

and a waiting period that balances the cost of premiums with your overall financial plan.

In addition to considering the potential for your own health crisis, have you thought about the consequences of suddenly losing a key employee to disability or death? Along with losing a valued member of your management team, you would also be losing the manager's skill, his or her "know-how," and, perhaps, the important business relationships he or she had cultivated over the years. **Key person insurance** covers, or "indemnifies," a company against the loss of a valued team member's skill and experience. The proceeds help provide funds to recruit, hire, and train a replacement; replace lost profits; and reassure lenders that funds will be available to help repay business loans.

On the Road to Sufficient Coverage

When you or an employee drives on business, your company is technically behind the wheel. Whether the road trip involves several delivery vans or simply one employee driving his or her car to the office supply store, your business could be held responsible for any accident that may occur during the trip. A **commercial auto insurance policy** generally covers both liability *and* physical damage. It can also protect against uninsured motorists. Consider adding coverage for "non-owned and hired" automobiles if you use personal, rental, or leased vehicles for business use, or if your employees use their own vehicles on company business.

In addition to adequate coverage, it is important to minimize risk. Transportation operations such as sales calls and errands requiring employees to drive are often targets for business loss. Take preventative actions to help reduce motor vehicle accidents *before* they occur: 1) Screen your job

applicants and inquire into their driving records, 2) Encourage seat belt use, and 3) Purchase "safe" cars or trucks with features such as airbags and anti-lock brakes. Even your best efforts cannot stop *all* accidents, but risk awareness — coupled with a sound insurance plan — may help reduce loss.

Minimize Your Overall Risk

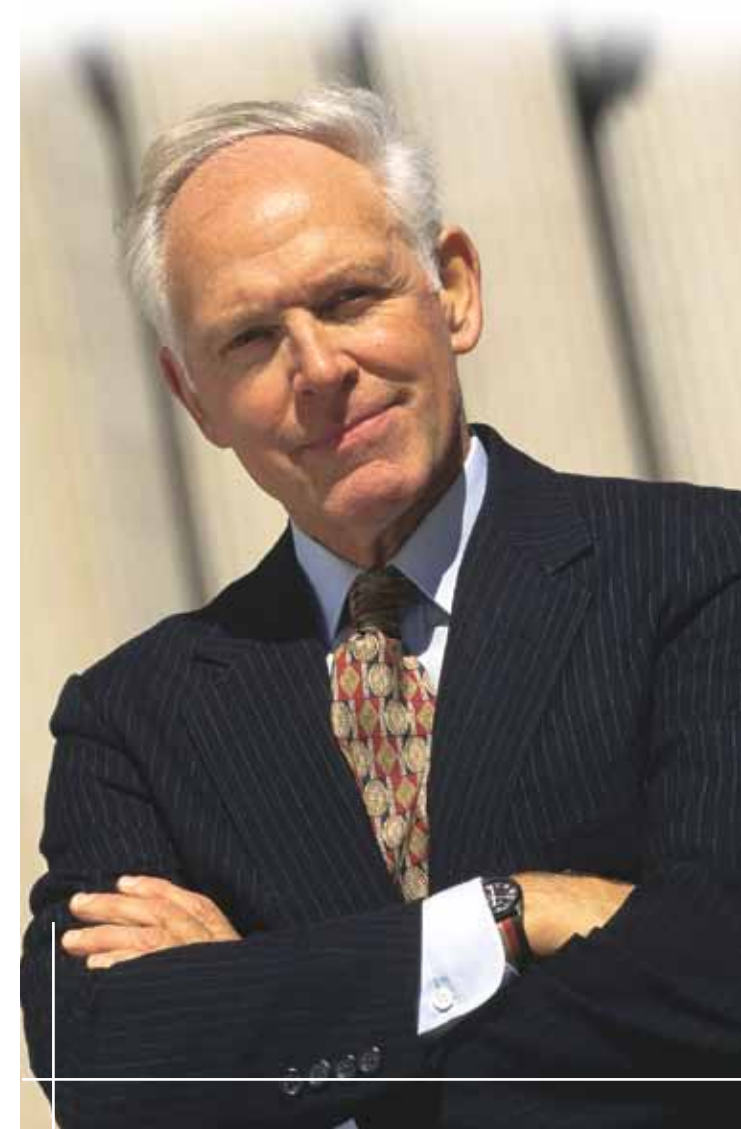
Minimizing potential liability and associated costs is one of the main objectives in developing a risk management and insurance program. Fortunately, some risks are more easily reduced than others. For example, with respect to a business's building and grounds, fireproofing and sprinkler systems should help reduce potential fire damage. Relatively simple measures can be taken to help protect your business against burglary and crime, including the use of quality doors and locks, security lights, video surveillance, smart landscaping, an alarm system, and a card access system. Other risks, such as vulnerability to lawsuits, may be more difficult to control.

Loss control measures should be reflected in reduced claims. When payout costs for claims are reduced, those savings are very often reflected in lower insurance premiums. A thorough analysis of your business operations, combined with an intimate knowledge of current trends in the insurance marketplace, can help make your insurance program as cost-effective as possible.

Because businesses vary, you may need to consider a variety of strategies to cover all contingencies. Frequent review of your coverage needs and your policy options can help protect and ensure the future of your business.

Insuring Your Business

Are You Prepared for the Unexpected?



There are two risk exposures that no business owner can afford to overlook: *property loss* and *liability loss*. **Property insurance** generally covers your building, contents, and equipment in the event that this physical property needs to be repaired or replaced due to perils such as fire, theft, wind, or certain types of water damage. **Liability insurance** helps protect you and your company from liability arising from day-to-day business operations. You should consider obtaining sufficient coverage for **product liability** and **premises liability** to help protect your business in the event someone is injured while using your products or visiting your facility. In addition, business owners in search of the most *complete* protection must also prepare for the possibilities of business interruption, disability, and the loss of key employees.

Where Should You Start?

In assessing the risk exposures particular to *your* business, you should consider *what* can go wrong and *how* such events might affect the running of your business. Here are some questions you might ask to determine your coverage needs:

- What is your product or service? To what extent could someone be harmed by using it?
- Does your business own or lease property?
- What is the current value of the property used in your business?
- Does the location of the property make it susceptible to particular hazards (e.g., high-crime area, flood plain)?
- Is your business involved in storing or transporting goods?
- To what extent is your business dependent on a major supplier or major purchaser?

- How would different types of property loss affect your ability to get your business back up and running?
- How central is computerization and data management to the operation of your business?
- How does “down time” translate into cash flow drain and lost earnings?
- Do any of your contracts or leases require you to assume liability for another party?

While there may be more questions you need to ask, the above list can help you begin to assess your insurance needs. Usually, the parameters of property exposure will help uncover the areas of income and liability exposure that need to be addressed.

Business Owners Policy (BOP)

While property insurance and liability insurance can be secured separately, a **business owners policy (BOP)** bundles both property and liability coverage in one package. Typically, a BOP covers business property that is exposed to risks such as fire, smoke, hail, wind, theft, vandalism, and some forms of water damage (for instance, from leaking roofs or broken pipes). Insurable property includes, but is not limited to, buildings, office furniture and equipment, machinery, inventory, and signs. In addition, coverage may also include protection against business interruption.

The main advantages of a packaged arrangement are ease of handling, streamlined rating procedures, and a reduced need for detailed risk management decisions. Since it is typically less expensive for an insurance company to service *one* policy as compared to *several* policies, total

insurance costs for the BOP are usually lower for the business owner.

Business Interruption Insurance

While few business owners would dare think of leaving their buildings and contents uninsured, or their business unprotected from liability, many neglect to insure the *purpose* of their business — the earnings. **Business interruption insurance** helps maintain a regular flow of earnings after the business has been wholly or partially disabled by a disaster. In other words, coverage is designed to do for the business what the business would have done for itself had no loss occurred, including paying for the lost net profits of the business and any continuing expenses that may occur during “down time” caused by a peril covered by the policy.

Two types of coverage are **gross earnings** and **extra expense**. **Gross earnings coverage**, often used by manufacturing firms, protects against interruption by covering a firm’s net profit and any continuing expenses, and it may also compensate key employees, who might otherwise be lured away during an enforced shutdown. Some businesses, such as banks, dairies, bakeries, and newspapers, for example, need to make arrangements for continued operation even if a permanent location is damaged or destroyed. **Extra expense insurance** generally covers expenses needed to keep a firm in business, such as overtime wages for employees, extra travel, and the costs of working with substitute or makeshift facilities. Due to the nature of some businesses, both gross earnings and extra expense coverage may be necessary to cover overlapping areas of exposure.

Are You Protected?

While preparing for business interruption is important, so is preparing for the possibility that an accident or illness could interrupt *your* ability to conduct business. Could your firm survive if *you* were forced to stop working? **Business overhead expense insurance** can help sustain your business during a disability by paying expenses such as salaries and benefits; rent, lease, or mortgage payments; property taxes; equipment costs; certain insurance premiums; maintenance costs; and utility bills. In general, benefits are paid monthly after a predetermined waiting period, limited to a maximum amount and restricted to a specified length of time (often from one to two years).

Business overhead expense insurance does not replace the need for your own personal **disability income insurance**, which may replace 45% to 75% of your pre-disability earnings. The policy’s cost generally depends on such factors as the risk level of your occupation, your age, your health, and the scope of coverage. Consider the following features in your contract: a favorable definition of “total disability” that may provide benefits in the event you are unable to perform the duties of your own occupation, a non-cancelable clause, partial disability payments, benefits payable until age 65 or for life,

