

What Insurance Does My Business Really Need? Ten Key Areas to Consider when Purchasing Business Insurance

By [Scott J. Richardson](#), Esq.

Small business owners wear many hats. The duty to purchase insurance for their business is important, as insurance is a risk management tool. By purchasing insurance for your business you "sell" some of the risks, in certain amounts, to an insurance company.

Mitigating or eliminating risks for your business is of paramount importance. So, when purchasing insurance you need to weigh the options, the types of coverage available, the carrier, and of course, cost. An often overlooked tool in this process is selecting your agent or broker. Does your agent or broker understand and have experience in your type of business? If not, how can he or she help you assess the risks and counsel you as to needed coverage? For example, some operations are governed by laws or rules and regulations that require certain types of insurance. Is your agent aware of these requirements? Has your agent visited your place of business to observe your business operations? The right agent invests in you and your business to ensure that you are obtaining the proper coverage.

We recommend that you start analyzing your insurance needs by carefully looking at your risks. The following list is a great place to start:

1. Do you own property that you do not want to pay to have replaced if it is damaged or destroyed? Property coverage pays for damage or destruction of your building, contents, equipment, etc. subject to the limits and limitations of the policy. This is a hallmark of risk shifting. If your property is destroyed you want to shift the cost of replacement to a carrier for a premium that is much less than the replacement cost. Here you need to be careful. There is a difference between types of property coverage. Coverage for Actual Cash Value (ACV) pays for the property minus depreciation. You may not receive enough funds to be able to replace the property. Replacement Cost Value pays the depreciated value and then adds money once you replace the lost property. Understand which one you are purchasing and what you will have if you need to replace damaged property.
2. Does your company have employees? If so, it is highly likely that your company is required to carry workers compensation insurance. This covers your employees for medical expenses and time off, as well as for any permanent disability that occurs as a result of an injury in the course and scope of employment. Not having workers compensation in Arizona can subject you to the "non-insurance" fund which will pay the claim and seek reimbursement from your company along with a penalty. Employee claims are generally excluded under your General Liability policy. Therefore, your business needs a workers compensation policy.
3. Does your company own or operate vehicles? If so, your company will need some type of automobile coverage. This coverage can be purchased alone, or is sometimes part of a business owners package of coverage, but it provides protection should someone cause an accident resulting in personal injury or property damage. Additionally, you can purchase liability umbrella policies, usually in million dollar increments.

4. Are you subject to claims for professional errors or omissions? While this is true for lawyers, accountants, and doctors, many services you provide – such as appraisals - may be considered an opinion. Most business may not need this coverage, but it is important to carefully review your operations prior to declining this coverage.
5. Could your operations damage someone else's property or injure them on your business site? The answer is likely “yes” for every small business owner. General liability insurance will protect your company. Auto coverage is limited to damage caused by the operation of a motor vehicle in your business and it may need its own policy. General liability covers property and personal loss and damage that are not related to automobiles.
6. Does your company manufacture, design, create or distribute products? Product liability coverage, often part of a business package protects you from claims of person injured by your product. Personal injury claims subject you to not only claims for medical care, but pain and suffering of the injured person, and perhaps much more. This is a risk that can put you out of business. Don't “bet your business” on such a loss without coverage.
7. If your business has employees, your company – and key employees – may be at risk for an employment claim for discrimination, harassment or the like. Employment Practices Liability Coverage is relatively inexpensive. For example, an employee returns from a workers compensation claim to light duty. He performs poorly and is insubordinate to his supervisor. You terminate him. He sues your company for wrongful termination, claiming you fired him because he instigated a workers compensation claim. Your workers compensation policy does not cover this suit or its defense. Your General Liability Policy may not cover the claim, based upon exclusion for claims by employees. If you have added Employment Practices Coverage, either separately or under your General Liability policy, you will have coverage and a defense for this claim whether meritless or not. Additionally, you can purchase an employee benefit coverage in the event that an employee is not timely enrolled in health insurance or benefit plan and is harmed because of that error.
8. Do you have a partner or other key employee who along with yourself is indispensable to the viability of your business? While disability insurance can replace that income, key man life insurance can provide protection to the business should the “key” person; you included, become disabled or pass away. Recognize that the death of a key person can have a devastating effect on the operations of a business for an extended period of time.
9. Do you operate your business from your home? If so, you have the unique risk that your homeowners' policy may cover some of your property damage but not risks of general or professional liability. You will need to purchase coverage for your business and not merely rely upon your homeowners' coverage which has limitations for business losses.
10. Do you know why you have a certain insurance company for your business coverage? You may have purchased coverage with the company that offered the lowest premium. However, that may leave your business exposed. There are rating services for insurance companies that look at their financial health. You want a financially strong carrier so they will be in business and maintain adequate reserves to pay claims. If not, state guarantee funds may step in, but they only provide you with minimum coverage amounts. Work with your agent or broker to determine the best

companies for you to do business with. They are your partner in selecting coverage for your business.

These are but a few of the questions you and your agent need to discuss. Understand that risks are real. You cannot purchase coverage for a risk that has already happened. Protect your hard work and capital by purchasing adequate and appropriate insurance now.

About the author: [Scott J. Richardson](#) is a partner at the Phoenix law firm of Jaburg Wilk. Scott assists business clients with their insurance coverage needs and frequently represents carriers in coverage issues and bad faith claims. To learn more about Scott, visit <http://www.jaburgwilk.com/attorneys/scott-j-richardson.aspx>. Scott can be reached at 602.248.1012 or sjr@jaburgwilk.com.