of loss and resulting claim before they pay you anything.)

This is especially valid in light of the recent hurricane season in the Southeast. And not only hurricanes constitute disaster, since fire, rain, snow, mud, flood and earthquakes can cause damage as well, but insurance companies are not required to cover all or possibly any of these disasters. It is important to recognize that insurance companies may be changing their definitions of what may or may not be covered, so it may be time for an in-depth discussion with your insurance professional addressing a review of your current coverage and policy limitations.

Another area of potential concern would be *business interruption insurance*, which could compensate you for

the loss of revenue incurred when you are forced to close down or vacate business premises due to disaster related damage. It compensates you, based on financial records, for what your business would have earned if the disaster would not have occurred.

This makes it advisable for you to maintain copies of pertinent business records away from the actual business premises, perhaps in the form of print-outs or computer backup files. Ask your insurance professional what is required or optimal.

From business interruption insurance, we move on to *business life insurance*, which is used to protect a business or the family of a business owner from financial loss resulting from the death of someone associated with the business and integral to its operation. If you are a sole proprietor, such a policy can be used to help dispose of your business in the event of your death.

In a partnership or a limited liability company the most common use of life insurance is to insure each partner for the benefit of the other partner or partners in conjunction with a buy and sell agreement.

This enables the survivor or survivors to buy the deceased's interest and to continue operating the business on a reorganized basis. The family of the deceased can be guaranteed immediate cash upon liquidation of its business interest.

We now can spend a moment alluding to *commercial auto coverage*, which largely parallels private auto insurance. However, because the probability of transporting people and moving property by virtue of a motor vehicle is common for or in a business operation, you should make sure that your company vehicles carry the proper coverage, and you should also be aware of how many non-owned autos, newly acquired vehicles or changes in drivers can affect your coverage.

And never overlook the necessity of ensuring that people assigned to drive your on- or off-road vehicles should have valid drivers' licenses or any current certifications which may be required. Omission has the potential of causing you to lose some or all of your insurance protection.

I would be remiss if I didn't at least mention insurances which are mandated

by your state, such as *workers' compensation insurance*. At this point, I can say that I have listened to many of you from all over the country telling me "war stories" associated with workers' comp insurance and claims made on same, as well as the ever-escalating rates and changing formulas and how expensive an insurance item it is to have for your business.

However, once having heard all of this, it doesn't change the fact that it is mandatory in all states. I believe that you either buy workers' comp insurance from a licensed insurance company or carry a certificate of self insurance from your state's department of industrial relations, or its equivalent.

Failure of an employer to carry this coverage and thus secure payment of compensation to an injured worker may result in imposition of both civil and criminal penalties.

Because of the elaborate requirements and considerations with this insurance, it is recommended that business owners refer to workers' compensation brochures available from the department of insurance and/or the department of industrial relations.

It is also recommended that you learn your state mandated responsibilities regarding *disability insurance*, which offers coverage for employees who are injured while employed but whose injuries occurred off the job, as well as for those who become pregnant.

Following are some categories of insurance, as well as the exposures that they protect against and the coverage types. Many web sites exist which will give you various versions of this information, as can your insurance professional.

Property

- Buildings, owned or leased (whether lessee required or not required to provide insurance). *Commercial building policy, fire (owned) and extended coverage minimum.*

- Building under construction. *Builder's risk policy.*

- Contents of building/business personal property policy (includes furniture, fixtures, equipment and stock). *Fire and extended coverage minimum.*

- Tools and equipment (used away from the premises). *Contractors equipment floater.*

- Stock. *Usually insured as part of business personal property. If values fluctuate considerably during the year, a reporting form may be appropriate.*

- Property of others in possession for storage, service, or repair. *May be covered under business personal property or special types of coverage.*

- Damage to boiler, air conditioners, air compressor, etc. *Boiler and machinery coverage.*

- Loss or damage to stock while being transported in an owned motor vehicle. *Motor truck cargo coverage.*

- Loss or damage to property shipped via common carrier, mail. *Common carrier, overseas/transportation coverage, mail coverage, cargo policy (as appropriate).*

- Loss due to faulty discharge of water from automatic sprinkler system. *Usually covered by commercial building and business personal property coverage.*

Time element

- Loss of profits due to insured loss. *Business income (interruption) coverage.*

- Expenses necessary to continue business operations after an insured loss. *Extra expense coverage as part of business income coverage.*

- Loss of rents due to building(s) not being habitable, due to insured loss. *Generally included in business income coverage.*

Crime

- Loss of money due to robbery, burglary, on or off premises. *Robbery and safe burglary coverage, money and securities.*

Commercial auto

- Liability and physical damage exposures. *All such exposures can be dealt with by a comprehensive commercial auto policy, a truckers coverage policy or motor carriers policy.*

Liability

- Business operations and premises. *Comprehensive general liability policy (CGLP).*

- Products manufactured, distributed, or sold. *CGLP or products, completed operations policy (PCOP).*

- Work performed by you under con-

tract, i.e. construction. *CGLP, PCOP.*

- Premises owned but not occupied by owner. *CGLP, PCOP.*

- Liability for contractors or subcontractors. *CGLP, or "owners and contractors protective liability."*

- Losses in excess of policy limits or need high limit of liability. *Umbrella liability policy.*

This was only a guide to give you some parameters, but your insurance professional will assist you with particulars pertinent to your business' needs.

Bear in mind that there are package policies available which can give various combinations of the policies mentioned, as well as specific coverage policies.

As you can see, business insurance is a complex subject, as diverse as business itself. Selecting an agent or broker experienced in business exposures and the commercial insurance market is extremely important, as is finding one with experience in your particular type of business' needs.

Interview several agents and ask for referrals. When shopping for coverage, get several quotes or proposals and have them in writing. As you shop for your insurance, you will see special terms and concepts unique to business insurance. Ask your agent to explain anything with which you are not familiar. Be sure to understand how your insurance premiums will be calculated.

While we know that business insurances are expensive and a necessary part of doing business, this may be the time for you to review your coverage to make sure that your needs are adequately covered, before your season gets fully underway.

Take care of this essential part of the business' operation and take another step toward continuing to realize that *Profit Is Not A Dirty Word!*TM

World Fence News contributing editor Jim Lucci is president of Management Motivational Associates of Freeport, N.Y., and for many years has written a monthly column on business management and issues which affect fence company owners and managers. He is a major contributor to the Fencer's Field Report which appears monthly in World Fence News. See the ad for Management Motivational Associates in this month's issue of World Fence News.