SMALL BUSINESS INSURANCE & RISK MANAGEMENT GUIDE

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Small Business Insurance and Risk Management Guide

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INTRODUCTION

This guide should heighten your awareness of business insurance and encourage you to consider carefully the various insurance programs and options available on the market. Adequate insurance coverage is imperative for a firm to be successful.

In addition to helping you identify, minimize and, in some instances, eliminate business risks, this publication includes a checklist (Appendix A) to help you strengthen your insurance program and provides guidelines for discussions you should have with a qualified insurance professional. Appendix B is a glossary of terms you will encounter in selecting insurance for your business.

RISK AND THE SMALL BUSINESS

Is your business a risky business? You bet! Every small business is. Just think for a minute about the hundreds of things that most business owners worry about. A few are predictable or, at the very least, are items that you can plan for and perhaps even control to a certain extent, such as

- Expected sales volume.
- Salary costs.
- Taxes.
- Overhead.
- Equipment and supply costs.

- The price you charge for the goods or services you offer to your customers.

Others are unpredictable and largely beyond your control, such as

- Actions your competitors take.
- Changing tastes and trends.
- The effect these actions and changes have on your market and your customers.
- The local economy and its impact on your customer base (plant closings or unemployment, for example).

Still other events can directly affect your day-to-day operations, reduce profits and result in unexpected financial losses serious enough to cripple or even bankrupt your business. You've probably already considered the most obvious risks, such as fire or injury, and have bought insurance to protect against them. But there are hundreds of other losses and liabilities that every small business faces, many of which are overlooked or ignored.

Large corporations often employ a full-time risk manager to identify and analyze possible exposures to loss or liability. The risk manager takes steps to protect the firm against accidental and preventable loss and to minimize the financial consequences of unpreventable or unavoidable losses. But most small businesses can't afford the services of a risk manager, even part time, so the business owner often has to take on that responsibility.

WHAT IS RISK MANAGEMENT?

Risk management consists of

1. Identifying and analyzing the events that may cause loss.
2. Choosing the best way to deal with each of these potentials for loss.

EXPOSURES TO LOSS

Identifying exposures is a vital first step to risk management; until you know the scope of all possible losses, you won't be able to develop a realistic, cost-effective strategy for dealing with them.

It is not easy to recognize the hundreds of hazards or perils that can lead to an unexpected loss. For example, unless you've experienced a fire, you may not realize how extensive fire losses can be. Damage to the building and its contents are obvious, but you should also consider

- Smoke and water damage.

- Damage to employees' personal property and to others' property (e.g., data-processing equipment you lease or customers' property left with you for inspection or repair) left on the premises.

- The amount of business you'll lose during the time it takes to return your business to normal.

- The potential permanent loss of customers to competitors.

Begin the process of identifying exposures by taking a close look at each of your business operations and asking yourself what could cause a loss. If there are dozens of exposures you may find dozens of answers.

For each exposure you identify, ask yourself how serious is that loss. This question focuses on the possible severity of each exposure, e.g., what would that loss cost? The purpose here is not to determine the source of replacement or repair funds, but the full cost of the loss.

Many business owners use a risk analysis questionnaire or survey, available from insurance agents, as a checklist. Agents can also help analyze your situation; with their expertise and experience, you're less likely to overlook any exposures.

In general, most questionnaires and surveys address the potential for

- Property losses.

- Business interruption losses.

- Liability losses.

- Key person losses.

- Automobile losses.

- Injury to employees.

Property Losses

Property losses stem from one of the following:

- Physical damage to property.

- Loss of use of property.

- Criminal activity.

Physical Damage

Property damage can be caused by many common perils, such as fire, windstorm, lightning and vandalism. To cope effectively with the possibility of physical damage to property, the business owner should consider more than just damage to or destruction of a building. Contents may be even more susceptible. Manufacturers might lose raw materials and finished goods, and merchants, valuable inventories and fixtures. Any business might lose valuable accounting records, making it difficult to bill or collect from customers. Vital machinery or equipment may become inoperable, and, if replacements can't be found and installed immediately, the business may even be forced to temporarily shut down. (There is a detailed discussion of business interruption later in this booklet.)

Loss of Use

You can lose the use of your business property for reasons other than physical damage. A government agency can close a manufacturer for violating health and safety regulations. The local health department can close a restaurant because of unsanitary conditions. These are normally uninsurable losses unless caused by an insured peril, e.g., smoke. A gas-main break or a downed utility line may shut down an entire block for a day or more.

Criminal Activity

Small businesses may also be susceptible to crimes. Burglary and robbery are obvious perils, but so are employee theft, embezzlement and forgery. Merchants, in particular, may need protection against losses caused by forged checks or unauthorized use of credit cards.

Obviously, the property loss exposures a bank faces are different from those that a painting contractor, a delicatessen or a bookstore faces. An experienced insurance agent is familiar with the exposures of many different businesses. Just as you rely on an accountant to guide you through the maze of tax regulations and record-keeping requirements, you can rely on an experienced insurance professional to help you identify the exposures to loss that your business may face.

Business Interruption Losses

You have already seen how a direct loss from fire can shut down a business temporarily. Although insurance provides money for repairing or rebuilding property damaged as a direct result of fire, most policies do not cover indirect losses, such as income that is lost while the business is interrupted for repairs.

A special kind of insurance covers indirect losses that occur when a direct loss (that results from a covered peril, such as fire) forces a temporary interruption of business. Business interruption insurance reimburses policyholders for the difference between normal income and the income earned during the enforced shutdown period. Not only is income reduced or cut off completely during such interruptions, but many business expenses continue, such as taxes, loan payments, salaries to key employees, interest, depreciation and utilities. Without income to pay these expenses, the business is forced to dip into reserves.

Interruptions in business also often trigger extra expenses. For example, overtime may be authorized to speed the business toward full operation again, or it may reopen with a skeleton staff (additional payroll) in temporary quarters (additional rent) using leased furniture and equipment (additional overhead). These expenses put an added strain on finances at a time when little if any income is being produced.

A firm can also buy business interruption insurance to protect against interruptions triggered by direct loss on someone else's property. For example, if a key supplier is shut down by a fire and can't deliver critical raw materials to a manufacturer, the manufacturer's business may be seriously interrupted. Property damage at a key customer's business may have the same effect. If you depend on one firm for most of your volume and that firm is forced to suspend purchasing, you will lose income.

Every year hundreds of businesses that carry adequate insurance against direct property losses fail because they are not insured for indirect losses. Don't forget to protect your business against loss of income and unusual expenses that may result if indirect loss forces you to close temporarily.

Liability Losses

Every business also faces exposure to liability losses. A business may become legally liable (i.e., responsible for payment) for bodily injury suffered by another person or persons, or for damage to or destruction of the property of others. This liability may be the result of

- A court decision (as in a lawsuit charging negligence).
- Statutory provisions (such as a state's workers' compensation law).
- Violation of contract provisions (a contract that makes one party responsible for certain kinds of losses).

Public Liability

A business may be held liable for injuries or other losses suffered by a member of the general public as the result of the firm's (or its employees') negligence or fault. Examples include

- A customer in a firm's building trips on a broken step.
- A defective product causes injury to its user.
- Improper installation of a product causes injury to a customer.
- A tenant is held responsible for a third-party injury occurring on the rented

property, due to a clause he or she signed agreeing to such responsibility.

Your daily paper will provide dozens of other examples. A firm that is found legally liable for harming a third party must pay damages to compensate the injured party. Sometimes the court also imposes punitive damages and, in cases involving violation of statutes designed to protect the community, the court may levy fines in order to discourage future violations.

Regardless of who wins or loses a law suit, litigation is time consuming and expensive. No matter how ridiculous or unfounded the suit may be, productive business hours are lost, lawyers must be retained and paid and other related costs must be met while the suit is being contested.

Liability to Employees

Every state has enacted workers' compensation laws. These laws require most employers to compensate employees for loss of income or medical expenses resulting from work-related disease or injury (except for certain self-inflicted injuries). Should an employee die as a result of a job-related accident or disease, the employee's family also collects a specified amount.

Although workers' compensation laws in some states do not apply to all kinds of businesses, a successful private lawsuit may require a normally exempt firm to compensate employees for losses resulting from work-related injury or disease.

So far, the exposures we have looked at have all been more or less external to the business. There are, however, several major exposures that have to do with the business itself.

Key Person Losses

What would happen to your business if an accident or illness makes it impossible for you to work? What if one of your partners or your sales manager suddenly died? Most of us would rather not think about such a what if, but it is important for you to prepare your business for survival long before a key person dies or is disabled.

Serious Illness or Disabled Owner

! What will the owner's source of income be? How will it be treated for tax purposes?

! Who will continue the business? What if that person is not qualified or is a minor?

Death of an Owner

! If a will is not in place before the owner's death, will the business close or will someone inherit it?

! If the owner's life savings are invested in the business, will the surviving family be able to use them wisely?

- What will be the surviving family's source of income while the future of the business is being decided? If the business is to be sold, where will working capital come from for the transition period? How will the fair market value of the business be determined? Will the fair market value change because of the loss of a key person?

- If the business forms the bulk of the estate, what are the income and inheritance tax implications for the surviving spouse and heirs?

- Is there some predeath strategy that could minimize that tax liability?

The answers to these questions can best be determined with the help of your business's planning team: your attorney, accountant and insurance agent. Their expertise in estate planning, financial planning, and current legal and tax codes will help you develop a plan for your business's survival.

Death of a Partner

Unless the partners have prepared some other binding arrangement, a partnership is dissolved when one partner dies. The duties of the surviving partner(s) are limited to winding up the affairs of the partnership. Also, the surviving partner(s) will be personally liable for losses that the business's assets are insufficient to cover.

Partners may set up agreements for the surviving partner(s) to purchase the deceased partner's interest at a prearranged valuation. Business life insurance on each partner can provide the funds needed to purchase that interest.

- Who should pay the premium? The business? Each partner?

- What are the pros and cons of these alternatives?

- What are the tax implications of each?

- How would each affect the firm's cash flow?

There are many plans and many ways to set up the necessary insurance. Your planning team can suggest a wide range of options compatible with your needs, your firm's cash position and local and federal tax implications.

Death of a Major Stockholder

In most small incorporated businesses, there are only a few stockholders, and most of them take an active part in running the business.

Death of a major stockholder often throws a spotlight on the survivors' differences. Conflict or major personality clashes can seriously threaten the survival of a firm. Dissension also damages employee morale, can lead to a loss of business and may even harm the firm's credit rating.

Unless otherwise provided for, the deceased major stockholder's shares will become part of his or her estate. While the estate is being settled, the estate administrator can vote in the deceased stockholder's place. If a controlling interest in the firm is involved, the administrator can name a new board of directors and take over full control of the corporation.

- What if the heirs decide to get involved in the business? If they decide to retain the stock, will it provide enough income to support them?

- If the heirs decide to sell the stock, will the other major stockholders have the right of first refusal? Can a plan be set up to allow the surviving stockholders to finance a buyout of the heirs' holdings? Without such a plan, will the remaining stockholders' search for buyout funds have any impact on the firm's credit?

Once again, planning is essential. Your attorney, accountant and insurance agent can develop a legally binding strategy to prevent outsiders from unexpectedly coming into the business and to ensure an orderly changing of the guard should a major stockholder die.

Loss of a Key Person

What would happen if you were to suddenly lose the services of a key person (e.g., a sales manager or the office manager/bookkeeper) because of illness, disability or death?

- What impact will that person's absence have on sales volume? Costs? Productivity? Efficiency? The firm's credit?

- How will you reassign duties to cover the missing person's functions?

- What extra costs will you have to incur to recruit a replacement?

- How long will it take before the replacement is trained and productive?

SMALL GROUP BENEFITS

We've already touched briefly on some legally required employee benefits:

- Social Security.

- Workers' compensation.

- Unemployment insurance.

- Temporary disability benefits.

Most firms recognize that employees expect basic benefits in addition to those listed above. As an employer, you compete for the most qualified individuals in the local labor pool. Unless you offer at least minimal benefits, attracting and keeping qualified employees may be very difficult.

You may want to consider offering one or more of the following benefits:

- Pensions.

- Group health protection, either as a traditional group plan or in the health maintenance organization format. Health benefits may include life insurance; medical, dental and vision care; prescription drugs and major medical expenses.

- Other group insurance benefits (life, travel, accidental death and dismemberment, personal, auto and homeowners').

Some plans offer medical self-care and health-promotion programs to encourage employees in healthy lifestyles. Because increased awareness of general health care and preventive medicine fosters greater productivity, reduces absenteeism and increases morale, an employer's insurance costs can be significantly reduced.

LOSS EXPOSURES AND RISK MANAGEMENT

As you can see, a business may face several types of risks and exposures. Once exposures have been identified and analyzed, and employee benefits have been reviewed, you must decide upon the risk management measures that will best protect your business. The next two steps in this process are similar to those we face in managing our personal finances.

1. Loss control -- What can be done to prevent or limit exposure?

2. Guaranteeing availability of funds -- What techniques can be used to ensure that funds will be available for unavoidable losses?

Limiting Exposure to Loss

Avoiding Risks

One principle of loss prevention and control is the same in business as it is in personal life: avoid activities that are too hazardous. For example, a merchant may decide not to sell a particular product because it is likely to injure customers; thus, the firm avoids a product-liability exposure.

Or if you can't avoid an exposure completely, minimize it.

> An apartment owner may decide against constructing a new building on a rural hillside site that has a long history of brushfires. Instead, he builds on level, suburban land, which is supplied by town water and is two minutes from a fire station. Although exposure of loss from fire can seldom be eliminated completely, this owner has reduced the possible severity of loss by choosing a safer site.

Look again to see if the extent of possible loss can be further reduced.

> That same apartment owner, for example, may decide to build using fire-resistant construction and materials, thereby reducing the chance of a fire's spreading. He may also decide to install smoke detectors, fire alarms and automatic sprinkler systems throughout the building.

Risk Retention

A business owner may decide that the firm can afford to absorb some losses, either because the frequency and probability of those losses are low or because the dollar value of the losses is manageable.

For example, a firm owns several business vehicles. The drivers have an excellent safety record, and exposure to collision is low because these vans cover uncongested rural routes. These are older vehicles, and their book value has decreased substantially. The firm decides to drop the collision coverage completely. If an accident damages one or more of the vans, the firm will pay for damages with company funds. In effect, the firm has decided to retain the risk itself rather than transfer the risk to an insurance company by paying for collision insurance. An alternate is that the firm could decide to retain only part of the risk and insure the rest.

Transferring Risk

Another method of managing exposure to loss is by transferring the risk. Although most businesses do this by buying insurance (which transfers some or all of the risk to the insurance company), there are noninsurance options.

! In the above example, the firm may decide to eliminate the collision exposure completely by selling the firm's vans and hiring a local delivery service. This solution eliminates not only the collision exposure, but also the exposures associated with owning and maintaining the vans. In effect, the firm has transferred all of the expenses to the local delivery service.

! To reduce exposure to property damage, a retailer may decide to cut in-store inventories and to handle certain items on a special-order basis only. The owner will place small reorders with suppliers more frequently. The result? Lower inventory values in the store, therefore, lower exposure. The retailer is actually transferring much of the exposure of property loss to the suppliers.

Insurance as a Risk Strategy

The most common method of transferring risk is insurance. By insuring your home and car, you have transferred much of the risk of loss to the company that issued the policy. You pay a relatively small amount in premium rather than run the risk of not protecting yourself against the possibility of a much larger financial loss.

In business insurance, as in personal insurance, only you can decide which exposures you absolutely must insure against. Some decisions, however, are already made for you:

- Those required by law (such as workers' compensation).

- Those that others require. For example, you cannot register or operate a business vehicle in most locations unless you can prove that it is insured. Similarly, few lenders will finance property acquisition or construction unless it is adequately insured and the lender is named on the policy as having an insurable interest.

The Role of the Insurance Professional

Today, very few businesses or individuals have sufficient cash or financial reserves to protect themselves against the hundreds of property and liability exposures that most businesses face. What those exposures are, what their dollar value is and how much protection is enough are thorny questions. When you add the need for an employee benefits program or the need to protect the business when its ownership or management changes, the picture becomes increasingly complex. That is why an insurance agent is so important in helping you cover all the bases.

Typically, the independent agent is a small business owner-manager. Insurance companies are represented by agents who receive a commission for selling the companies' products and services. An agent may represent more than one insurance company.

The professional independent insurance agent has been trained in risk analysis. He or she is familiar with the insurance coverages and financial strategies available in your state and with the regulations that govern them. With this expertise, the agent can point out exposures you may overlook. He or she can suggest options from a vast menu of risk-management strategies and amend a basic policy by adding special coverages and endorsements. The resulting policy will be custom tailored to your business's unique protection needs.

Your agent can also recommend noninsurance strategies to meet your needs. Where appropriate, he or she will suggest that your accountant and attorney be brought into the decision-making process to review the legal and tax implications of suggested strategies.

Other Services Insurers Provide

You may not be aware of other services that insurance companies provide to policyholders:

! *Legal defense* -- Liability insurance (particularly for property damage and bodily injury) usually includes legal defense at no additional charge when the policyholder is a party to a lawsuit that involves a claim covered by the policy. Litigation is costly, whether the claimant's suit is valid or ridiculous. The legal defense provision greatly reduces those costs to the policyholder.

! *Rehabilitation* -- Insurance companies that write a lot of workers' compensation insurance may provide access to extensive rehabilitation services. Generally, these services help return injured workers to employment and, in some cases, may even help train the workers for a different job.

! *Inspection services* -- Many cities require businesses to conduct regular inspections of the steam boilers in commercial buildings. Boiler and machinery insurance policies not only protect against certain kinds of damages to energy equipment, but also provide for inspection by the insurance company's specialists. The insurance company issues a certificate of inspection to the policyholder as proof that the inspection requirement has been met.

! *Loss control services* -- Some commercial insurance policyholders may also qualify for consulting services of the insuring company's loss control (or engineering) department. This department is staffed with engineers and safety experts who specialize in inspecting business premises, identifying hazards, perils and possible trouble spots and recommending possible solutions.

! *Claim management services* -- Some commercial insurers provide claim management services that support the policyholder in loss analysis.

INSURANCE CHECKLIST FOR SMALL BUSINESSES

In addition to helping you identify, minimize and, in some instances, eliminate business risks, the checklist in Appendix A will help you strengthen your insurance program and will provide guidelines for discussions you should have with an insurance agent.

ORGANIZING YOUR INSURANCE PROGRAM

Good risk and insurance management is achieved through organization and planning. A lifetime of work and dreams can be lost in a few minutes if your insurance program does not include certain elements. To ensure you are adequately covered, take these steps:

1. Recognize the various ways you can suffer loss.

2. Follow the guides for buying insurance economically.

3. Organize your insurance management program.

4. Get professional advice.

Recognize the Risks

The first step toward good protection is to recognize the risks you face. Some businesses will need coverages not mentioned in the checklist. For example, if you use costly professional tools or equipment in your business, you may need special insurance covering loss or damage to the equipment or business interruption resulting from not being able to use the equipment.

Study Insurance Costs

Before you purchase insurance, investigate the methods by which you can reduce the costs of your coverage. Be sure to cover the following points:

1. Decide what perils to insure against and how much loss you might suffer from each.

2. Cover your largest loss exposure first.

3. Use as high a deductible as you can afford.

4. Avoid duplication of insurance.

5. Buy in as large a unit as possible. Many of the package policies are suitable for the types of small businesses they are designed to serve and often are the only way a small business can get adequate protection.

6. Review your insurance program periodically to ensure that your coverage is adequate and your premiums are as low as possible yet consistent with sound protection.

Have a Risk Management Plan

To manage your insurance program for good coverage at the lowest possible cost, you will need a definite plan that undergirds the objectives of your business. Here are some suggestions for good risk and insurance management:

1. Write down a clear statement of what you expect insurance to do for your firm.

2. Select only one agent to handle your insurance. Having more than one may complicate and weaken responsibility.

3. If an employer or partner is going to be responsible for your insurance program,

be sure he or she understands the responsibility.

4. Do everything possible to prevent losses and to keep those that do occur as low as possible.

5. Don't withhold important information about your business and its exposure to loss from your insurance agent. Treat your agent as a professional helper.

6. Don't try to save money by underinsuring or by not covering some perils that could cause loss, even though you think the probability of that loss's occurring is very small. If it is small, the premiums also will be small.

7. Keep losses better coverage at lower costs in the future.

8. Have your property appraised periodically by independent appraisers. This informs you of your exposures, and allows you to prove more conclusively what your actual losses are if any occur.

Get Professional Advice

Insurance is a complex and detailed subject. A qualified agent, broker or consultant can explain the options, recommend the right coverage and help you avoid financial loss.

SUMMARY

Some small business owners look on insurance as if it were a sort of tax. They recognize it as necessary but consider it a burdensome expense that should be kept at a minimum. Is this view justified? Not if you take a more conservative approach. Used correctly, insurance can contribute a great deal to your success by reducing the uncertainties under which you operate. It can reduce employee turnover, improve your credit rating at the bank, make it easier to sell customers on favorable terms and help your business continue in case an insured peril interrupts operations. The potential benefits of good insurance management make it well worth your study and attention.

APPENDIX A: CHECKLIST FOR INSURANCE NEEDS

The points covered in this checklist are grouped under three general classes of insurance: (1) coverages that are essential fr most businesses, (2) coverages that are desirable for many firms but not absolutely necessary and (3) coverages for employee benefits. Study your insurance policies with regard to the following statements and discuss questions you may have with your agent.

Essential Coverages

Four kinds of insurance are essential: fire, liability, automobile and workers' compensation. In some areas and in some kinds of business, crime insurance, discussed under Desirable Coverages, is also essential.

Are you certain that the following points have been given full consideration in your insurance program?

		No action needed this	Look into
Fire Insurance			
1.	You can add other perils -- such as windstorm hail smoke explosion vandalism and malicious mischief -- to your basic fire insurance for a relatively small fee.	_______	_______
2.	If you need comprehensive coverage your best buy may be one of the special cause of loss contracts that offers the broadest available protection for the money.	_______	_______
3.	You may buy coverage that will indemnify you i.e. compensate you for your losses in one of several ways: (a) it may pay actual cash value of the property at the time of loss (b) it may repair or replace the property with material of like kind and quality or (c) it may take all property at the agreed-upon or appraised value and reimburse you for your loss.	_______	_______
4.	You can insure property you don't own. You must have an insurable interest -- a financial interest -- in the property when a loss occurs but not necessarily at the time the insurance contract is made. For instance a repair shop or dry cleaning plant may carry insurance on customers' property in the shop or you may hold a mortgage on a building and insure that building although you don't completely own it.	_______	_______
5.	When you sell property you cannot assign the insurance policy along with the property unless you have permission from the insurance company.	_______	_______
6.	Even if you have several policies on your property you can still collect only the amount of your actual loss. All the insurers share the payment proportionately. Suppose for example that you are carrying two policies one for $20,000 and one for $30,000 on a $40,000 building and fire causes damage to the building amounting to $12,000. The $20,000 policy will pay $4,800 or		

20,000 divided by 50,000 or 2/5 of $12,000, and

the $30,000 policy will pay $7,200 or

30,000 divided by 50,000 or 3/5 of $12,000 _______ _______

7. Special protection other than the standard fire insurance policy is needed to cover the loss by fire of accounts bills currency deeds and evidence of debt money and securities. _______ _______

8. If an insured building is vacant or unoccupied you must notify your insurance carrier promptly. _______ _______

9. If either before or after a loss you conceal or misrepresent to the insurer any material fact or circumstance concerning your insurance or the interest of the insured the policy may be voided. _______ _______

10. If you increase the hazard of fire the insurance company may suspend your coverage even for losses not originating from the increased hazard. (An example of such a hazard might be renting part of your building to a dry cleaning plant.) _______ _______

11. After a loss you must use all reasonable means to protect the property from further loss or run the risk of having your coverage canceled. _______ _______

12. To recover your loss you must furnish within 60 days (unless an extension is granted by the insurance company) a complete inventory of the damaged destroyed and undamaged property showing in detail quantities costs actual cash value and amount of loss claimed. _______ _______

13. If you and the insurer disagree on the amount of loss the question may be resolved through special appraisal procedures provided for in the fire insurance policy. _______ _______

14. You may cancel your policy without notice at any time and have part of the premium returned. The insurance company also may cancel at any time with proper notice to you. _______ _______

15. By accepting a coinsurance clause in your policy you receive a reduction in premiums. A coinsurance clause states that you must carry insurance equal to 80 or 90 percent of the value of the insured property. If you carry less than this you cannot collect

the full amount of your loss even if the loss is small. What percentage of your loss you can collect will depend on what percentage of the full value of the property you have insured it for. _______ _______

16. If your loss is caused by someone else's negligence the insurer has the right to sue that negligent third party for the amount it has reimbursed you under the policy. This is known as the insurer's right of subrogation. However the insurer will usually waive this right upon request. For example if you have leased your insured building to someone and have waived your right to recover from the tenant any insured damages to your property you should have your agent request the insurer to waive the subrogation clause in the fire policy on your leased building. _______ _______

17. A building under construction can be insured for fire lightning extended coverage vandalism and malicious mischief. _______ _______

Liability Insurance

1. Legal liability limits of $1 million are no longer considered high or unreasonable even for a small business. _______ _______

2. Most liability policies require you to notify the insurer immediately after an incident on your property that might cause a future claim. This holds true no matter how unimportant the incident may seem at the time it happens. _______ _______

3. Most liability policies in addition to bodily injuries may now cover personal injuries (libel slander etc.) unless these are specifically excluded. _______ _______

4. Under certain conditions your business may be subject to bodily injury or property damage claims even from trespassers. _______ _______

5. You may be legally liable for damages even in cases where you used reasonable care. _______ _______

6. Even if a suit against you is false or fraudulent the liability insurer pays court costs and legal fees. If you are found liable the insurer will pay interest on judgments in addition to the liability judgments themselves. _______ _______

7. You can be liable for the acts of others under contracts you have signed with them. Some of this liability is insurable. _______ _______

8. In some cases you may be held liable for fire loss to property of others in your care yet this property normally would not be covered by your fire or general liability insurance. This risk can be covered by a variety of coverage forms depending on the type of property involved. _______ _______

Automobile Insurance

1. When an employee or a subcontractor uses a vehicle on your behalf you can be legally liable even though you don't own the vehicle. _______ _______

2. Five or more automobiles or motorcycles under one ownership and operated as a fleet for business purposes can generally be insured under a low-cost fleet policy against both material damage to the vehicles and liability to others for property damage or bodily injury. _______ _______

3. You can often get deductibles at varying levels and thereby reduce your premiums accordingly. _______ _______

4. Medical payments under automobile insurance cover medical claims including your own arising from automobile accidents regardless of the question of negligence. _______ _______

5. In most states you must carry liability insurance or be prepared to provide other proof (such as a surety bond) of financial responsibility when you are involved in an accident. _______ _______

6. You can purchase uninsured motorist protection to cover your own injury claims from someone who has no insurance. _______ _______

7. Personal property stored in an automobile and not attached to it (for example merchandise being delivered) is not covered under an automobile policy. _______ _______

Workers' Compensation

1. Federal and common law requires that an employer (a) provide employees with a safe place to work (b) hire competent fellow employees (c) provide safe tools and (d) warn employees of an existing danger. _______ _______

2. If an employer fails to provide the above the employer is liable for damage suits brought by an employee and possible fines or prosecution. _______ _______

3. State law determines the level or type of benefits payable under workers' compensation policies. _______ _______

4. Not all employees are covered by workers' compensation laws. The exceptions are determined by state law and therefore vary from state to state. _______ _______

5. In nearly all states you are now legally required to cover your workers under workers' compensation. _______ _______

6. You can save money on workers' compensation insurance by seeing that your employees are properly classified. _______ _______

7. Rates for workers' compensation insurance vary from 0.1 percent of the payroll for safe occupations to about 25 percent or more of the payroll for very hazardous occupations. _______ _______

8, Most employers can reduce their workers' compensation premium by reducing their accident rates below the average. They do this by using safety and loss-prevention measures. _______ _______

Desirable Coverages

Some types of insurance coverage, although not absolutely essential, will greatly add to the security of your business. These coverages include business interruption, crime, glass, rental, boiler and machinery insurance.

Business Interruption Insurance

1. You can purchase insurance to cover expenses that would continue if a fire shut down your business--such as salaries to key employees taxes interest depreciation and utilities as well as the profits you would lose. _______ _______

2. Under properly written contingent business interruption insurance you can also collect if fire or other peril closes down the business of a supplier or customer thus interrupting your business. _______ _______

3. The business interruption policy provides payments for amounts you spend to hasten the reopening of your business after a fire or other insured peril. _______ _______

4. You can get coverage for the extra expenses you suffer if an insured peril seriously disrupts but doesn't actually close your

business. ________ ________

5. When the policy is properly endorsed you can get business interruption insurance to indemnify you if your operations are suspended because of failure or interruption of the supply of power light heat gas or water furnished by a public utility company. ________ ________

Crime Insurance

1. Burglary insurance excludes such property as accounts fur articles in a showcase window and manuscripts. ________ ________

2. Coverage is granted under burglary insurance only if there are visible marks of the burglar's forced entry. ________ ________

3. Burglary insurance can be written to cover in addition to money in a safe inventory merchandise and damage incurred in the course of a burglary. ________ ________

4. Robbery insurance protects you from loss of property money and securities by force trickery or threat of violence on or off your premises. ________ ________

5. A comprehensive crime policy written just for small business owners is available. In addition to burglary and robbery it covers other types of loss by theft destruction and disappearance of money and securities. It also covers theft by your employees. ________ ________

6. If you are in a high-risk area and cannot get insurance through normal channels without paying excessive rates you may be able to get help through the federal crime insurance plan. Your agent or state insurance commissioner can tell you where to get information about these plans. ________ ________

Glass Insurance

1. You can purchase a special glass insurance policy that covers all risk to plate-glass windows glass signs motion picture screens glass brick glass doors showcases counter tops and insulated glass panels. ________ ________

2. The glass insurance policy covers not only the glass itself but also its lettering and ornamentation if these are specifically insured and the costs of temporary plates or boarding up when

necessary. _______ _______

3. After the glass has been replaced full coverage is continued without any additional premium for the period covered. _______ _______

Rental Insurance

1. You can buy rental insurance that will pay your rent if the property you lease becomes unusable because of fire or other insured perils but your lease calls for continued payments. _______ _______

2. If you own property and lease it to others you can insure against loss if the lease is canceled because of fire and you have to rent the property again at a reduced rental. _______ _______

Employee Benefit Coverages

Insurance coverages that can be used to provide employee benefits include group life insurance group health insurance disability insurance and retirement income. Key employee insurance protects the company against financial loss caused by the death of a valuable employee or partner.

Group Life Insurance

1. If you pay group insurance premiums and cover all employees up to $50,000 the cost to you is deductible for federal income tax purposes and yet the value of the benefit is not taxable income to your employees. _______ _______

2. Most insurers will provide group coverage at low rates even if there are 10 or fewer employees in your group. _______ _______

3. If the employees pay part of the cost of the group insurance state laws require that 75 percent of the employees must elect coverage for the plan to qualify as group insurance. _______ _______

4. Group plans permit an employee leaving the company to convert group insurance coverage to a private plan at the rate for his or her age without a medical examination within 30 days after leaving the job. _______ _______

Group Health Insurance

1. Group health insurance costs much less and provides more

generous benefits for the worker than individual contracts do. _______ _______

2. An employer pays the entire cost for group health insurance. Individual employees cannot be dropped from a group plan unless the entire group policy is canceled. _______ _______

3. Generous programs of employee benefits such as group health insurance tend to reduce labor turnover. _______ _______

Disability Insurance

1. Workers' compensation insurance pays an employee only for time lost because of work injuries and work-related sickness -- not for time lost because of disabilities incurred off the job. But an employer can purchase at a low premium insurance to replace the lost income of workers who suffer short-term or long-term disability not related to work. _______ _______

2. You can get coverage that provides employees with an income for life in case of permanent disability resulting from work-related sickness or accident. _______ _______

Retirement Income

1. If you are self-employed you can claim an income tax deduction for funds used for your and your employees' retirement through insurance or annuities approved for use under the Employees Retirement Income Security Act of 1974 (ERISA). _______ _______

2. Annuity contracts may provide for variable payments in the hope of giving the annuitants some protection against the effects of inflation. Whether fixed or variable the annuity can provide retirement income that is guaranteed for life. _______ _______

Key Employee Insurance

1. One of the most serious setbacks that a small company can incur is the loss of a key employee. But your key employee can be insured with life insurance and disability insurance owned by and payable to your company. _______ _______

2. Proceeds of a key employee policy are not subject to income tax but premiums are not a deductible business expense. _______ _______

3. The cash value of any key employee insurance that accumulates as an asset of the business can be borrowed against and the

interest and the dividends are not subject to income tax as long as the policy remains in force. _______ _______

APPENDIX B: GLOSSARY OF INSURANCE TERMS

Adjuster. A person who settles insurance claims. An adjuster may be an insurance company employee or an independent operator.

Adjustment. The settlement of a claim; financial premium determination.

Agent's authority. The authority placed in an agent by the insurance company; the extent to which the agent may act on behalf of the company. This authority is defined by a contract between the agent and the company.

All-risk. A term commonly used to describe broad forms of property or liability coverage. It is misleading because no property or liability policy truly provides an all-risk coverage -- a policy will invariably contain some exclusions.

Appraisal. An estimate of value loss or damage.

Assigned risk. A risk that has been declined by one or more companies. Such a risk may be assigned to designated companies by a recognized authority. The operation is called an assigned risk plan.

Assured. The insured; the one for whom insurance is written.

Basic benefits. Generally all benefits offered by a group health plan except major medical. Basic benefits may include hospital surgical physician care diagnostic lab and X-ray radiation therapy dental expenses and supplemental accident coverage.

Beneficiary. A person who will receive policy benefits.

Benefit formula. Defines the amounts of life insurance that may be purchased for employees in a specific classification (e.g. salary occupation length of service etc.).

Benefit. That amount payable under an insurance policy because of an accident injury or illness.

Binder. An agreement usually written whereby one party agrees to insure another party pending receipt of a final action upon the application.

Business interruption. Insurance covering the loss of earnings resulting from the destruction of property; called use and occupancy insurance.

Cancellation. The termination of an insurance contract by either the insurance company or the insured.

Carrier. An insurance company.

Cash deductible. The amount of money the insured must pay for covered expenses before certain benefits can begin.

Cash value. The value in cash of a life insurance policy.

Casualty. An accident occurrence or event or the person to whom it happens; the general term applied to insurance coverages for an accident occurrence or event.

Certlet. A booklet describing the benefits and all the provisions of a group policy that affect the insured. The certlet becomes a certification of insurance when the person is eligible for the insurance. It is then the legal document that proves the person is actually insured.

Claim. A request by the insured for benefits under an insurance policy.

Coinsurance. Two or more entities providing insurance protection and sharing in losses.

Compensation. Wages salaries awards fees or commissions; any return in payment for a financial loss.

Comprehensive. A loosely used term signifying broad or extensive insurance coverage.

Contributory. A group insurance plan paid partly by employees and partly by the employer.

Contributory negligence. Partial responsibility for one's own injury or damage.

Coverage. The insurance protection provided by the policy.

Declarations. That part of an insurance policy containing the information about the applicant listed on the insurance application.

Deductible. An amount the insured must pay before insurance benefits will be paid.

Discount. A reduction applied to an insurance premium.

Draft. A financial instrument similar to a check frequently used by insurance companies to pay losses.

Effective date. The date a policy is put in force; the inception date.

Endorsement. A written amendment affecting the declaration insuring agreements exclusions or conditions of an insurance policy; a rider.

Evidence of insurability. Medical proof from either a questionnaire or a physical examination that an applicant employee or dependent is healthy and therefore insurable.

Examiner. An individual who reviews evaluates and processes claims.

Exclusion. That which is expressly eliminated from the coverage under an insurance policy.

Expiration date. The date an insurance policy terminates.

Exposure. Person or property to whom injury or damage will cause an economic loss.

Face amount. In life insurance the amount of basic coverage stated on the face of the policy.

Grace period. A period beyond the premium due date during which the premium may be paid and the insurance will be continued in force.

Group insurance. Insurance covering a group of employees.

Hazards. A condition that creates or increases the probability of a loss.

Health insurance. Commonly called accident and health insurance protection against financial loss from a personal accident or illness.

Incurred loss. A loss that while not yet paid has been sustained and for which reserves have been established to pay in the future.

Indemnity. Insurance protection that will place the insured in the same financial position as before a loss was sustained.

Inspection. An examination by those having authority. An insurance company usually reserves the right to inspect any property it insures.

Insurance. Protection against loss. The insured sacrifices a small certain loss (the premium) for protection against a large uncertain loss (e.g. an accident fire or death). The insurance company assumes the risk by employing the law of large numbers and the principle of risk spreading.

Insured. The entity whose life or property is protected by the insurance. The one for whom insurance is written.

Lapse. To fail to continue an insurance policy; to cease to provide insurance protection.

Liability. Being bound by law and justice to do something that may be enforced by the courts.

Limits. The value or amount of a policy; the greatest amount that can be collected under the policy.

Loss. In insurance the amount the insurer is required to pay because of the insured's loss.

Multi-peril insurance. An insurance policy that provides coverage against many perils. Sometimes called a package policy.

Occurrence. A continuance of a repeated exposure to conditions that result in injury.

Peril. Anything that may cause a loss.

Policy. A legal contract of insurance.

Policyholder. The owner of the policy; the one who purchases the policy and pays the premiums.

Policy period. The term for which insurance remains in force sometimes definite sometimes not.

Premium. The cost of an insurance policy; the charge the policyholder pays for the insurance protection.

Property. The thing owned; real property is real estate and things attached to it; anything else is personal property.

Property damage. Physical damage to property.

Provisions. The terms or conditions of an insurance policy.

Rate. Cost per unit of insurance.

Reinstate. To restore coverage after it has been canceled or suspended.

Reinsurance. Insurance placed by an underwriter in another company to reduce the amount of the risk his or her company has assumed.

Renew. To continue; to replace as with a new policy.

Rider. An endorsement.

Schedule of benefits. The amount of insurance for which each classification of employee is eligible. (Classifications can be based on salary wage occupation or length of service.)

Self-insurance. An arrangement whereby instead of purchasing an insurance policy a party maintains a reserve fund for self-protection against a loss.

Settlement option. The way in which money for the death benefit of an insurance policy will be paid to a beneficiary.

Surety. A guarantee that a person normally called the principal will perform according to a statute or a contract. Surety offers protection to a third party normally called an obligee.

Underwriter. The insurance company; a party assuming risk; the person performing the underwriting function.

Void. Of no force; null.

Waiting period. A period immediately after the inception of the policy during which no benefits will be paid even if a loss occurs. Pertains to health insurance.

Waiver of premium. In life insurance a provision that states that if the insured becomes disabled and the disability appears total and permanent the insurance policy will continue in full force without further payment or premium.

APPENDIX C: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in The Small Business Directory. For a free copy contact your nearest SBA office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.

- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.

- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. You can request a Subject Bibliography by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service
Alcohol, Drug Abuse and Mental Health Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Helpline: 1-800-843-4971.
Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline: 1-800-662-4357. Provides information on preventing substance abuse in the workplace.
The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free.
Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

! **Trade association information**
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

! **Books** -- Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

! **Magazine and newspaper articles** -- Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.