



A Quick Introduction to Insurance for the Virginia Small Business Owner

Managing risk is a critical part of owning a small business. Entrepreneurs manage risk every day in a variety of ways. Insurance is a key component of any risk management strategy, and small business owners should seek assistance from experienced insurance professionals during the early stages of starting a business. Effective risk management not only can help protect a small business from catastrophe, but it can also enhance the overall value of a small business.

The purpose of this article is to provide a brief overview of a few different types of insurance a small business owner should consider. While insurance is important for small business, be careful not to view insurance as the “cure all” to protect you against anything and everything that can go wrong. Insurance policies are contracts, and business owners must carefully read their insurance policies to understand what is covered, what isn’t covered, what deductibles apply, and what the policy limits are for a given insurance policy.

Be sure to contact your insurance professional for specific guidance or contact us if you need suggestions for a local insurance agent with experience working with small business owners and entrepreneurs.

1. **BOP.** Insurers often combine a number of insurance coverages and sell it as a single package known as the Businessowners Policy (“BOP”). The BOP typically combines coverage for major property and liability insurance risks as well as additional coverages, such as business interruption insurance. Business income insurance covers lost income and the extra expense that may be incurred if a business must operate out of a temporary location as a result of certain defined events (e.g., your retail location is destroyed by fire).

To cover specific risks associated with a business, a variety of additional coverages may be added to the basic BOP (these are often referred to as “riders” to your basic coverage). For example, if a business has an expensive outdoor sign, the BOP typically will not cover it unless coverage is specifically added for an additional premium. If a business relies on e-commerce, the owner can add coverage for lost income and extra expenses in the event the ability of the business to conduct e-commerce is slowed down or stopped due to a computer virus or hacker.

Premiums for BOP policies are based on those factors plus business location, financial stability, building construction, security features and fire hazards.

2. Property Insurance. Property insurance compensates a business if the property used in the business is lost or damaged as the result of various types of common risks, such as fire or theft. Property insurance covers not just a building or structure but personal property too (e.g., furniture, inventory, computers, etc.). Depending on the type of policy, property insurance may include coverage for equipment breakdown, removal of debris after a fire or other disaster, some types of water damage and other losses.

3. Liability Insurance. Sadly, litigation is almost an inevitable part of being a business owner. If you are in business long enough, chances are good that at some point, despite your best efforts, you will end up being sued by a disgruntled customer, supplier, former employee, or other aggrieved party. A customer might claim that your business caused them harm as the result of a defective product or negligent service. A claimant may allege that the business created a hazardous environment. This is why business owners need liability insurance. Liability insurance pays damages for which a business is found liable (up to the policy limits), as well as attorneys' fees and other legal defense expenses. It also pays the medical bills of anyone injured by, or on the premises of, the business.

4. Business Auto Insurance. A business auto policy provides coverage for autos owned by a business. The insurance pays any costs to third parties resulting from bodily injury or property damage for which the business is legally liable (up to the policy limits).

5. Workers Compensation Insurance. In Virginia, an employer with more than two employees must have workers compensation insurance. Workers compensation insurance (often referred to as "workers comp") pays for medical care and replaces a portion of lost wages for an employee who is injured within the scope of employment, regardless of who was at fault for the injury. When a worker dies as a result of injuries sustained while on the job, workers compensation insurance provides compensation to the decedent's family.

6. Professional Liability Insurance (Errors and Omissions). If your business involves giving professional advice to clients (e.g., lawyers, accountants, doctors, engineers), then there is always a risk of being sued by customers, clients or patients claiming that you gave them bad advice and they suffered an injury as a result. Errors and omissions or professional liability insurance protects against this risk. The policy will pay any judgment for which your business is legally liable (up to the policy limit) and cover your legal fees and defense costs, even when there has been no wrongdoing.

7. Employment Practices Liability Insurance. This type of insurance covers damages (up to policy limits) for which an employer is legally liable such as violating an employee's civil or other legal rights (e.g., wrongful termination, harassment). In addition to paying a judgment for which the insured is liable, it also covers legal fees and defense costs, which unfortunately can be significant even when there has been no wrongdoing.

8. Directors and Officers Insurance (“D & O Insurance”). Directors and officers liability insurance protects directors and officers of corporations or nonprofit organizations if there is a lawsuit claiming they managed the business or organization without proper regard for the rights of others or breached their fiduciary duties. This type of coverage will pay any judgment for which the insured is legally liable and, just as important; cover legal fees and other defense costs. This type of coverage is especially important for volunteer-based nonprofit organizations.

9. Life and Disability Insurance. Life or disability income insurance can compensate a business when certain key employees die or become disabled and are unable to work. These coverages can provide a much-needed cushion to protect the business from the adverse financial impact resulting from a key employee’s absence. This type of insurance can also provide an important source of funding for redemption or buy-out obligations under a buy- sell agreement among the owners of the business.

10. Umbrella Insurance. As the name implies, an umbrella liability policy provides coverage over and above a business’s other liability coverages. The purpose of umbrella coverage is to protect against unusually high losses. It provides protection when the policy limits of one of the underlying policies have been used up. For a typical business, an umbrella policy would provide protection beyond the general liability and auto liability policies. If a company has employment practices liability insurance, directors and officers liability, or other types of liability insurance, umbrella coverage can provide protection beyond those policy limits as well.