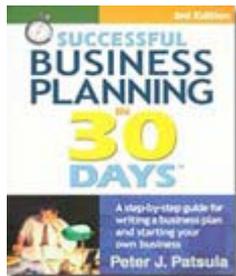


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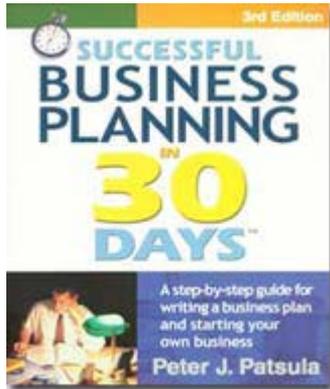


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“How about that! Our life insurance company has offered to lower my premiums if I start eating eat out twice a week.”

Smallbusinesstown.com

GETTING INSURANCE

PROTECTING your company from financial, property or casualty loss, is a necessary part of conducting business. And it is important enough that not only should you commit a fixed portion of your monthly budget to its application, but you should also be diligent in establishing and constantly reviewing your own company risk-management policy.

A risk-management policy can be initiated by:

- ★ setting up safety & theft prevention programs
- ★ setting aside a large contingency fund
- ★ assigning risk to third parties
- ★ transferring risk to insurance companies

PROTECTING YOUR COMPANY WITH INSURANCE

INSURANCE COMPANIES feed on fear. More policies are purchased based on gut feelings of catastrophic loss than any other planning decision. Insurance companies are also schizophrenic. Nice big friendly representatives greet you, but behind them, are ruthless number crunchers who won't give you a dime unless they have to. Remember, insurance companies are in the business to make money first, and second, to help rescue you from harm.

It is therefore wise, to enter insurance agreements knowing full well that it is YOU

It is wise to enter insurance agreements knowing full well that it is YOU and only you alone who has your best interests at heart.

and only you alone who has your best interests at heart. You must take full responsibility for understanding all the conditions and terms of your insurance agreements, because ultimately, it is YOU who will have to pay the price.

What Kinds of Insurance Do You Need?

If you list your risk priorities in order from the most to the least serious in their potential for damaging your business, your top five will end up being:

- fire insurance
- liability or casualty insurance
- automobile insurance
- crime insurance

- and if you plan to hire employees, worker's compensation insurance

Life insurance should also be considered, especially if you are in a partnership.

Lesser risks include plate glass insurance, credit insurance, and rent insurance. For manufacturing companies, product liability is also a major consideration. For retail and businesses, personal liability is more important.

NOTE As a general rule of thumb, the more assets you have the greater the potential you have to be targeted by unscrupulous opportunists. Therefore, the more assets you have to lose, the more you should make sure your insurance needs are up-to-date. It should also be noted that the more you

As a general rule of thumb, the more assets you have the greater the potential you have to be targeted by unscrupulous opportunists.

become a public figure, the more you become a target for petty civil suits. You will need to factor these in as well when deciding upon your insurance needs.

Summary of General Categories of Insurance Most Business Owners Need:

- Workers compensation
- Property (fire and theft)
- Automobile and vehicular
- General liability
- Product liability
- Group life and health
- Fidelity and surety

Choosing Insurance Coverage

In general, all insurance comes under one

of three major headings:

- liability
- life and health
- property

But for practical purposes, they shall be dealt with more specifically under the following **21** categories:

Automobile

Purchasing commercial vehicle and collision insurance, allows a company to insure its cars, trucks, and other vehicles against the possibility of theft, accidental damage, and bodily injury to others. Rates depend on the area, type and age of vehicle, the distances traveled, the ages of the drivers, and other particulars.

If your company plans to operate five or more automobiles, trucks or motorcycles you should be able to purchase a low-cost fleet policy against both vehicle damage and liability to others for property damage or bodily injury.

Whenever you request a bond, you should receive a copy of the agreement directly from the insurance carrier.

Boiler & Machinery

Also called power plant insurance, this type of insurance protects a firm against loss due to the explosion of boilers, furnaces, engines and similar equipment.

Bonds

A bond is a fee charged in lieu of a potential repayment if a contract need is not fulfilled. There are numerous bonds available to protect your business interests.

NOTE Whenever you request a bond, you should receive a copy of the agreement directly from the insurance carrier.

Bid Bonds – Bid bonds assure that the bidder for a contract is prepared to perform the work according to the terms of the contract.

Fidelity Bonds – These bonds are obtained from insurance or bonding companies. They are designed to protect a business against loss due to dishonesty on the part of its employees. Such bonds are available on an individual or group basis.

They are especially useful where employees have access to large sums of money, cash receipts or inventory. They also protect the owner from losses due to embezzlement.

If your employees perform services off your premises, you should also consider having them bonded.

NOTE If your employees perform services off your premises, you should also consider having them bonded. Advertising “bonded workers” conveys a message that your company is honest and reliable.

Payment Bonds – Payment bonds assure anyone dealing with the bonded contractor that he or she will be paid.

Performance Bonds – Performance bonds are sold by surety companies to companies for particular jobs, particularly those in the construction trades. For example, the government often insists that contractors must be bondable to bind on their construction projects. This is to ensure that the contractor has the ability and wherewithal to complete the job satisfactorily. In other

words, when a company obtains a performance bond it is insuring the job in order to give the client recourse should something go wrong. If the work is not completed at a time, quality and price specified in the contract, the contractor forfeits the bond and the proceeds are used to reimburse the customer's loss.

NOTE It is often difficult to obtain a performance bond because the contractor must demonstrate to the surety company that he can perform the work satisfactorily.

Surety Bonds – Surety

bonds are of a similar nature to performance bonds, except that they are generally

issued to guarantee performance by contractors.

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.

SUPERTIP

Business Interruption

In the event that your premises suffer a serious fire, the insurance policy you carry covers direct losses in merchandise etc. However, you might not be able to get back into operation for weeks or months after extensive fire damage. Business interruption insurance will compensate you for revenue lost due to a fire or during a temporary halt in business caused by theft or illness, or to cover losses that result from any property damage or personal injury or incapacitation.

Business interruption insurance also compensate you for the fixed expenses that ordinarily have to be paid out while your business is interrupted, like monthly utility bills, payments on loans, insurance premiums, taxes, depreciation and salaries to key people, and even extra expenses, such as overtime, leased furniture and equipment.

Business interruption insurance reimburses policyholders for the difference between normal income and the income earned during the enforced shutdown period.

NOTE 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

A firm can also buy business interruption insurance to protect against interruptions triggered by direct loss on someone else's property.

can't deliver critical raw materials to a manufacturer, the manufacturer's business may be seriously interrupted.

Business Life & Health

If you die, or if you become disabled, what will happen to that successful business you have built? How will your family manage, if the business must be liquidated, and who will take care of this? If a partner passes away, how can you protect your share of ownership?

With the help of your insurance representative (and your attorney and accountant) you can tailor your business life insurance to your specific needs. Business life policies can be written to you and your family against financial loss due to death or serious injury.

With life insurance, to provide necessary cash, and a properly prepared “buy and sell” agreement, the deceased’s share of ownership may be returned quickly and fully to the heirs and the surviving owners will be able to carry on the business without interruption.

Incidentally, an important benefit of business life insurance lies in the fact that the cash accumulation in the permanent type policy is available as a reserve fund for contingencies, or even for retirement.

NOTE Partners in a business will often purchase life insurance on each other’s life in order that, on the death of one partner, the others will have the funds

Partners in a business will often purchase life insurance on each other’s life in order that, on the death of one partner, the others will have the funds to purchase all of the business.

to purchase all of the business. In fact, lenders sometimes require this type of insurance if a term loan is to be made.

A suitable business life insurance program should:

1. Ensure immediate funds to meet taxes, debts and administrative expenses.
2. Provide income for heirs.
3. Equitably distribute the property value to heirs.
4. Enable your executor or administrator to dispose of your business to the best advantage if your family is not taking over.
5. Put your family on a sound financial basis if the family is assuming the op-

eration of the business.

6. Stabilize the credit of the business.
7. Help maintain good employee relations by eliminating uncertainties and hazards.

Coinsurance

The concept of coinsurance is designed to spread the cost of fire insurance more equitably among users. In effect, it grants lower premium rates to those who insure their property more fully.

The insured firm agrees to maintain coverage on its property at a stipulated percentage of its current value; the most commonly used percentage is 80 percent. Should this agreed-upon figure

not be continued and a loss occurs, then the firm suffers a penalty in proportion to the deficiency.

For example, companies X and Y have each taken out a policy on their respective properties values in each case at \$200,000. Firm X has arranged for 80 percent coinsurance; its policy carries a face amount (for total loss) of \$160,000. It pays about \$3,000 annually in premiums. Firm Y's management feels that the chances of a total loss due to fire are rather remote and wants to save on its premium payments. Firm Y thus secures a policy in the amount of \$100,000 and finds that its annual cost is about \$1,900. Assume both companies have a fire and lose 20,000. Firm X can expect to receive the full amount however firm Y will

The concept of coinsurance is designed to spread the cost of fire insurance more equitably among users.

only received half. It will be penalized because it was underinsured. It was insured for only half of the actual value.

Crime

There are three basic types of crime insurance:

- robbery insurance
- burglary insurance
- comprehensive crime policies

Robbery Insurance – Protects you from loss of property, money and securities by force or by threat of violence.

Burglary Insurance – Can be written to cover, in addition to money in a safe, inventory merchandise and damage incurred

by someone who leaves visible signs of forced entry.

Comprehensive Crime Policies – Covers both robbery and burglary as well as other types of property theft, disappearance, or destruction including vandalism and even employee theft

(e.g., *The Storekeeper's Burglary and Robbery Policy* is an example of a comprehensive crime insurance policy available to retailers).

NOTE Burglary insurance normally excludes such property as accounts, furs in a showcase window and manuscripts.

Burglary insurance normally excludes such property as accounts, furs in a showcase window and manuscripts.

High-risk Areas – If you are in a high-risk area, and crime insurance is not readily available through normal channels without paying excessive rates, you may be

able to seek coverage under the Federal Crime Insurance Plan. Your agent, broker or state insurance commissioner can give you details and tell you where to get more information about these plans.

Disability

Worker's compensation insurance does not compensate for time lost because of disabilities incurred OFF the job. It pays an employee only for time lost because of work injuries and work-related sickness. As a benefit to your employees, you may decide to purchase, at a low premium, disability insurance to replace the lost income of workers who suffer short-term or long-term disability not related to work.

No business should be initiated without insuring against fire.

Employee Benefit Coverage's

Employee Benefit Coverage's Insurance can be used to provide employee with a benefits package that includes group life insurance, group health insurance, disability insurance and a pension plan. This package may also contain, travel insurance, accidental death and dismemberment insurance, personal insurance, auto insurance and homeowners insurance.

Fire

No business should be initiated without insuring against fire. A fire insurance policy will put you back close to where you were before the loss. It's also important for credit reasons. Unless your place is insured against fire, you'll find it

just about impossible to obtain a mortgage on it.

Fire insurance premiums are based on several factors, including the location of your business (the town it's in, the neighborhood, the surrounding buildings and so and so forth), the condition and maintenance of your premises and the structure and type of your building.

When you first apply for this type of coverage, it's wise to set the overall amount based on what's referred to as the actual cash value. This is the replacement cost of the property at current market prices less depreciation. Bear in mind, however, that when your insured amount has been based on initial cost, an allowance for depreciation

over several years could bring down the covered sum considerably. A piece of equipment that originally cost you \$6,000 might now be valued at less than \$4,000.

NOTE A fire policy will exclude coverage for bills, currency, stock certificates, bonds, records of accounts receivable, property deeds and evidence of debt. To cover these, additional floater policies might be required.

Personal life insurance is not tax deductible but business life insurance is.
SUPERTIP

Extending the Scope of Your Coverage

– While a basic fire policy insures only against damage from fire or lightning, you can often extend the scope of coverage to include additional perils such as smoke and water damage, windstorm, hail, explosions and riots. Protection against possible damage from vandalism and malicious mischief can also be

included in your fire policy. The cost of adding these various coverage's to the fire premium itself can be relatively small.

NOTE 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.

General Liability

General liability insurance protects your company from financial loss when customers, employees or anyone from the general public claims bodily injury or property damage sustained on your business premises, during business related activity, or through use of your product.

This liability may be the result of:

Americans have an abiding belief in their ability to control reality by purely material means. Hence . . . airline insurance replaces the fear of death with the comforting prospect of cash.

CECIL BEATON

- **a court decision** (a business may be held liable for injuries or other losses suffered by a member of the general public as the result of a firm's, or its employees, negligence or fault)
- **statutory provisions** (such as a state's worker compensation law; sometimes the court 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)
- **violation of contract provisions** (a contract the makes one party responsible for certain kinds of losses)

NOTE Most liability policies, in addition to bodily injuries, may now cover personal injuries (libel, slander) unless specifically excluded.

Why you need liability insurance?

Anyone who suffers an injury and then seeks to attribute that injury to negligence on your part may seek legal action against you. And unfortunately, courts and juries in recent years have often favored claimants more than defendants.

Moreover, the amounts of judgments awarded in these lawsuits have skyrocketed. These actions not only cover medical, surgical, disability, and funeral expenses, but are also designed to include compensation for loss of future earnings to dependents, the cost of de-

Unfortunately, courts and juries in recent years have often favored claimant more than defendant.

fending the action, and the like.

In the above context, you may be sued by:

- customers
 - delivery people
 - employees
 - messengers
 - passersby or any other member of the general public
- Court action can follow such common situations as these:
- a customer breaks a tooth on a piece of shell in an ice cream float
 - an elderly woman is knocked down by a delivery person and breaks her hip while entering a narrow doorway at your

plant

- a messenger slips on a freshly waxed step
- a product user is injured by a defective product
- a product user is injured by an improperly installed product

Moreover, the accident doesn't have to take place on your business premises. One of your employees, on the way to make a bank deposit, may accidentally injure another person – who may promptly initiate a suit against your employee and you.

Furthermore, you can be legally liable

The Act of God designation on all insurance policies . . . means roughly that you cannot be insured for the accidents that are most likely to happen to you. If your ox kicks a hole in your neighbor's Maserati, however, indemnity is instantaneous.

ALAN COREN

for damages even in cases where you used “reasonable care.” As well, you can be liable for the acts of others under contracts you have signed with them.

NOTE Peculiarly enough, under certain conditions, your business may be subject to bodily injury or property damage claims, even from trespassers.

How much liability insurance do you need? According to both common and statutory laws, a business owner can be held accountable for negligence that causes personal injury. Li-

ability insurance generally covers such things as the costs of defending lawsuits, the medical and surgical expenses in-

curred, and judgments awarded. They also contain specified limits.

Considering the actual unfortunate experiences of a good many small companies, it is wise to seek greater, rather than lesser, coverage in this area. Legal liability limits of \$1 million are not considered high or unreasonable, even for a small business (it's important to realize that the amount of liability coverage can usually be increased substantially with a small increase in premium).

NOTE 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.

Glass

You can purchase a special glass insurance policy that covers possible damage to:

- glass brick
- glass counters
- glass doors
- glass showcases
- glass signs
- insulated glass panels
- motion picture screens
- plate-glass windows

Glass coverage can also be extended to

Most liability policies require you to notify the insurer immediately after any incident on your property that might cause a future claim, no matter how unimportant the incident may seem at the time.

SUPERTIP

cover lettering and ornamentation.

Group Health

This popular type of insurance policy covers you and your employees for sickness, injury, or accidental death. Three classes of coverage are usually offered:

- a basic medical plan, including hospitalization and surgery
- a major medical plan that provides for the high cost of physician and nurse expenses both in and out of the hospital
- a disability income plan that compensates for lost earnings due to accidental injury or an illness

Group health insurance costs much less

and provides more generous benefits for the worker than individual contracts do.

NOTE 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.

It has been estimated that the total amount of business property damaged each year by fire might, in fact, be less than losses due to criminal acts.

FUNFACT

Group Life

Most insurers will provide group life insurance coverage at low rates to companies with more than 10 employees and sometimes fewer.

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. At the same time the value of the benefit is not taxable income to your employees.

Group plans often permit employees who leave the company to convert their 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.

NOTE If your 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.

Key-person Losses

What impact will the death of a key person in your company, partnership or corporation have on sales volume? Productivity? Efficiency? Your firm's credit? The untimely death of a valuable employee can seriously affect the perform-

ance of a firm. The proceeds from key-person insurance can be used by your business to offset a loss in profits or to pay for the cost of hiring and training a replacement. Basic benefits may include hospital, surgical, physician care, diagnostic lab and X-ray, radiation therapy, dental expenses and supplemental accident coverage.

NOTE Proceeds from a key employee policy are not subject to income tax. However, its premiums are not deductible as a business expense. The cash value of any key employee insurance policy that accumulates as an asset of the business can also be borrowed against. Likewise, the interest and the dividends are not subject to tax as long as the policy remains in force.

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.
POWERPOINT

Death of a Partner – Unless the partners in a partnership have prepared some other binding arrangement, a partnership is dissolved when one partner dies. The duties of the surviving partners are limited to winding up the affairs of the partnership, which usually means selling the business.

However, business life insurance on each partner can provide the funds needed to purchase that interest, as well as pay off any debts accumulated by the deceased partner of which the surviving partners are liable for.

Death of a major Stockholder – The death of a major stockholder in a small incorporated business with only a few stockholders, can often lead to major conflicts or personality clashes between remaining

stockholders which can seriously threaten the survival of a firm. To make matters worse, unless otherwise provided for, the deceased major stockholder's shares will become part of his or her estate, which could result in the controlling interest in the firm being handed over to an eleven year old. A key-persons insurance policy can be designed to give surviving stockholders the means to buy the deceased stockholder's shares and maintain control of the company.

Proceeds from a key employee policy are not subject to income tax.

Life

Few mature individuals need to be convinced of the benefits offered by personal life insurance. Outlined below are the four major types of life insurance:

Endowment Life – With an endowment life insurance package the policy owner continues to pay premiums for a designated number of years until the policy is fully paid up. At this point, the accumulated cash value equals the face amount and is paid out in a lump sum to the policy owner.

Limited Payment Life – This type of life insurance package requires the payment of premiums for a set number of years (15, 20 or more). At the end of this period, no more premiums are paid: the policy is then fully paid up. Thereafter, the insured remains covered for the rest of his or her life. Since the premiums are higher than those paid for a whole life policy, this type has a substantial cash surrender and loan value.

Term Life – *Generally, this type of life insurance requires the lowest dollar outlay because the premiums paid are completely used up for the sole purpose of insurance protection.*

Term Life – Generally, this type of life insurance requires the lowest dollar outlay because the premiums paid are completely used up for the sole purpose of insurance protection. Due to this, the policy does not accumulate a cash reserve for the insured and consequently, has no cash surrender value or loan possibilities.

Whole Life – This type of insurance is also known as ordinary or straight life insurance. It covers you for the face amount of the policy throughout your life. The premium is calculated to be paid over the course of your lifetime. This type of policy carries a limited cash surrender value as well as loan privileges and other non-forfeiture values. It is one of the least expensive insurance policies.

Property

Property insurance can be categorized under comprehensive, all-risk and inside-outside packages that may or may not include fire, theft, flood, crime, vandalism, or inland marine coverage.

Property losses can stem from:

- physical damage to property
- loss of use of property
- criminal activity

Physical Damage – Property damage can be caused by fire, windstorms, lighting and vandalism. Losses can stem from, for example, damages to:

- accounting records, making it difficult to bill or collect from customers

Property damage can be caused by fire, windstorms, lighting and vandalism.

- machinery or equipment forcing the business to shut down until replacements can be found or repairs made

NOTE You may also need protection from damage to employees' personal property and to other peoples' property, such as, vehicles leased from a car dealership, and a customer's property left with you for inspection or repair.

Loss of Use – A business can lose money, for example, if a gas main ruptures shutting down an entire block for a day or more i.e., you can't heat your store and thus have to close your doors.

NOTE If a government agency closes you down for violating health and safety regula-

tions, you normally cannot be insured against these losses unless they were the result of an insurable cause such as smoke or fire damage.

Criminal Activity – Small businesses may need protection against losses from burglary, robbery, employee theft, embezzlement and forgery. Merchants, in particular, may need protection against losses caused by forged checks or unauthorized use of credit cards.

Rental Insurance

Rental insurance can be purchased to cover payments due if the property you lease becomes unusable due to a fire or other insured risk, and the lease you signed mandates that such payments be

continued regardless.

Transportation

Transportation insurance is necessary to protect goods in transit. Normally, personal property stored in an automobile, truck or van and not attached to it (for example merchandise being delivered) is not covered under an automobile policy.

How do you insure yourself against insurance premiums?
PETER CORRIS

Water Damage

Property may be insured against accidental damage caused by water in various forms, such as:

- escaping steam
- melting snow
- over flows from refrigeration and air conditioning equipment

Worker's Compensation

All states in the U.S. and provinces in Canada have workers compensation laws, which require most employers to compensate employees for loss of income or medical expenses that result from work-related injury or disease or (except for certain self-inflicted injuries). If your company has employees, you are legally required to cover your workers under a worker's compensation insurance policy. This is true even if you have only one employee besides yourself.

NOTE Should an employee die as a result of a job-related accident or disease, the employee's family collects a specified amount.

Americans have an abiding belief in their ability to control reality by purely material means. Hence . . . airline insurance replaces the fear of death with the comforting prospect of cash.

CECIL BEATON
Photographer

Complying with Worker's Compensation Laws – Under federal and common law you must:

- A)** provide employees with a safe place to work, free from the possibility of accidental injury or occupational and radiation diseases
- B)** hire competent fellow employees and exercise care in assigning them responsibilities
- C)** provide safe tools and adequate servicing and maintenance of machinery and equipment
- D)** warn employees of any existing dangers

If an employer fails to provide the

above, the employer is also liable for damage suits brought about by injured employees, as well as possible fines and prosecution from the state.

NOTE One of the most important features of worker's compensation laws is that employees are made eligible for benefits regardless of whether you, as an employer, are guilty of negligence or not.

How much does worker's compensation insurance cost? Your premium is based on the size of your payroll and on the kinds of jobs within your organization. The extent of the hazards faced in your type of business is also a factor. Rates for workers compensation insurance vary from 0.1 percent of the payroll for "safe" occupations to

25 percent or more for the payroll for very hazardous occupations.

NOTE You can lower your workman's compensation premiums, over time, through internal safety measures that reduce the accident rate in your place of business below the average for that particular type of business. You can also save money on workers compensation insurance by seeing that your employees are properly classified.

Having insurance and actually getting paid for a claim are two different things. Make sure you carefully document all your assets.

SUPERTIP



ESTABLISHING A RISK MANAGEMENT POLICY

A LIFETIME of work and dreams can be lost in a few minutes if you don't take the necessary steps to protect your business investment. It is thus important to develop a well-thought out risk management policy.

Risk management consists of:

1. Identifying and analyzing any events that may cause loss.
2. Choosing appropriate ways of dealing with each of these potential for losses.

a) **Developing** an Insurance Plan

It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have got it, it requires ten times as much wit to keep it.

**RALPH WALDO
EMERSON**

- b) **Establishing** Safety Prevention Programs
- c) **Setting-up** Theft Prevention Programs
 - d) **Creating** a Contingency Fund
 - e) **Assigning** Risk to Third Parties
 - f) **Implementing** Other Risk Management Strategies
3. Following the guidelines for buying insurance and setting up risk management programs economically.
4. Getting professional advice.

NOTE 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.

Developing an Insurance Plan

Use the following **8** strategies to help you develop an effective insurance plan:

- 1. Write down what you expect insurance to do for your company.** Know your exact insurance needs in easily explainable terms. If you don't know your exact needs you will be at the mercy of the insurance sales representative and be in a poor position to resist any arm-twisting tactics.

An insurance agent represents a company and will usually only sell you that company's insurance.

- 2. Pick a good insurance agent or insurance broker.** Shop around to find an agent or broker with whom a comfortable relationship is possible, who represents a good company (or companies) and who is able to give good advice at the best price. This agent should also be one who tells you more than you need to know, doesn't lead you on blindly, and is frank (see Guidebook #89 for more information on picking a good insurance agent).

NOTE An insurance agent represents a company and will usually only sell you that company's insurance. An insurance broker represents many companies and offers advice for a small commission on your premiums. The advantage of using

a broker is that he or she can act as an intermediary should any claims need to be processed and will tend to speak more frankly with you.

3. Choose your insurance coverage carefully.

When choosing your coverage, balance your choices with costs vs. risk. However, don't try to save money by under insuring. Likewise, don't try to save money by not covering risks that could cause catastrophic loss, even though you think the probability is very small. Remember, if it's small, the premiums will also be small.

NOTE Whatever combination of strategies you choose to use, keep in mind that you

It is possible to purchase uninsured motorist protection to cover your own injury claims from someone who has no insurance.

FUNFACT

should end up comfortably in-between the two extremes of doing practically nothing and leaving your fortunes in the hands of fate, or becoming unusually paranoid and seeking protection from every single calamity you might imagine.

4. Don't withhold important information about your business from your insurance agent.

Treat your agent as a professional helper. Be honest about your circumstances. In fact, bear in mind that 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.

- 5. Keep complete records of your insurance policies, premium paid, losses and loss recoveries.** In the event of a claim for property destroyed by fire, the insurance company will require a complete listing, down to description, age, cost or replacement value and so forth of all insured property. Photographs are extremely useful. Nowadays many business owners also record their property on videocassettes. Keeping accurate records can also help you get better coverage at lower costs in the future.

Make a note on a calendar to review all policies at stated intervals, to be sure of adequate coverage and to seek out better rates.

NOTE 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, de-

stroyed and undamaged property, showing in detail qualities, costs, actual cash value and amount of loss claimed.

- 6. Have your property appraised periodically by an independent appraiser.** This allows you to prove more conclusively what your actual losses are if any occur. Keep these appraisals in a safe place.
- 7. Review your insurance program periodically.** Make a note on a calendar to review all policies at stated intervals, to be sure of adequate coverage and to seek out better rates. Insurance rates are not static and change often. Adapt your insurance policy to changing conditions. You need to ensure that

your coverage is adequate and your premiums are as low as possible yet consistent with sound protection.

8. Fine-tune your insurance plan with the following additional insurance buying and planning strategies:

- *Choose your deductible wisely.* Choosing a deductible carefully can drastically reduce your premiums yet offer you pretty much the same protection. Don't automatically assume there are no choices for deductibles if the insurance agent doesn't tell you. Ask your insurance agent outright.
- *Consider accepting a coinsurance clause.* A coinsurance clause states that you must carry enough insurance

Choosing a deductible carefully can drastically reduce your premiums yet offer you pretty much the same protection.

to insure a certain percentage of the value of the insured property (usually 80 to 90 percent). 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. By accepting a coinsurance clause in your policy, you can receive a reduction in premiums.

- *Cover your largest loss exposure first.* If your insurance budget is limited, list possible insurance risks and then decide which can do the most harm. Obtain coverage only for those perils which can do the most harm.
- *Don't buy it if you don't really need it.* A business owner may decide that under

certain conditions the firm can absorb some losses, either because the frequency and probability of those losses are low or because the dollar value of the losses is manageable. A good example of this is dropping the collision coverage on older cars.

The firm will pay for damages with company funds or buy a new vehicle.

- *Don't get double coverage.* Even if you have several policies on your property, you can still collect only the amount of the actual loss. The total loss will be divided amongst the policies.
- *Hold down excess costs.* Talk frankly with your representative about policy terms, deductibles and conditions.

Even if you have several policies on your property, you can still collect only the amount of the actual loss.

- *Look for suitable "package policies."* Many "package policies" are available for various types of small businesses and are specifically designed to serve them. A package policy can help avoid duplication of insurance. However, make sure the package doesn't include coverage you don't need.

To evaluate a package, get a break down of the costs if bought separately. Check whether a complete package is available at a more favorable price or whether comparable coverage is available through a trade or professional association at a lower group rate.

- *Select one agent to handle your*

insurance. Having more than one agent handling your insurance needs may complicate and weaken responsibility, as well as, lead to coverage over lap.

- *Shop around for a good price.* It pays to obtain competing quotes from insurance agents. Sometimes rates are negotiable.

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

- *Understand all the terms and conditions.* Be sure that you feel comfortable about the terms and conditions of the business insurance

you are purchasing. You don't want any hidden surprises should something go wrong.

Establishing Safety Prevention Programs

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

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The purpose of establishing a safety prevention program is to reduce the possibility of property damage or loss and accidental injuries within your place of business. Strategies you can use to initiate your program are as follows:

Avoid unnecessary risk. One principle of loss prevention and control is to avoid activities that are too hazardous. For example, to avoid product liability exposure, don't sell a particular product that is likely to injure customers.

Another principle of loss prevention is if you can't avoid it, minimize it. For example, don't construct a new house on a country hillside that has a long history of landslides and fires. Instead, build on level urban land two minutes from a fire station.

Hold fire drills. Hold fire drills periodically until everyone in your place knows exactly what to do and where to go in case of fire.

Install fire prevention equipment. This includes installing a sprinkler system, smoke alarms (in storage rooms as well), and making sure that fire doors and exits are clearly marked.

Keep aisles passageways and stair-

With the escalating costs of insurance, and increased complexity and frustration of processing claims, more and more companies are realizing that protection means more than insurance.

wells free from all encumbrances.

Don't create chances for mishaps.

Maintain all equipment and machines in good condition. Keep machines safe. Place guardrails and other protective devices around machinery with moving parts. Train employees thorough in the proper handling of all equipment.

Place approved fire extinguishers in selected spots around your facility. Check them on a regular basis. See to it that your employees know all of their locations.

Practice good housekeeping. Do not permit trash to accumulate on the premises.

Promote healthy lifestyles. Offer medical self-care and health-promotion programs to encourage employees to live a healthy lifestyle. Increased awareness of general healthcare and preventive medicine fosters greater productivity, reduces absenteeism and increase morale, an employer's insurance costs can be significantly reduced.

Store flammable materials properly. Store flammable materials in proper, closed containers, and keep those containers in a cool area.

Using a Risk Analysis Questionnaire

MANY BUSINESS owners use a risk analysis questionnaire or survey, available from insurance agents, as a checklist to determine their insurance needs. 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

For the small business common risks are:

- Business fraud and theft
- Fire
- Legal Liability
- Business interruptions
- Death or loss of key personnel
- Death or loss of owner or partner
- Violent weather – hurricanes, floods
- Damage to or loss of vehicles

Setting-up Theft Prevention Programs

The purpose of setting-up a theft prevention program is to reduce the possibility of financial loss due to shoplifting, embezzlement, and employee pilferage as well as the more professional crimes of burglary and robbery.

NOTE According to the U.S. Chamber of Commerce, more than 30 percent of business failures result from employee dishonesty.

Protection means prevention.
SUPERTIP

Have good employee screening processes. Employee theft is often a serious problem. It hurts the performance of those who are not involved and imperils profits. Employees can steal small inexpensive articles (pens, typewriter ribbons, staplers and the like) or they can take

home large merchandise. In hiring new people, make certain your selection and screening procedures are good. Make it known from the beginning that you expect honesty in all your employees and set a personal example with your own behavior.

Hire security. Retail stores are particularly susceptible to larceny by shoplifter amateurs well as professionals. Large retailers have their own private security.

Locate the cash register and telephone near or at the front door. To limit shoplifting, locate the cash register and the telephone near or at the front door. This reduces the chance of people walking out without paying. Also, offer to hold shopping bags, backpacks and sports bags at the register, to discourage shoplifting.

Purchase a paper shredder. If in the business of information, or if constantly disposing of confidential documents and computer printout data, a small paper shredder may be a good cost effective way to prevent the theft of information.

Train your employees to be alert. To watch for people who enter your store with coats over their arms or carrying shopping bags or bulky packages; to keep an eye on those who look or act suspicious; to wait promptly on customers. Try to maintain adequate floor coverage by adding extra sales people during busy hours.

Train your personnel to be calm and cooperative in the event of a holdup.

The standard homeowner's or renter's policy specifically excludes home-office use. However, for about \$50 to \$70 a year, you can get extra third-party liability for a home-based business. This expense is tax-deductible.

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This is easier said than done, but never forget that a life is a precious thing that no amount of money can replace. Calm heads reduce the risk of violent action.

NOTE If possible, always schedule at least two individuals to open up in the morning and close at night, and to make bank deposits.

Creating a Contingency Fund

Instead of sending money to an insurance company for several insurance policies, you might want to stick to a few

important ones and with the money saved, set up a contingency fund. Setting up a contingency fund has one very important advantage: SPEED. The processing of in-

insurance claims can often take months (even years if litigation is required). Your contingency fund can double as an investment fund. Adopting this attitude means you are adopting a self-insurance posture.

Assigning Risk to Third Parties

Most businesses transfer risk by buying insurance. However, there are other non-insurance options. Some of these include:

- Where possible request product liability coverage from the manufacturer in order to be protected from possible litigation.
- Whenever signing or making up a contract with a supplier, check to see if

I don't want to tell you how much insurance I carry with the Prudential, but all I can say is: when I go, they go.

JACK BENNY
Comedian

there are any clauses that refer to product liability.

- To eliminate collision exposure completely, sell all your trucks and vans and hire a local delivery service.
- To reduce exposure to property damage, cut in-store inventories and handle certain items on a special-order basis only (in this last example, the retailer is actually transferring much of the exposure of property loss to the suppliers).

NOTE In general, as much as possible try and assign all responsibility to the supplier, manufacturer or other third party.

Other Risk Management Strategies

The following strategies are to help you reduce costs and damages of risks not previously covered:

Bank Failure – To protect your company from the effects of a bank failure, obtain the bank's financial statements and compare the total deposits to the number of outstanding loans.

NOTE Most banks are insured by the Federal Deposit Insurance Corporation (FDIC), but you should verify this.

Bad Debts – To protect you company from bad debts a bad debts expense should be factored into your financial projections. This amount can be proportional

An actuary [one who calculates insurance risks and premiums] is someone who moved out of accountancy because he couldn't stand the excitement.

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to the bad debt expense incurred in the past.

Lawsuits – To protect your company from lawsuits from customers or employees comply with government regulations and policies. Also, take appropriate safety precautions.

NOTE In addition to legal fees, a major cost of a lawsuit is the possibility of bad publicity. Bad publicity may takes years of time, money and extra effort to overcome.

Machine Breakdowns – To protect your company against machine breakdown, which not only create safety problems but also cause losses due to inoperability, implement a preventative maintenance program.

In general, money should be set aside for equipment repair and replacement.

Even retail businesses have equipment that needs to be examined regularly, including cash registers, computers, air conditioners and delivery vehicles. In particular, remember to set aside accumulated depreciation dollars for the purposes of replacing a depreciated asset.

NOTE The risk of the equipment breaking down increases, when a company is in a growth phase.

Patent Infringements – To protect your company from others who may try and steal your ideas, make sure to in-

If you plan to operate a home-based business, in addition to adjusting your homeowner's or renter's policy, make sure to insure your car for part personal and part business use. Otherwise, if you hit someone while you're driving your car on business, for example, your insurance company may leave you out on a limb.
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vestigate the possibility of obtaining patents for new products, processes or innovations. During this search, you may discover that there already is a patent on your new product. You must then contact the patent owners and discuss licensing possibilities otherwise when you market your product and they become aware of it, they could force you to stop production and sue for patent infringement.

Supplier Problems – To protect your company from supplier problems, consider formal written relationships instead of relying on verbal understandings.

Tax Requirements – To protect your company from an IRS audit and

possible tax penalties, whenever your business is growing and changing, investigate the impact of property, sales, payroll and federal and state income taxes on your business. Pay particular attention to sales tax if your company is expanding into new geographic areas.

Trade Secrets – To protect your company from insiders selling your trade secrets, limit the amount of knowledge given to anyone individual. Make key employees sign confidentiality agreements.

Unions – If your operation is non-union, to protect your company from employees voting to establish a union, which is their legal right, encourage responsible management.

NOTE Unions usually are formed when

To protect your company from insiders selling your trade secrets, limit the amount of knowledge given to anyone individual.

wage levels or other working conditions are unacceptable to the employees.

Unknown Laws – To protect your company from violating unknown laws and having to pay costly fines and penalties, seek the counsel of an experienced lawyer. Two areas particularly important to a business are labor and environmental laws.

Warranty Claim Risks – To protect your company from too many warranty claims, implement a strong quality program. If a major flaw is detected and all your products sold must be recalled, the resulting financial loss could be devastating.

