

*By James Stoller*

Every business faces exposures to loss and the identification of these exposures is the first step in the insurance process. The two most common types of loss exposure within a business environment are property loss and general business liability.

Personal property, such as computers, office equipment, valuable papers and records and contents are among an array of common property elements that face exposure. General liability exposures can range from a slip and fall, to a product recall, to a suit brought against the alleged slander toward a competitor. A package policy is an insurance contract that protects the insured for both commercial property and liability exposures. Typically, these policies, written on an "extended peril" basis, can cover almost all risks with some exceptions like natural disasters, such as floods and earthquakes.

### **Property Insurance**

The personal property exposures that pertain to an office environment can be quite vast. The exact location of property needs to be considered. Assets, such as inventory, may be kept on or off the business premises or be transit. It can be owned by the insured or by others but in the insured's custody. All these facts have to be considered when selecting the right type of property insurance. The sudden breakdown of a company's machinery can lead to inventory loss or a loss of profit, both of which can be insured to protect a business. Computers, software and other peripheral equipment can all be covered on an electronic data processing (EDP) policy. Property, such as furniture and other office equipment, may be insured in different ways, either on an "actual cash value basis" or replacement cost, which is the more common method to insure physical assets.

Business losses can also result from direct damage to owned property. As a result of damage, the activity of the business is interrupted and there is a financial loss due to reduced income earning potential. An example would be a fire in an apartment building or damage to the central electric panel in a food processing plant. Direct damage may not cost much to repair, but the loss of income can be substantial. A business interruption policy will cover a business for any lost profits as well as continued operating expenses incurred during the repair process.

### **General Liability Insurance**

The most widely used insurance to cover the liability exposures of most business organizations is commercial general liability insurance. As part of the package policy, a commercial general liability policy provides coverage primarily for losses arising from premises, operations, products and completed operations.

The premises exposure exists when there is an ownership / occupant relationship. There are standards of care that must be maintained by the owner of property. For example, a reasonable landlord must provide an apartment that is well maintained and safe from any hazards. The operations exposure is generally associated with manufacturing, processing or contracting. An example would be an injury as a result of negligent supervision at a construction site. Product liability exposure exists when there is the possibility of the general public being harmed by a product. A completed operations incident would occur if an electrician installed faulty wiring where subsequent damage resulting in a claim towards the contractor's general liability policy.

A business owner may have to defend himself or perhaps pay damages as a result of suits alleging negligent ownership, maintenance or use of auto. A business auto policy can be tailored to cover a suit that arises from autos owned by business, owner of the business or any employees, operated in the course of business activities. A loss could arise from physical damage to a business owned auto or to property owned by others.

### **Errors and Omissions Insurance**

Some professions require errors and omissions insurance. Lawyers, accountants and engineers are among the professionals that adhere to industry standards and are measured by the knowledge, skill and performance of one's peers. The policy provides coverage due to a negligent act or to an error or omission in the conduct of business. The policy excludes, however, claims arising from a dishonest, criminal or malicious act.

### **Umbrella Policy**

An umbrella policy provides excess liability coverage over several primary policies such as general liability or auto liability. These policies may contain language that would provide broader coverage than that of the "underlying" policies. A standard package policy will provide \$1,000,000 per any one occurrence with a \$2,000,000 aggregate of coverage per year. Umbrella policies may be purchased in \$1,000,000 increments. The cost is fairly less than the initial coverage.

### **Workers Compensation Insurance**

The final area of property and casualty insurance that a business owner must consider is workers compensation insurance. An employer is responsible to an employee on the job or in the course of employment. State law will determine how much of an employee's wages will be paid in addition to all medical bills. Benefits include medical, temporary disability or death and rehabilitation benefits. The premium is based on annual payroll as well as the type of work one is involved with. The range of premium can be staggering. A paralegal earning \$20,000 in the Commonwealth of Massachusetts would be rated annually at \$44, whereas an electrician with the same wage would be rated \$1,314 annually. An audit is done at the end of the policy year to review the estimated covered payroll. An adjustment to the paid premium will be made based on the actual payroll.

Insurance carriers must make various filings with the state insurance regulators, which can often result in varying premiums company by company. An agent's responsibility is to first determine the exposures to a business and then suggest limits of coverage. A number of potential insurance carriers are then presented with the necessary requirements. The agent will then present to the client an insurance proposal from the carrier offering the strongest coverage at the most attractive premiums.