

INSURANCE

INTRODUCTION

As a business owner you face a large number of risks and a large number of insurance contracts that have been designed to meet those risks. Every small business owner needs insurance for financial protection. Generally, additional insurance coverage is frequently required by creditors, shareholder agreements, partnership agreements and in some cases, as a term of different types of contracts or leases entered into.

Insurance is often the last item on a business start-up list or overlooked completely. However, it should be close to the top since a loss could put you out of business completely.

The wide variety of plans, extent of coverage, clauses and costs can be an obstacle to thorough investigation. A basic problem in buying insurance is deciding how to use the coverage to the best possible advantage while meeting financial constraints associated with a business start-up. It is therefore helpful to understand a few basics about the insurance industry and their terminology.

Agent vs. Broker

An insurance agent is committed to a specific insurance company and is limited to the insurance products offered by that company.

An insurance broker is not committed to any particular insurance company and can compare and contrast the different policies, coverage and premiums from a wide range of companies. The broker will do the “shopping around” for you. When selecting a broker, remember to ask for their credentials, area of expertise and experience. Also, ask for referrals from friends, business associates, accountants, bankers or lawyers.

TYPES OF INSURANCE

Property Insurance

Property insurance covers destruction or damage to the insured property caused by a certain peril specified in the coverage. Examples include fire, flood, theft and vandalism. If you are using your personal vehicle or your home for business reasons, make sure you have the proper coverage. The business use of your home and vehicle may not be covered under your current vehicle insurance or your homeowner’s policy. In fact, damage caused to non-business items may not be covered if the insurance company is not aware that a home-based business was in operation. Generally, the additional coverage is available for a nominal amount. Speak to your agent or broker for details and clarification.

For businesses located in a commercial or industrial areas, property insurance is also recommended, especially if customers will be coming to the business location. An adequate property insurance policy will protect you against visitors injuring themselves in your business location. Also, a property insurance policy will protect your business assets against fire, theft, vandalism, and other perils.

Liability Insurance

Liability insurance covers any area in which the business may be held liable for negligence. The most common type of liability insurance is general liability which covers negligence causing injury to customers, employees and the general public. Other examples include product/service liability, errors and omissions liability (for lawyers, accountants, etc.) tenant's liability (if renting space), employer's liability (for employee injury; could be used in addition to Workplace Safety and Insurance) and Officer and Director's liability (for incorporated companies).

Loss of Earnings

Loss of Earnings insurance covers events or risks that might interfere with the owner's or company's earnings ability. For example, business interruption insurance, business continuation insurance, overhead expense insurance and key personnel life insurance. This may be an important consideration for self-employed individuals in particular. Remember that the debts and obligations you have entered into continue despite your injury or accident.

Employee Insurance

Bonding is a common requirement in business depending on the nature of the business. There are two types of bonding:

Surety Bond: A contract between two parties and the bonding company relating to the performance of the contract such as in a construction contract.

Fidelity Bond: Purchased by one who wants protection against the acts of others. This is usually purchased to cover the acts of employees for things such as theft or damage. Although it is a specialized area, many insurance brokers also provide bonding services. Look in the Yellow Pages under "Bonds – Surety and Fidelity" for a listing of bonding agents. Make sure you obtain competitive quotations.

Business Insurance

The first step in planning insurance needs is for an in-depth evaluation of the proposed business operations to be undertaken. This process should include a physical inspection of the business premises as well as a thorough review of such contractual agreements as leases for premises, equipment, etc. The identified exposures to loss should then be prioritized to form the key components of the business owner's insurance program.

The following checklist highlights some of the points to be considered in determining business insurance coverage:

BUILDINGS – Owned buildings should be insured on a replacement cost basis. Allow for the increased cost that may result from mandatory compliance with a bylaw in the event of future reconstruction.

If building is leased, review the lease to establish the insurance requirements and insure to those specifications. Include the insurable value of the improvements and betterments.

Recommend that buildings/improvements be insured on a broad form (all risk) basis where possible. More nominal cost differential justifies the broader form of protection. The perils of earthquake and flood are usually excluded but are generally available at an additional premium.

CONTENTS - Stock should be inventoried and insured to current value. Pre-sold stock can be insured on a selling price basis where this exposure exists. Equipment, furniture, fixtures should be insured. For leased equipment, insure to the lease specifications.

BUSINESS INTERRUPTION – This is a very important, but often neglected form of protection. The financial loss suffered by a business often greatly exceeds the damage caused to property. If unprotected, the business may not be able to recover from the disastrous consequences. There are various types of business interruption coverage available. Your insurance advisor will assist you to choose the form of protection most suited to your business.

MARINE CARGO – If the business includes the importing or exporting of goods from other countries, by sea and/or air, marine cargo insurance may be required. This can be arranged on an “open” basis to cover all goods shipped by any of the above means between the business owner’s premises and just about any destination in the world. This coverage can be arranged through your insurance broker, customs broker or freight forwarding agents.

EMPLOYEE INJURIES – Contact the Workplace Safety and Insurance Board (WSIB).

MISCELLANEOUS COVERAGE – In addition to the previously mentioned forms of insurance, there are numerous other types of protection that may be needed, depending on the nature of the business itself and such things as contractual agreements assumed under agreements such as leases etc. Some are: accounts receivable, valuable papers, contractor’s equipment, miscellaneous tools, installment floaters, installation floater, boiler and machinery, signs, exhibition floater, plate glass, surety bonds and more.

Automobile Insurance – Automobile insurance is written on a standard policy form throughout the insurance industry. Limits of liability purchased should be given the same careful consideration as general liability insurance. To ensure an adequate level of protection, higher deductibles are generally required for heavier, higher value vehicles.

It is recommended that if hiring drivers for the first time, a thorough investigation of each driver’s prior traffic violation and accident/claims record be conducted to avoid marketing problems and increased premiums through surcharges, or restriction of coverage.

Please Note: If you plan to operate your business from your home, “home” policy may be inadequate for your needs.