

INSURANCE 101 for Small Businesses

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When starting a new business, entrepreneurs are faced with so many decisions to make that they sometimes suffer from “decision fatigue.” From funding options to location selection and build out, merchant services to payroll processing, the list of critical decisions for that first year of business (and beyond) will both exhaust you and keep you up at night. In the grand scheme of things, insurance often becomes an afterthought and as the fatigue sets in, insurance policies are rushed through, skimmed on and thrown into place merely as a prerequisite for opening the doors and getting down to business, a.k.a. making some money!

Those who choose the entrepreneurial path do so for many reasons, but making money and retaining those earnings is the only way to keep the dream alive. It goes without question that we insure our most important assets like our homes and vehicles, our families via life insurance and our ability to generate income via disability insurance; so why rush and skimp when insuring your new business venture, which could be your biggest investment to date next to your home?

By nature, humans (and entrepreneurs to an even higher degree) are positive thinkers and as such we hate buying insurance because “it’ll never happen to me.” As someone who has worked with small business owners my entire life I can tell you that it does happen, and when it does you will be grateful that you have the right policies in place to pay the losses so you can retain the profits you have worked so long and hard to build.

Putting the right policies (and more importantly the right underlying coverages) in place starts with finding the right commercial insurance broker. Sure, your homeowners/auto agent can probably sell some basic commercial insurance, but typically they only represent one carrier and their franchise industry experience is limited.

You’ll want to find a broker (meaning an agent who works with multiple carriers) who will work to understand your insurance requirements and then perform a Risk Analysis to pinpoint the areas of potential loss that can be protected against with insurance. The following is a general list of insurance policies with descriptions of what they are meant to cover and when they should be put in place. Every business model is different so having a knowledgeable broker is key to making sure you are not under, or even over insured.



Business Owners Policy – Business Owners Policies, or BOP's in the insurance world, are package policies which conveniently combine multiple lines of coverage under one policy. BOP's are not available for all business classes but whenever they are available they should be taken advantage of in order to achieve maximum savings. Depending on your business type and the available insurance carriers, BOP's can include some or all of the following which can also be offered individually when necessary:



- **Property Coverage** – Meant to cover the building (if owned by you), any Business Personal Property (ie: equipment, inventory, furniture, etc.) and any Leasehold Improvements (ie: build out costs, permanent counters, cabinets, wall units, etc. if you are a tenant).
- **General Liability** – Covers you for potential property damage, bodily injury & medical payments to others like customers and vendors making deliveries.
- **Business Interruption Coverage** – An invaluable coverage if being unable to run your business from your primary location will translate into significant lost revenue. If you experience a covered loss like a fire or extended power outage (ie: Hurricane Sandy victims whose properties were untouched) and you are unable to run your business you will be reimbursed for the loss of income during that period of time that your property is “down” or being repaired.
- **Commercial Auto** – Necessary if you have company vehicles used personally or by your staff. Even if you do not have company owned vehicles you should carry Hired & Non-Owned Auto coverage which protects you from the liability your employees might suffer while using their own personal vehicles for business purposes (ie: sending an employee out on a quick errand).
- **Workers Compensation** – Meant to cover employees from work related injuries or sickness. Workers comp is highly regulated at the state level so your broker will need to familiarize themselves with state laws regarding minimum coverage and whether or not owners can be excluded from coverage or not.
- **Umbrella Insurance** – Overriding excess insurance meant to protect you from a catastrophic loss that exceeds the limits of liability of the preceding BOP coverages.

When to Buy – Property and auto coverage should be carried as soon as you purchase either property or a commercial vehicle. General liability should be in place as you discontinue your Builders Risk Policy, or at a minimum before you start taking deliveries and open up to the public for business. Workers Comp should be in place as soon as you make a hire and prepare for your first payroll.

Errors & Omissions – Errors & Omissions, or E&O, is designed to protect businesses that sell a service rather than a physical product (ie: consultants, hair & nail salons, carpet cleaners, etc.). Just as a retailer can be sued for selling a faulty appliance that causes a financial loss to the customer, a service provider such as a hair salon can be sued for the distress caused by dying a bride's hair the wrong color the day before her wedding. These policies provide coverage for attorney's fees as well as damages because even if you are not at fault you will still need to hire a lawyer to defend you to that end. In certain instances this coverage can be combined with a BOP policy.

When to Buy – E&O should be purchased before you engage with your first customer to ensure the services you are providing from day one going forward are covered by the policy.

Employment Practices – Employment Practices Liability Insurance (EPLI) covers your defense and settlement costs for suits related to hiring & firing practices, discrimination and sexual harassment claims. This often overlooked coverage is extremely important as statistics show that small business owners are more likely to experience an EPLI claim than a Property or General Liability Claim. Furthermore, studies show that an EPLI claim if experienced would bankrupt half of uninsured small businesses with fewer than 100 employees and 40% of all EPLI claims filed were against employers in that class. Many insurance carriers these days are offering EPLI coverage on their Businessowners Policies (BOP) but beware, coverage is usually limited to \$25-50,000 which is not nearly sufficient.



When to Buy – Since hiring practices and discrimination are major components of EPLI, the policy should be purchased before you begin to seek or interview any potential employees.

Employee Dishonesty – Although coverage against theft is built into Property/BOP policies, theft by an employee is almost always excluded which is where Employee Dishonesty Insurance comes into play. If you stock high valued inventory or employees have access to POS systems then you should consider purchasing this coverage. Ask your broker if it can be built into your BOP policy as that is common and the extra expense is minimal.

When to Buy – Employee Dishonesty Coverage is generally purchased at the same time as a Business Owners Policy or Employment Practices Liability Insurance policy.

Cyber Liability – With a number of recent high profile hacks hitting the news, Cyber Liability Insurance has become a real hot topic in the industry. Any business that collects Personal Private Information like Social Security Numbers, Date of Birth, health information or processes credit card payments is at risk of being hacked. Most states now have laws requiring businesses that experience a data breach to notify every single customer of the breach and offer them credit monitoring services. With an average cost of \$204 per customer it's easy to see why this coverage is garnering demand, yet the small business community continues to lag behind. Recent studies show that 55% of all businesses with revenues under \$10M have experienced a data breach and 72% of all data breaches occur in small to mid-sized businesses as their computer systems are generally easier to gain access to. The loss of private data need not come from a traditional cyber-criminal either, many times it stems from a lost laptop, cell phone or rogue employee. As a still developing coverage there are a lot of differences in policies and pricing in the market right now but we're starting to see this coverage offered on BOP's and E&O policies, generally sub limited to \$100K or less. For companies whose revenues depend heavily on web sales, there are policies available that will protect your computer hardware from virus damage and loss of income if your website goes down due to a hack or virus.

When to Buy – Cyber Liability Coverage should be in place as soon as you begin to collect sensitive customer data, begin processing credit card payments or launch your web retail presence.

It's a lot to take in, I know, which is why finding a good insurance broker to identify your potential risks and prioritize them for you will be key to your success as a small business owner. Part of running a business is putting people in the right positions to become successful. You have the vision and skills to make your business profitable and your insurance broker should have the skills to protect those profits from a sudden loss that most times, will be out of your control. If you form a relationship with a broker who can understand and support your needs today and protect your future, you'll be in good hands.



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Benetrends has been helping entrepreneurs successfully launch their dreams for over 30 years, with proven and innovative strategies that make the most of opportunity, while minimizing risk. Benetrends offers a comprehensive suite of funding and insurance programs and is regarded as the authority in small business funding and insurance. All businesses are unique and so are the best options to fund and insure them. Whatever the solution is for your business, you can be confident Benetrends can help you get your business started quickly, safely and economically.

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