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INSURANCE BASICS & RISK MANAGEMENT OVERVIEW

What coverage to include in your insurance program will depend on the size of company you are now and the types of services you will offer, but here is a basic outline to review.

Property:

You may own or lease a building. If you are a tenant your lease agreement will spell out what you need to insure as far as leasehold improvements, glass, and liability limits. Your insurance agent should review your agreement.

- **Building-** If you own your own building then you should insure it for its replacement value. Your agent can assist you with a replacement cost estimator. You should ask for special form coverage, the broadest property protection you can buy. You can carry a different deductible on the building versus your contents. Most company deductibles can range from \$250, 500, 1,000, 2,500 and 5,000. It is less costly to insure your leasehold improvements as building coverage than as contents. Are you in a flood zone or earthquake zone?
- **Business Personal Property/Contents-** This is coverage for furniture, fixtures and equipment, and inventory. You should ask for replacement cost coverage and include special form of coverage. You can review higher deductibles to keep your premium down. Does your property move around inland, or do you buy or ship your property by water/ocean? Are you in a Flood zone or earthquake zone?
- **Transit Coverage-** Some property moves around in your vehicles, on someone else's vehicles, by rail, air etc. If it is inland you need to insure your property under an inland

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marine policy. For example, lap top computers, contractors equipment, inventory, measuring equipment etc. If your product is shipped by ocean then you need ocean marine coverage. You can insure this property with lower deductibles as well.

- Equipment Breakdown/Boiler & Machinery- This can cover your property from boiler explosion and breakdown due to electrical disturbance such as computers, power panels, photo copiers and other electrical production equipment.
- Business Income/Extra Expense- Think of this as your disability policy if your business were taken out by tornado, fire, flood, or earthquake. What is your risk management for backing up your data, how long would you be down? Do you store your backup data off site? How long would it take you to restore your customer service? Can you outsource your production until your place is repaired? Are you dependent on one customer or source of product, what happens if something happens to them? Depending on your business and what program you fit into, some companies will give you actual loss sustained for up to twelve months coverage and all you have to do is prove your loss of revenues or increased expenses. Other programs will require that you pick a specific limit and you will need to complete a business income worksheet. The limit you need is mostly based on your action plan you have put in place prior to your loss.

General Liability:

- Most companies will start with a \$1,000,000 per occurrence limit and a \$2,000,000 aggregate for the policy year for Bodily Injury or Property Damage to others. Most lease agreements/landlords will require these limits as well. Your agent needs to understand your business so the right coverage applies when you provide services. You may have a retail store at one location that requires mainly premises liability or products liability, however if you provide services off premises like a contractor, technology company, or if you subcontract services to others then there are extensions that need to be customized to what you are doing.
- Personal Injury- is included and is for libel, slander, defamation of character and can include copyright infringement.
- Fire legal liability- Covers tenant inside the four walls in case of fire that is in his/her care, custody and control.
- Medical Payments- good will coverage to customers in case they get hurt on your premises. If this limit is exhausted then you have your liability limits to go to.
- Minimum premiums, or the least amount they will charge to issue a policy start at \$500 on an annual basis.

Automobile:

- If you do not have a company owned automobile you should still have non owned automobile liability in your coverage. This is for vicarious liability where employees could run errands for the employer and have a bad auto accident. Both parties can be named in a suit.
- Run a check on a prospective employee before hiring to determine that they qualify as a driver under your policy with your insurance carrier.
- If you use your personal automobile in business make sure your personal policy does not exclude deliveries, pickup trucks or vans used in a business situation.

Workers Compensation:

- If you are a sole proprietor, partnership or LLC you are not automatically required to be covered by workers compensation, but you can elect to be covered and would strongly suggest it. If you are a Sub S or straight Corporation you have to have it by law. If you have ANY part time workers in the above then you have to carry workers compensation on them by law. Failure to do so can result in a \$10,000 fine and you can be subject to double indemnification.
- This policy has two parts- one that provides liability coverage for the employer and the other that pays the accident benefits to the injured worker. Your business contracts may determine what limit of liability you need to carry.
- Many try to hold part time workers to an independent status and even though you may 1099 them you still may be an employer and not know it. Ask your accountant if you pass a 20 pay test rule to determine whether it is your employee or an independent contractor.

Umbrella:

- This is an excess liability Policy that goes over your general liability, automobile liability and workers compensation. The minimum limit this coverage is written for is a \$1,000,000 limit.

Miscellaneous Coverage's based on size or services of company:

Employment Practices liability- wrongful termination, sexual harassment, and discrimination

Employee Benefits/Major Medical, Dental, life

Professional liability- technology, CPA's, attorney's, nurses, engineers, miscellaneous consulting

Director's & Officers Liability

Sexual Molestation

Pollution/Environmental, mold coverage

Product Recall

Ocean Cargo

Foreign Liability

EFIS- exterior insulating finishing systems

OSHA, DOT, Safety programs

Surety bonds

Buy Sell Agreements

City Securities Represents over 25 standard insurance companies, 10 personal insurance markets, and access to 50 specialty insurance companies.