



5 QUESTIONS ON INSURANCE

1. HOW MUCH INSURANCE DO I NEED?

When purchasing business insurance, it's important to obtain the right amount. Be sure that your company is neither over insured nor underinsured. To help you decide the amount of property insurance you need, list all your company's assets—including property, equipment and inventory. You can buy property insurance on the basis of the property's actual value (the replacement cost minus depreciation) or its replacement value (the cost of replacing the item without deducting for depreciation).

An agent and insurance company familiar with the risks typically involved with your type of operation can help you decide on a reasonable amount of property and liability insurance.

2. HOW CAN I KEEP PREMIUMS DOWN?

- **Shop around.** Prices vary from company to company, so it pays to get several quotes. Get the names of insurance companies or brokers who specialize in your type of business. Call several so that you can compare prices and get a feel for the types of services they would provide. It's also important to pick a company that is financially stable. Check the financial health of insurers with rating companies such as A.M. Best and Standard & Poor's and consult consumer magazines. Your trade association or other group that represents your business may be able to provide recommendations.
- **Choose a higher deductible.** Deductibles represent the amount of money you pay before your insurance policy kicks in. The higher the deductible, the less you will pay for the policy. At the same time, be sure you don't set the deductible so high that it will be a financial burden for you to pay the deductible if you have a loss.
- **Buy a package policy.** A package policy, such as a Business Owners Policy (BOP), rather than individual coverages will cost less.
- **Work closely with your agent.** The more the agent understands about your overall business and finances, the better he or she will be able to find competitively priced products for you.
- **Ask about specific actions you can take to prevent losses.** You may be able to reduce your premium for certain coverages by following your insurer's specific recommendations. These can include tips on workplace safety, disaster preparation and devices that reduce losses (loss mitigation), such as installing alarms and sprinklers. In addition, there are steps you can take to lower the possibility that one of your employees might file a lawsuit against you for discrimination or sexual harassment, for example.
- **Avoid losses.** Remember insurance works a lot like credit. Costs are lower for customers with better claim histories. The more losses you have, the higher your premiums will be, because it suggests that

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you are not very careful and there will be more losses in the future. If your loss history is bad enough, you may have trouble obtaining insurance at all from a private insurance company.

3. ARE THERE ANY DISASTERS MY PROPERTY INSURANCE WON'T COVER?

Yes. Floods, earthquakes and acts of terrorism are generally not covered

Protection against flood damage

Property insurance policies usually exclude coverage for flood damage. Find out from your local government office or your commercial bank whether your business is located in a flood zone. Also ask around to find out whether your location has been flooded in the past. Government projects to map flood zones may be slow to keep up with new developments.

If you need to buy a flood insurance policy, contact your insurance agent or the National Flood Insurance Program. For more information about this program call **888-CALL-FLOOD** or look at its web site <http://www.fema.gov/nfip/>. The federal government requires buildings in flood zones that don't conform to flood plain building codes to be torn down if damage exceeds 50 percent of the market value. Consider purchasing "ordinance or law" coverage to help pay for the extra costs of tearing down the structure and rebuilding it. If your policy contains a coinsurance clause, make sure your property is sufficiently insured to comply with the clause.

Protection against earthquake damage

Coverage for earthquake damage is excluded in most property insurance policies, including homeowners and business owners package policies. If you live in an earthquake-prone area, you'll need a special earthquake insurance policy or commercial property earthquake endorsement.

Earthquake policies have a different kind of deductible -- a percentage of coverage rather than a straight dollar amount. If the building is insured for \$100,000, with a 5% deductible, for example, in the event of an earthquake, your business would be responsible for the first \$5,000 in damage.

Remember that business interruption insurance, which reimburses you for lost income during a shutdown, applies only to causes of damage covered under your business property insurance policy. If your business premises are shut down due to earthquake damage, you'll need to have earthquake coverage to make a claim under a business interruption policy.

Protection against terrorist attack losses

Under the Terrorism Risk Insurance Act of 2002, only businesses that purchase optional terrorism coverage are covered for losses arising from terrorist acts. The exception is workers compensation, which covers injuries and deaths due to acts of terrorism.



4. DOES MY BUSINESS NEED BUSINESS INTERRUPTION INSURANCE?

Business Interruption Insurance (BII) is an often-overlooked insurance coverage that protects against exposures to loss every bit as vital as fire or litigation. If your business is forced to close your risk is not limited to temporary loss of income, which can be devastating in and of itself. You also run the risk of losing customers who turn elsewhere for their product or service needs. You may have difficulty paying key suppliers during an income interruption causing further long-term loss as those suppliers sever their business relationship with your company.

Business Interruption Insurance is designed to protect businesses from these types of risk. BII is often part of packaged commercial insurance policies or is purchased in conjunction with business property insurance. One reason for this is that the perils, or causes of loss, are usually the same for property insurance as for Business Interruption Insurance. A variation in BII designed for those enterprises that depend heavily on outside suppliers is called Contingent Business Interruption Insurance. Loss in business income due to the inability of a supplier to provide goods or services can be insured against in many circumstances.

How much BII your business needs will depend on several factors such as how easily you could continue operations at temporary location and how long your business might be sidelined. You will also need to consider what income is being insured. It could be average daily, weekly or monthly; income, income for the most recent accounting period, peak income or some hybrid.

BII usually requires a 48-hour waiting period before kicking in and indemnity will be based on the financial records of your business. So, it goes without saying that you will need to keep your records up to date and in a safe place.

FINDING THE RIGHT AGENT

How do you choose an agent? The best way to find someone you're comfortable with is to talk to several over the phone or visit their offices.

Competent insurance agents should be able to answer your questions, help you assess what coverages you need and offer you insurance products to meet those needs. Ask them also how they deal with claims. Then, decide whether the agencies you contacted are likely to provide you with prompt, quality service on an ongoing basis.

Good agents can consult with you not only about the insurance you may need but also about ways to reduce the likelihood of theft, injuries to visitors and workers, and other business-related losses.

Look for an agent who knows about your type of business. Ask friends and acquaintances in the same

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kind of business about the agent they use. You can contact your business trade associations to see if they sponsor an insurance program designed specifically for your business or if they can provide a list of insurers who specialize in your field. The agent who handles your personal business—your auto and homeowner’s insurance—may be able to recommend an agent or broker to handle your business needs.

There are two kinds of insurance agents: those who represent only one insurance company and those who represent more than one. A “captive agent” represents only one company. An “independent agent” represents several companies.

An agent is a person who solicits, negotiates and implements contracts of insurance on behalf of an insurer, subject to the terms of the agency contract with the insurer and to the laws of your state. You may also obtain insurance with the help of a broker, although brokers generally work with larger entities. Traditionally, a broker has represented the policyholder. Now, the distinction between an agent and broker is blurring. The broker may act as an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium. In the insurance industry, both agents and brokers may be known as “producers.”

As important as anything else in finding the right agent is the level of professional confidence and personal comfort you feel with that person. One source of help is the Internet, which has opened up new avenues for purchasing small business insurance. Some insurance companies give customers the option of getting quotes online. In addition, there are insurance hubs that offer quotes from several insurers. These online services generally put the client in touch with an agent.

WORKING WITH YOUR AGENT

Your insurance professional can provide invaluable advice. Ask your agent what you can do to reduce risks like fire or work-related accidents and about the procedures that should be in place to minimize losses in case your business is hit with a major disaster. To ensure that you have the right coverages and the appropriate amount of insurance, you need to keep your insurance professional informed about any major changes in your business on an ongoing basis. This includes major purchases as well as changes to your building, the nature of your operation and in the number of employees.

5. WHO REGULATES INSURANCE?

Insurance is regulated by the individual states. Many states have publications and information on their Web sites to assist small businesses with understanding and finding insurance, as well as a great deal of other consumer insurance information. Most states have telephone helplines so that you can call and ask questions about insurance.