



SMALL BUSINESS INSURANCE  
Small Business Owners Guide

# Insuring Your Business

*The small business owner's  
guide to insurance*

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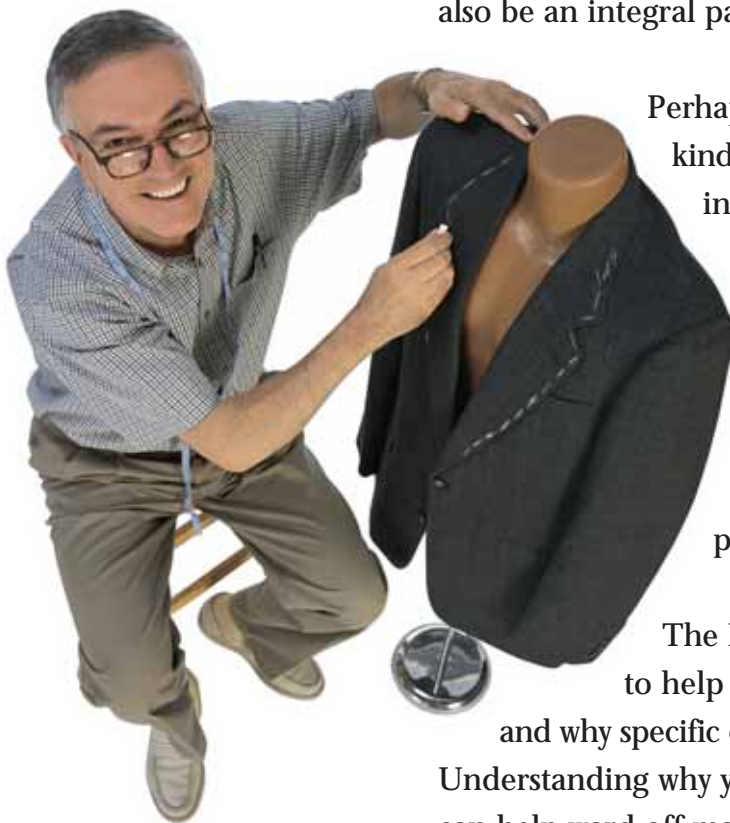


Know the Basics.....	1
The Value of a Good Agent and Insurer.....	2
Property and Liability Insurance .....	4
• The Business Owners Policy	
— Property Insurance	
— Liability Insurance	
• Umbrella	
• Automobile	
• Workers' Compensation	
Controlling Costs.....	9
Glossary.....	10

# Know the Basics

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You've invested considerable time and money to get your business where it is today, so it's important to protect your investment. A shrewd business owner will minimize risks by implementing safety programs, instituting employment practices and installing security systems. However, adequate insurance coverage should also be an integral part of your protection plan.



Perhaps you're not sure just how much or what kind of insurance you really need. After all, insurance will cost you some of your hard-earned money. On the other hand, as a knowledgeable business owner, you realize that one uninsured event, such as a fire, could wipe out your business. Knowing more about insurance basics can help you make informed decisions and, ultimately, protect your business interests.

The Hartford is providing this insurance guide to help you understand your insurance options and why specific coverages are important for business owners. Understanding why you need particular types of protection can help ward off many of the risks businesses face in today's increasingly complicated world.

While the coverages mentioned in this guide do not exhaust what's available for your business, they represent some of the most common coverages for today's small business owner. For more information, visit us at [sb.thehartford.com](http://sb.thehartford.com).

# The Value of a Good Agent and Insurer

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The world of business insurance can be complex and sometimes confusing. However, you don't have to navigate it alone. A good insurance agent who specializes in your type of business will



work with you to recommend the most appropriate and cost-effective insurance for your needs. Many agents actually specialize in specific types of business, such as retail or manufacturing. This type of knowledge can provide you with pertinent choices tailored to your industry.

The more your agent knows about your business, the better he or she can help protect your financial future. Talk with your agent to:

- Make sure you have no gaps in your coverage that would leave you open to liability
- Notify him of any changes to your business on an ongoing basis

In addition, review your policy each year. Ask yourself:

- Has my business grown over the past year?
- Have I purchased new technology that may require a different type of coverage?

A good insurance agent who specializes in your type of business will work with you to recommend the most appropriate and cost-effective insurance for your needs.

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## Choose the Right Insurer

Your agent can recommend an insurance company that specializes in small business. Make sure that you choose a company that has been assigned strong financial ratings from such independent institutions as A.M. Best or Standard & Poor's. A good insurance agent will recommend carriers that have a solid reputation for product offerings, claim-paying ability and customer service.

Much like agents who specialize in distinct types of businesses, there are insurance companies that focus on small business insurance. These companies have invested in the resources

needed to understand an entrepreneur's needs and have developed the most appropriate coverages. Companies that offer more specialized coverages that target businesses like yours are more likely to be invested in your best interests for the long term.

Much like agents who specialize in distinct types of businesses, there are insurance companies that focus on small business insurance.

If you don't already have an agent, check with your local trade or business associations, or Chamber of Commerce.



# Property and Liability Insurance

The most basic and critical coverages that a small business needs are property and liability insurance.

- Property insurance protects a business from perils, such as fire and theft.
- Liability insurance provides coverage when you are responsible for injury to a third person or damage to someone's property.

You may also need other important coverages, including automobile, workers' compensation and umbrella.

## The Business Owners Policy

In choosing commercial insurance coverage, most small business owners choose a business owners policy, or BOP.

A BOP is a package policy that:

- Combines essential insurance coverages in one cost-effective package that generally saves money over purchasing separate policies
- Usually includes property and liability coverage, and specialty add-on coverages that are tailored to the specific needs of your business; some of these coverages can be bundled together as an endorsement to your BOP

Originally designed for small retail operations, the BOP has been expanded and customized by many insurance companies to cover specific types of businesses, such as law offices, contractors, printers, manufacturers and many more.

Any business owner with property – such as inventory, a building, costly equipment or even a personal computer – needs property insurance.

## Property Insurance

Any business owner with property, such as inventory, a building, costly equipment or even a personal computer, needs property insurance. It only takes one catastrophe, such as a lightning storm, to financially devastate a company.

Property insurance usually covers a building and its contents from losses due to most common perils, such as fire, theft and wind damage. Keep in mind that coverages apply only to covered losses. A covered loss is an insured loss that is either expressly identified in a "named peril" policy,

or included in an "all risk" policy – and not otherwise excluded by the policy terms.

Your relationship with your insurance agent is like a two-way street. Just as you count on your insurer to pay claims if you have a loss, your insurance company expects you to use reasonable care in properly maintaining your equipment and in taking preventative measures to avoid losses.

## Case Study – Property Insurance

Several types of coverages can apply when there is a loss. For instance, here's what happened in Andrea's case.



Last December, lightning hit our building and caused a fire that badly damaged my florist business. Of course, the **building and contents** part of my policy covered the cost to repair the store damage, but my agent explained how several other coverages she had recommended came into play. The **computers and media coverage** took care of the costs to reconstruct records when my computer was fried and I lost my corporate customer files and vendor lists. Also, since it was the height of the holiday season, my shop was packed with inventory. Thank goodness for the **peak season inventory coverage** that automatically increased my insurance limit during the holiday season. Also, because my business shut down for three months while we cleaned out and rebuilt, the **business income coverage** reimbursed me for my lost income and expenses during the shutdown.

### Other Property Coverages Andrea May Consider

If Andrea also secures **dependent property coverage**, her loss of business income would be further protected in the event one of her floral suppliers suffered a covered loss and couldn't make its regular deliveries.

That coverage would pay for Andrea to buy comparable inventory from other vendors, even if she had to pay more, or even if there were rush charges involved because of the delay in delivery.

Additional coverages that Andrea may want to consider include **vandalism coverage** for damage to property, and **equipment breakdown**, which covers the costs to repair or replace equipment vital to her operation that is damaged due to a covered loss. Basic limits of these and other coverages may be included in the base policy already. Andrea's agent can tell her if her business needs higher limits.

## Case Study – Blanket Insurance

Blanket insurance provides coverage under a single limit for:

- 2 or more items (e.g., building and/or contents)
- 2 or more locations (e.g., location A and location B)
- A combination of items and/or locations

See how blanket insurance can help Joe.

Joe is the proud owner of Acme Manufacturing. What started as a garage business making hand tools has blossomed into opportunities to bid on contracts for a well-known manufacturer of quality tools. Joe asked his agent how he could upgrade his policy to match the growth of his company. His agent suggested buying **blanket insurance** for a number of coverages, such as **computers and media, accounts receivable** and others that only had individual limits of \$10,000 -- \$20,000 with his current policy. The agent explained it could cost Joe more than double his policy limits to replace his current electronic equipment and data, and significantly more to rebuild his accounts receivable records if fire wiped out his plant. With a **blanket limit** of \$150,000 for several common coverages, Joe can rest easy knowing that his policy would now pay up to \$150,000 total if any one or a combination of them were needed. Joe is now talking with his agent about securing a **second type of blanket limit for business property** that will cover his new distribution center – slated for a ribbon cutting next month!

## Liability Insurance

### Business Liability

Business liability insurance, which is part of the BOP, protects you if your business is sued for injury or property damage to third parties. It generally pays:

- Damages related to bodily injury, property damage or personal and advertising injury, such as libel, slander or copyright infringement in your advertisement
- Defense and related legal costs for a covered claim or lawsuit

Both the property and the liability portions of the BOP carry certain limits on the maximum amount the insurer will pay during the policy period and as a result of individual occurrences.

Business liability coverage in a BOP generally includes coverage for:

- Medical expenses if one of your customers suffers a covered injury in your facility
- Defense costs if you should be sued by a visitor for covered bodily harm or property damage incurred at your premises
- Claims of injury from a product you sell

Part of the **basic liability coverage** in a BOP includes **premises liability**, which covers visitors and other non-employees who are injured due to a covered cause on your property. Some additional liability coverages may be necessary to help protect an enterprise from mistakes made in the normal course of business. One of these is **products and completed operations**, which pays for medical and dental bills and other related costs due to a covered injury to a third party caused by your products. Another is **product recall and replacement**, which is designed to cover the cost of a product recall and the expense to replace the faulty product for your customers.



## Case Study – Liability Insurance

Errors and omissions coverage is designed to reimburse customers for economic loss when an insured business makes an error or fails to act in accordance with the standards applicable to the particular industry. Here's what happened at Eric's company.

Eric was ecstatic. He had secured his biggest printing job to date – creating 100,000 flyers for an upcoming Metal Mania concert. He was soon singing a different tune though, once he realized the graphic artist had made a mistake and printed the wrong date on the flyers. Fortunately, Eric has **errors and omissions coverage** that will pay for the claims of the concert organizer and performers for their loss of revenue due to the error inadvertently generated through his business.



## Professional Liability

Other coverages relate to mistakes that a skilled artisan or professional might make in the course of his or her daily operations. **Professional liability** is designed to protect against covered claims related to bodily injury (including the resulting mental anguish), property damage and financial loss for professionals like doctors, dentists, accountants and lawyers. On the other hand, skilled specialists in some other fields might need similar coverage but not all of it. Errors and omissions coverage may fill that need.

## Umbrella

Umbrella is an additional liability policy you can buy that is designed to cover losses that exceed the limits of your primary liability policies, such as commercial automobile and the liability portion of your business owners policy. Umbrella insurance provides another layer of coverage for covered catastrophic events when the underlying policy limits are exhausted. The cost of

umbrella insurance is often surprisingly small, because the underlying policies assume most of the risk, and umbrella takes over only when the limits of the primary policy are exhausted.

Each claim combines with other claims that were paid during your policy year and contributes to the maximum limits, which can be exhausted. **Umbrella coverage** can help close that gap.

For example, if your business liability limit is \$1 million, and your insurer paid out \$800,000 on a claim under your BOP in February, you might be left for the rest of the year with only \$200,000 in business liability insurance unless you have an umbrella policy in place. Furthermore, even though your primary policies probably include defense costs beyond the policy limits, **defense costs** are only provided so long as there is policy coverage available. An umbrella policy generally picks up defense costs when the primary policy reaches its limit.

## Case Study – Umbrella

Without valuable umbrella protection, see what happened to George's business.

When George's delivery driver hit the car in front of him during rush hour traffic, many cars in line were damaged, and people were hurt as a result of the accident. Although George had \$1 million in **automobile liability coverage**, he was not adequately protected for this level of catastrophic loss. The resulting medical bills, lost wages, property damage and litigation costs added up to \$3.5 million – far more than his automobile policy limits. Because of this, George's business assets were now vulnerable. An umbrella policy – that picked up where his auto policy left off – could have provided the additional protection.





## Automobile Coverage

If you have company vehicles, then you need a commercial auto policy. Like your personal auto policy, commercial auto insurance covers vehicle damage, bodily injury and defense costs.

You may also need **hired auto and non-owned auto insurance** if your employees use their own cars to run occasional errands or if your business sometimes rents automobiles or trucks. If an accident happens while one of your employees is driving a rented vehicle, your business would be protected from liability claims through hired auto and non-owned auto coverage. Whether you're covering your company cars, pickups, vans, trucks, or non-owned or hired vehicles, your agent or broker can help you choose the right insurance for your needs.

## Workers' Compensation

If an employee is injured in an accident while driving his own or the company vehicle, he is not covered by automobile insurance but by workers' compensation. Most companies with employees are required to carry workers' compensation insurance for on-the-job injuries or illness. Claims can include medical bills and disability income – both of which can be costly to your business in terms of increased workers' compensation premiums. Make sure your agent secures the expertise of a seasoned insurance company with the capabilities to address these indirect costs.

To comply with state law, business owners are required to have auto insurance and workers' compensation. Workers' compensation insurance can cover you for the cost of:

- An injured employee's lost wages
- Medical care needed to get him back to work
- Legal defense costs and reasonable expenses, such as loss of earnings, incurred on your behalf in connection with a claim or lawsuit

The cost of workers' compensation insurance varies based on the number of employees and on the nature of your business. For instance, workers' compensation insurance will be more expensive for a metalworking shop than for a telemarketing firm, due to the increased likelihood of work hazards. Make sure your company and employees are classified correctly so you pay the proper premium.

Contact your business insurance agent or broker for more advice on measures you can take to control your workers' compensation costs.

# Controlling Costs

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What small business owners often want to know most about insurance is how they can control costs. The best way is to prevent losses before they occur.

Stepping up loss control measures can cut down on claims and reduce your insurance premiums. **Installing a security system or instituting workplace safety** measures are obvious ways of reducing the risk of loss. Your insurance agent or insurance company loss control consultant can help you identify additional methods to help circumvent losses. Remember: reducing coverage is not a good way to save on premium dollars, since it can lead to significant out-of-pocket expenses if something goes wrong.

When conducting your annual insurance review with your agent, you may want to shop around and ask for more than one quote for your policy. Realize that the lowest-cost option is not always the best. You can also increase deductibles to reduce your insurance premiums. Place the money you have saved into a savings account and it can earn interest for you. However, make certain you have adequate cash flow to cover any claims you may have to pay through the higher deductible.

A final tip to curb costs is to make sure you're receiving adequate coverage from a reputable and financially stable insurance carrier. Take it from Andrea, Eric and George – don't learn a lesson the hard way.

For more information on these coverages and other educational tools, visit us at [www.sb.thehartford.com](http://www.sb.thehartford.com).



Remember: reducing coverage is not a good way to save on premium dollars, since it can lead to significant out-of-pocket expenses if something goes wrong.

# Glossary of Typical Insurance Terminology

## **Accounts Receivable**

Protects you if you are unable to collect outstanding balances as a result of covered loss or damage to your account records.

## **Actual Cash Value (ACV)**

ACV of property is calculated by determining what it would cost to replace the property and then adjusting this replacement cost by subtracting an amount that reflects depreciation.

## **Audit**

The process an insurance company uses to compare whether the premium it originally estimated reflects the actual risk covered by the policy based on the customer's actual payroll, number of autos or sales.

## **Audit Period**

The period covered by an insurance audit. This is usually the year the policy has been in effect. If an insurance premium is going to be determined by audit, the insurance company will conduct their examination of the business's books and records at the end of the policy period.

## **Back-up of Sewer or Drain Water Damage**

Pays for loss or damage to covered property caused by water that backs up from a sewer or drain. This is not flood insurance, so see your agent for details on the differences.

## **Blanket Limits**

- A way of increasing the limits on your individual coverages without increasing your premium. With a blanket limit, the limits for several common coverages are bundled together in the policy under one blanket limit (say, \$150,000 for six coverages). That way, the full blanket limit would apply if any one of the blanketed coverages should have a loss, instead of the usual lower limits per coverage of about \$10,000 - \$25,000.
- Covers multiple buildings at different locations under the same limit. That way, even if there are large shifts of inventory from one location to another, the policyholder is covered for maximum inventory worth.

## **Bodily Injury**

Physical injury, sickness or disease sustained by a person.

## **Building and Contents**

Covers your shop, warehouse or office structure and contents if they are damaged or destroyed because of a covered loss.

## **Business Income**

Reimburses you for lost earnings and continuing operating expenses, including payroll, if your business is forced to shut down because of a fire, windstorm, explosion or other insured loss. Also covers extra expenses, such as renting temporary space.

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## **Business Income for Off-Premises Utility Services**

Protects against loss of business income or extra expense at your business caused by interruption of water, communication or power supply services, when the interruption is caused by a covered loss.

## **Business Owners Policy**

A simplified property and liability policy created for owners of small businesses which combines most of the coverages they will need. It does not include workers' compensation or commercial automobile coverages.

## **Coinsurance**

For property insurance, coinsurance reduces the amount that will be paid for a loss occurring when the property is underinsured. The value of the property, as reflected in the policy limit, is supposed to reflect "how big" the risk is. If by choosing too low a policy limit you have indicated the risk is smaller than it really is, then the premium will be too low. A coinsurance clause sets a penalty for underinsurance by reducing payment of any claim.

## **Commercial Auto Liability**

Auto coverage that applies if the insured business is responsible for bodily injury or damage to another's property as a result of a covered auto accident.

## **Completed Operations**

Pays for covered losses resulting from bodily injury or property damage that takes place away from the insured's premises and is caused by work finished by the insured's business and/or the materials included in that work.

## **Computers and Media**

Provides coverage for covered damage to your computers, computer equipment, data, software, and other business electronic equipment. Also covers the costs to research, replace or repair lost or damaged data or software when the damage has been caused by a covered loss.

## **Covered Loss**

A covered loss is an insured loss that is either expressly specified by a "named peril" policy or not excluded in an "all risk" policy and not otherwise excluded by the policy terms.

## **DBA**

Abbreviation that stands for "doing business as."

## **Declarations Page**

The declarations page contains the basic information of your policy. It generally shows the policy number, named insureds, effective dates, premium amounts and summary policy information.



**Deductibles**

Typically, the deductible on a business owners policy is \$500. Optional deductibles of \$1,000, \$2,500, and \$5,000 are usually available. The higher deductibles will generate a credit to your policy premium. The deductible applies to all losses or damages arising out of any one occurrence.

**Defense Costs**

A business owners policy typically covers the cost of legal defense for liability coverages included in the policy. Defense costs may be paid over and above the policy limits.

**Dependent Property**

Helps protect you against loss of business income that occurs because a major supplier cannot provide you with the essential materials for your business. This coverage is triggered by a covered loss to a supplier's property. It also provides reimbursement for loss of business if a property such as an anchor store which your business depends upon to bring you business suffers a covered loss.

**Depreciation**

Loss in value that occurs as items age, wear out, or become obsolete.

**Employment Practices Liability Insurance (EPLI)**

This coverage is designed to provide employers protection for liability connected with hiring and personnel issues such as discrimination, sexual harassment and wrongful termination.

**Endorsement**

An addition or limitation to an insurance policy that changes some aspect of the insurance contract.

**Equipment Breakdown**

Covers costs to repair or replace equipment vital to your business, such as computers, air conditioners, phone systems and boilers that are damaged by a covered mechanical breakdown.

**Errors & Omissions**

This coverage is designed to reimburse customers for economic loss when an insured business makes an error or fails to act in accordance with the standards applicable to the particular industry. Examples of some of those businesses that may benefit from this type of coverage are real estate, banking, printing and claims adjusting.

**Exposure**

Being at risk of loss because of some hazard or contingency.

**Fine Arts**

Provides increased protection for fine art and other valuable collectibles lost due to covered a cause.

**First Named Insured**

The first individual or organization named on an insurance policy. This entity may have certain rights and obligations by virtue of being the first named insured.

**High Liability Limits**

These optional policy limits are higher than the standard business owners policy limits. In certain industries, higher limits are sometimes required in order to be eligible to bid for jobs.

**Hired Auto and Non-Owned Auto Coverage**

Covers auto liability for a business that does not own vehicles but sometimes leases them. It also covers auto liability when an employee drives his/her own vehicle to perform tasks related to the insured's business.

**Identity Recovery Coverage for Business Owners**

Coverage designed to restore credit in the event of identity theft.

**Indemnify, Indemnification**

To restore the insured to the same financial condition enjoyed before the loss.

**Inspection Contact**

The individual who is contacted in the event of an audit, physical inspection of your premises, or claim. This contact is usually the first named insured on the declarations page of your policy.

**Liability Insurance**

Broad category of insurance that is designed to cover accidental bodily injury or property damage losses for which the insured is legally responsible.

**Legal Entity**

A person or organization with a separate and distinct existence for legal or tax purposes.

**Lessor**

One who conveys property to another by lease.

**Medical Expense Coverage**

Insurance that covers expenses for medical treatment without regard to fault. Its purpose is to get the injured party taken care of as soon as possible.

**Named Insured**

An insured specifically named in the policy.

**Off-Premise Utility Services**

Covers damage to your property and stock caused by interruption due to a covered loss of off-premises water, communication or power supply services not owned by you.

# Glossary *(continued)*

## **Operations Liability**

Covers your liability for covered injuries to people and their property that occur when you are conducting your normal business at another location.

## **Peak Season**

Provides an increased insurance limit for your business content to help cover seasonal variations in your inventory and supplies.

## **Personal and Advertising Injury**

Designed to cover publication of material that slanders or libels another person or organization. Also can cover damages and legal defense costs from lawsuits that claim false, malicious or misleading statements in advertisements, promotional flyers, brochures, or Web sites, etc. Includes claims or copyright infringement in an advertisement.

## **Personal Property of Others**

Provides protection for property belonging to your customers or suppliers while in your shop or business, without regard to legal liability.

## **Premium**

The price of insurance coverage provided for a specified period of time.

## **Premises**

The building, its contents, and grounds that are covered under the insurance policy.

## **Premises Liability**

Covers your liability for injuries to people and damage to their property while on your insured business property.

## **Premium Audit**

The periodic (usually annual) review of an insured's books and records to determine the exact amount of premium owed. (See audit.)

## **Products Liability**

Coverage related to the responsibility of a merchant or manufacturer for his or her products. If a defective product that was sold or manufactured causes a covered bodily injury or property damage, this coverage helps protect the merchant or manufacturer responsible for that product.

## **Product Recall & Replacement**

Coverage that pays for the expenses incurred when a product must be recalled from the market as well as the costs of replacement parts or products.

## **Products and Completed Operations**

A coverage which combines the product liability and completed operations coverages.

## **Professional Liability**

Coverage for liability arising out of insured errors or omissions in the performance of professional duties in certain professions, such as doctors, lawyers, dentists, architects and engineers. It typically includes coverages for bodily injury, property damage and financial damages.

## **Property Insurance**

Broad category of insurance which covers certain losses to the insured's property.

## **Replacement Cost**

The cost to replace lost or damaged property subject to the limit of insurance on the policy.

## **Temperature Change**

Covers loss of your perishable stock when there is direct damage caused by a covered interruption of electric power to, or mechanical breakdown of, your refrigerating or cooling equipment.

## **Tenant's Liability**

Protects a tenant business if it is responsible for a covered damage to the leased building it occupies or property belonging to other tenants in that building.

## **Umbrella Policy**

Additional insurance that kicks in once you've reached the limit of your basic policy. For example, if you suffered a \$1 million dollar loss, and your property insurance covers \$500,000, an umbrella policy could cover the remaining \$500,000.

## **Underwriter**

In insurance companies, an individual responsible for determining which coverages will be made available and on what terms, and how premiums will be set.

## **Valuation**

There are three forms of valuation used on business owners policies.

- Actual Cash Value
- Replacement Cost
- Full Value Replacement Cost

All of these are defined in this glossary.

## **Vandalism**

Designed to cover willful or malicious damage or destruction of your property.

## **Workers' Compensation**

A type of insurance that provides benefits to workers if they suffer work-related sickness or injury.



This document outlines in general terms the coverages that may be afforded under a Hartford policy. All policies must be examined carefully to determine suitability for your needs and to identify any exclusions, limitations or any other terms and conditions that may specifically affect coverage. In the event of a conflict, the terms and conditions of the policy prevail. All Hartford coverages described in this document may be offered by one or more of the property and casualty insurance company subsidiaries of The Hartford Financial Services Group, Inc.



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