



## GUIDELINES FOR INSURING THE SMALL BUSINESS

Beyond the risk of surviving in the competitive marketplace, small businesses face an array of other risks that can quickly put them out of business if they are not properly insured. These risks include fire, natural disasters, theft and vandalism, product failure lawsuits filed by clients or employees, the death of a critical employee or their own disability. Here are a few tips for determining what type of insurance you may need.

The first step is to determine what risks your business is exposed to. The risks faced by a professional firm, for example, are quite different from those faced by a manufacturer selling to the public. No one size fits all here. Conduct your own risk analysis, and use the help of an insurance broker. Keep in mind that you may not have to buy commercial insurance to cover all risks. You may be able to self-insure some areas if the risks aren't too large. It's the catastrophic claims you need to be sure you have covered.

Identify ways you can reduce risks. This might allow you to minimize the amount of coverage you need for a particular risk, or at least reduce the premiums to cover the risk. The insurance carrier you ultimately work with also may provide a risk-reduction program, often free of charge.

Now the types of coverage to consider. Some of these you may need to purchase separately, others may be wrapped inside a single policy.

***Property/casualty coverage.*** Like a homeowner's policy, this will cover damage to your business property from fire, explosions, theft, vandalism, storms and so on. Flood and earthquake coverage usually are extra. Generally it's best to buy full replacement value coverage, not merely cash value. Check carefully the coverage for equipment or merchandise damaged or lost during transit to a customer or other business site.

Business interruption coverage. This often is overlooked. It's one thing to have insurance to physically rebuild a business destroyed by fire, but how do you keep going while you're trying to recover from such a disaster?

Business interruption (it also goes by other names such as business income or business overhead) covers such things as net profits, the cost of renting temporary office space, new stationery, employee payroll (but not the salary of the owner), taxes, and other

operating expenses You may have to buy separate coverage for theft or vandalism, and some policies won't protect against internal theft.

**Records coverage.** This will pay to replace lost software and the cost of reconstructing lost data. Risk-reduction measures such as keeping daily backups of records off-site can be a lifesaver here.

**Liability coverage.** This should cover you in the event someone is injured on your business property or while using your product or service. (However, you may not be covered if the product is judged defective because of poor workmanship.) The amount of coverage will obviously depend on the risks involved, but experts generally recommend no less than \$1 million in coverage. Carefully study the policy exclusions.

**Professional liability coverage.** Professionals such as attorneys, doctors and accountants should have errors and omissions coverage to protect against lawsuits.

**Auto insurance.** If you use vehicles for your business, be sure they are adequately covered. You can reduce risk here by carefully selecting the employees who drive the vehicles. Also ask about fleet rates if you have several vehicles.

**Key person coverage.** The death or disability of a key person, such as an owner or highly valued employee, can devastate a small business. The policy proceeds can be used to find and replace the person, as well as replace lost profits.

**Worker's compensation.** Most states require businesses to buy a commercial policy or pay into a state pool to cover the cost of employees injured on the job.

Beyond property/casualty and liability coverage, you may want to consider additional life insurance. For example, if there's more than one shareholder in your company, life insurance for a buy-sell agreement might be appropriate. Life insurance for the owner's estate plan also is often needed, and personal disability coverage to replace the owner's lost income is also highly recommended.

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