

BUSINESS INSURANCE 101



Small business owners are optimistic by nature, so they often don't consider what could happen if someone gets hurt, property gets damaged, or a mistake is made. The fact is, you could be liable for damages if any of these things happens. Even more, you could be sued by a customer for something like breach of contract. Any of these scenarios can cost a small business big money. Protecting yourself against these possibilities could mean the difference between staying in business and closing your doors.

In order to help mitigate these risks and make sure you're getting the right policy for your business, here's what you need to know about small business insurance.

It's a good investment

Claims and lawsuits are expensive, and you can be sued even if you haven't made a mistake. Small business liability insurance, including commercial liability insurance, can protect you and everything you've worked for.

According to a 2005 study by the Klemm Analysis Group for the Small Business Administration, the cost for a small business to litigate a suit can range from \$3,000 to \$150,000, with two-thirds of the cases studies costing more than \$10,000 in litigation costs. In the ten years since these findings, costs have likely increased.

Compare these costs to a small business liability insurance policy, which can cost less than \$25 per month — why go unprotected?



You should get insurance tailored to your type of business

Understanding the different kinds of insurance that are available to you and the specific risks your business faces will help you choose the right coverage.

The different types of insurance your business may need:

- **General liability insurance** covers claims of property damage and bodily injury by a third party. If someone comes in to your location and hurts themselves, or trips and falls over your property or equipment, they can make a claim against you for their medical costs and, in some cases, lost wages. Likewise, if you damage something belonging to a third party, they can make a claim against you for property damage. These claims can be covered by a general liability policy.
- Suppose you own a massage therapy business. On a rainy day, someone comes into your facility for a massage, and slips and falls on your wet entry way floor. You could be responsible for the costs associated with their injuries, but a general liability policy could protect you by covering these costs. Or, if you are a realtor and you hold an open house at which an expensive vase is broken, a general liability policy could cover the cost to replace the vase.
- Personal injury is also covered under a general liability policy. This is comprised of claims of libel and slander, defined as false, unflattering statements that are written (libel) or spoken (slander) and cause damage. For example, if a post on social media states that your competitor's products make people sick because of his personal hygiene, and they lose business as a result, they could sue for libel if they think you were responsible for the post.
- **Professional liability insurance** covers claims of errors (things that were done wrong) and omissions (things that should have been done but weren't) that occur in the course of doing business. You can be sued for just about anything, even if you haven't made a mistake. If a customer claims you did something you shouldn't have, or you didn't do something you should have, and they suffered as a result, they can sue you. Even if you prevail, **defending yourself can be costly** and your reputation can suffer. A professional liability insurance policy can



provide your defense costs as well as any settlement or judgment, subject to your deductible and policy limits.

- If you are an architect, **for example**, and you specify a handicap ramp that turns out not to be American's with Disabilities Act compliant, your client could be fined or sued and could sue you to recover his out of pocket cost. Another example is the small business photographer who, due to a technical glitch, loses photos from a wedding shoot and is sued. A professional liability policy could cover these costs.
- **A business owner's policy** covers the tools and equipment you need to do your work and keep your business up and running. For example, the cameras and printers a photographer uses, the computers and servers an IT consultant uses, or the exercise equipment of a personal trainer could all be covered if they are lost, stolen, or damaged. This type of policy can also cover lost business income that results from damage to business property. If you work from home or rent your space, your renter's insurance or landlord's policy will not cover these losses.

If your business handles sensitive customer information, like credit and debit card numbers or health information, a cyber-insurance policy could protect you from the costs of a data breach.

A red pencil is positioned diagonally on the right side of the page. To its left, a checklist consists of four square boxes, each containing a red checkmark. The boxes are arranged in a descending staircase pattern from top-left to bottom-right.

Checklist: Applying for Small Business Insurance

Applying for small business insurance can be relatively quick and easy — with Hiscox it can be done over the phone or directly online — but there is some information you'll want to have handy.

- ✓ Business type, including the industry you are in, whether you provide a product or a service, etc.
- ✓ Business location, including the physical address, whether it is run from your home, and whether you own or rent the location, and square footage.
- ✓ Business entity — is yours a sole proprietorship? Partnership? Corporation?
- ✓ Number of employees, now and anticipated over the next year. Include full-time, part-time and temporary employees.
- ✓ Date you began the business.
- ✓ Date you want coverage to begin.
- ✓ Estimated gross sales for the next 12 months, and estimated gross sales from your largest single customer.
- ✓ Estimated payroll expense for the next 12 months.
- ✓ If your business uses a written contract, have an example available.
- ✓ Information on any existing insurance coverage.

There may be additional questions, depending on your answers to these and the type of business you have.

Completing the insurance application accurately and providing all the necessary documentation are critical for two reasons. First, they help the underwriter accurately assess your risk and provide an appropriate price quote for your policy. Second, if you end up having a claim and it is found that the information on your application was incorrect, your claim may be denied.

Once you apply, an underwriter will review your application to determine how much your business insurance will cost. As with auto and homeowners' insurance, the cost will vary depending on your policy limits, your deductibles, and the type and location of your business, among other factors.



Understanding your Business Insurance Policy Documents

When your insurance policy is issued, you'll receive several documents that are critical to review including your policy, which outlines important information such as your coverage limits, exclusions from coverage, how to file a claim and so on. Hiscox also provides guides to your policy, which offer a general overview of the policy coverages (and what is not covered). Keep your policy in a safe place and you may even want to keep a paper copy and an electronic copy for easy access.

- Certificate of Insurance — You may also receive a Certificate of Insurance (COI). The COI is a document that indicates that you have insurance coverage, and states the limits of your coverage. In many cases, if your company is bidding on a project, particularly in design or construction, the company or government agency awarding the contract will require a COI. If your policy does not include a COI when you receive it, you can contact the carrier to get one.
- Waiver of Subrogation — A company or government agency may also request a waiver of subrogation. Subrogation means that if you agree to have your insurer cover losses incurred by a third party, your insurer has the right to recover those losses from the third party responsible for the loss. In other words, suppose you and your client are sued by your client's customer for negligence, and you and your client are each deemed to be 50% responsible. Your insurance policy can agree to pay the customer's claim, and then seek to recover from your client that 50% of the award that they were deemed responsible for.

A waiver of subrogation is when you agree that you and your insurance company will not seek to recover all or part of any damages paid. If you need a waiver of subrogation, consult your agent, broker or carrier. You may need to pay an additional premium since more risk is being taken on by the carrier. You will need to waive your right to subrogation in writing and prior to any loss.

How to file an Insurance Claim

If you have, or think you may have, a claim on your business liability insurance policy, contact the party from whom you purchased the policy. If you bought your policy from an agent or broker, call them. They can put you in touch with the carrier directly, or they may work with your carrier to help you through the claims process. If you purchased your policy direct from the carrier, you may be able to submit your claim through their website or by phone. Your policy documents should include information on how to file a claim.

Start the process as soon as you think you may have a claim. Your agent, broker, or carrier can tell you if a particular situation constitutes a claim, so call or go online and ask. They'll let you know what documentation you need to provide in order for them to determine whether the loss is covered under your policy.

Complete all the requested paperwork fully. If you don't understand what is being asked for, call the company and ask. If the information you provide is incorrect or incomplete, your claim may be delayed or rejected.

Your claim could be denied for one of these reasons:

- Your policy was not in force at the time the loss occurred.
- The specific type of loss is not covered under your policy.
- Your policy application or claim is found to be incorrect or incomplete.

Additionally, all policies have a variety of terms and exclusions that could apply to preclude coverage for a claim. The above examples are not a comprehensive list of reasons why a claim might not be covered. If you make a claim and it is denied, consult your agent or broker to see if there is additional coverage you should have.

Business liability insurance can protect you and all you've worked hard to build, and the modest investment is well worth the protection you'll get.



About us

Hiscox, the international specialist insurer, is the first company in the US to offer insurance for small businesses direct, online, and in real-time. We provide professional liability, general liability and business owner's insurance, underwritten by Chicago based Hiscox Insurance Company Inc., which is rated 'A' (Excellent) by A.M. Best Company. Coverages are subject to underwriting and may not be available in all states. Hiscox Ltd is listed on the London Stock Exchange UK: HSX.

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