

Understanding Business Insurance Products

This is intended as an objective source of information about a broad range of commercial insurances. It is meant to help define what business-protection products can offer and to help in analyzing what each company needs, prefers to have and can afford. This is only a guide and actual policy language will vary.

Builders Risk

What It Protects Against: Damage to or destruction of buildings or other structures during their construction and possibly for a specified time afterward.

How It Works: The owner or builder buys the coverage for all parties involved in a project. Types of property, locations, exclusions and parties covered are specified. Coverage may include reimbursement of the cost of building materials stolen from, or damaged at, the work site. A policy may also cover materials in transit, losses due to ordinances or laws, fire department service charges, error and omissions, and money for a reward program to deter theft.

Who Needs It: Anyone with a financial interest in a construction, remodeling or repair project, including general contractors, subcontractors, real estate developers, building owners, homebuilders, municipalities, and colleges and universities.

What You Need To Know: The party who is contractually required to obtain the coverage but fails to meet its obligations may be exposed to liability. Higher deductibles result in lower premiums. A mortgagee or lienholder may be added to a policy as well as flood and/or earthquake coverage.

A contractor's equipment and tools typically are not covered. Some policies cover loss of income and/or extra expenses resulting from damage to covered property. Endorsements can be purchased to cover soft costs, such as additional real estate taxes, advertising expenses or legal fees resulting from physical loss to a building project.

Businessowners Policy (BOP)

What It Protects Against: An assortment of property and liability risks. It is comparable to a homeowners policy for a business.

How It Works: BOPs combine basic coverages needed by small or midsize companies into a single policy with a single premium that should cost less than buying coverages separately. Covered perils for property coverage include fire, windstorm and explosion. Property coverage also covers loss of business income and extra expenses resulting from a covered property loss. Optional coverage's available include employee dishonesty, equipment breakdown and money & securities.

Who Needs It: Small to midsize companies. Insurers created BOPs to make insurance easier and less expensive for these types of businesses.

What You Need To Know: Premiums are based on location, type of building construction, public fire protection, occupancy type, existence of fire sprinklers and limits/deductibles applicable.

Liability coverage pays litigation costs and damages if the business is sued for injury or property damage of another. It also covers medical expenses of non-employees injured as a result of business operations.

Cargo

What It Protects Against: Damage or loss of goods during transport by air, sea or land.

How It Works: Covered risks can include: fire, explosion, sinkings or wrecks, malicious damage, theft, delay, misconduct, overboard losses or water infiltration of the product, piracy, war, riots or terrorism, packing deficiencies, and transporter insolvency. There are procedures in place for insuring international transport of goods, including whether the transport company, the sender or the receiver will arrange for the insurance.

Who Needs It: Any business involved in sending or receiving materials or products.

What You Need To Know: Industry-recognized cargo clauses determine the risks covered in standard contracts.

Businesses may choose to enter into agreements in which the insurance is handled by another party. The company that enters into the agreement may pass on the costs of the insurance to other parties.

Commercial Auto

What It Protects Against: Liability, no-fault medical payments, uninsured/underinsured motorists, collision and comprehensive physical damage. As well provides coverage on autos that are hired or borrowed for use in the business, including autos owned by employees or members of their households.

How It Works: Liability coverage pays for injuries or damage due to an accident involving use of a covered auto. The insurer also pays for legal defense costs. Medical coverage pays for an insured's medical expenses. Uninsured/underinsured coverage pays for damages when the offending party is unable to pay.

Who Needs It: Every business

What You Need To Know: Most states require auto liability coverage, uninsured/underinsured motorists coverage, and/or auto no-fault coverage. Lenders on

auto loans require physical damage coverage on financed autos. Companies that do not own any autos usually want hired and non-owned auto liability coverage.

Collision and comprehensive covers damage to autos owned, hired or borrowed by the insured.

Commercial Crime

What It Protects Against: Loss of money, securities and other property because of a variety of criminal acts. Also covers money and securities against damage or destruction by almost any cause of loss, not just crimes.

How It Works: The insured can select from a wide variety of coverage's to meet their particular needs. Covered causes of loss include: employee theft (embezzlement), burglary, robbery, forgery, computer fraud, fund-transfer fraud, kidnapping, and extortion.

Who Needs It: Almost all firms because they are exposed to employee theft. Retailers and wholesalers are especially exposed to theft of inventory and money.

What You Need To Know: Businessowners policies and commercial property policies may cover theft of business personal property, but they typically exclude money and securities, employee theft and several other crime perils. Commercial crime insurance can fill these gaps.

Commercial Property

What It Protects Against: The insured's buildings, business personal property and personal property of others. Loss of business income or extra expenses incurred because of physical loss by a covered peril to the insured's property can also be covered.

How It Works: Some policies cover multiple causes of loss specified in the policy, including fire, windstorm, hail, and explosion. Other policies cover any cause of direct physical loss not specifically excluded. Flood and earthquake coverage can be added by endorsement.

Who Needs It: Most businesses because mortgage lenders require at least some level of property coverage.

What You Need To Know: Premiums are based on business location, financial stability, security features, fire hazards and whether any construction is taking place on an insured's site. Businesses with good loss-control practices may qualify for lower premiums.

Cyber

What It Protects Against: Costs of the theft, destruction or unauthorized use of electronic data through computer viruses or network intrusions. It also protects against such costs if a business fails to safeguard another party's electronic data.

How It Works: The Companies will be subject to a security assessment, and the insurer may require additional safeguards before a policy will be issued. Cyber insurance may reimburse for the costs of unauthorized access, viruses, attacks on covered systems, theft, extortion, loss of income related to online business interruption, and the cost of investigating the reason for the interruption. Some policies may pay rewards for information leading to the arrest and conviction of suspects.

Who Needs It: Companies that share data outside their internal networks because these businesses are subject to the greatest worst-case loss scenarios.

What You Need To Know: Traditional insurance plans may not cover these risks because they are new and constantly changing. Many companies manage cyber risk by frequently backing up data, building firewalls and using anti-virus software.

Directors and Officers

What It Protects Against: Claims from stockholders, employees and clients against a company that also are aimed individually at directors and officers. Claims typically stem from errors in judgment, breaches of duty and wrongful acts in connection with company business. Directors and officers may be liable if they misappropriate a corporate asset for personal use or use elsewhere, commingle business and personal assets, breach their legal duty to the company, or fail to disclose potential or actual conflicts of interests.

How It Works: Company buys coverage on behalf of its directors and officers to indemnify them against claims. If they did not have this coverage, the personal assets of directors and officers could be at risk.

Who Needs It: In order to attract quality board members and top executives a Company may purchase this insurance. State laws allow companies to indemnify their directors and officers against legal action, but insurance can protect against liabilities that companies cannot indemnify under state law.

What You Need To Know: This type of insurance has become expensive, and companies may not be able to find all of the coverage that they want to buy. Large deductibles can reduce premiums.

A promise to indemnify may not be a promise to defend. A director may have to pay defense costs and seek reimbursement. State laws restrict the liability of officers and directors for claims brought against them. A director is not covered by the policy if the company is suing the director.

Employment Practices

What It Protects Against: The financial costs of lawsuits brought by employees, former employees or potential employees.

How It Works: Covers the costs of lawsuits brought for alleged discrimination, wrongful termination of employment, sexual harassment, and breach of employment contract. It can also cover negligent evaluation, failure to hire or promote mismanagement of employee benefit plans, and wrongful discipline, wrongful infliction of emotional distress and deprivation of career opportunity. Policies usually cover both the company and its directors and officers.

Who Needs It: New and fast-growing companies are considered to be the most vulnerable because they may not have developed clear guidelines for hiring, firing or disciplining employees. New technology firms are considered especially vulnerable.

What You Need To Know: Cases against employers are on the rise and can result from the pre-hire process to the exit interview, or from people who were not hired or only worked a few days. Businesses can incur expenses even if an allegation is groundless. Coverage costs may depend on the number of employees, type of business and risk factors such as whether the company has a history of being sued by employees. Policies cover legal costs but make not cover fines or punitive damages.

Environmental

What It Protects Against: Financial costs of claims of injury or damage due to pollution, and the costs of cleaning up pollutants.

How It Works: Covers both property and liability insurance and include site specific, contractors, environmental professional errors and omissions liability, asbestos and lead abatement contractors general liability, environmental remediation, remediation stop-loss, underground storage tank compliance, and combination policies. This coverage can help to manage risks as well as insure them.

Who Needs It: Liabilities can arise as a result of negligence, the release of dangerous substances regardless of efforts to prevent the release, or contractual obligations to employees.

What You Need To Know: Commercial insurance policies may exclude environmental coverage. Each company should assess its own potential exposure to environmental lawsuits and government regulation. Environmental statutes can stipulate fines or penalties without requiring that parties responsible for pollution be found negligent or at fault.

Equipment Breakdown

What It Protects Against: The costs of repairing or replacing a broad range of equipment, technology and machinery essential to business operations.

How It Works: Pays for breakdowns due to risks unique to equipment such as power surges, short circuits, centrifugal force, mechanical breakdowns, and boiler overheating or cracking. Such risks are usually excluded by property insurance. Coverage includes income loss because of the break down, extra expense to maintain normal operations, and data restoration. This coverage also applies to perishable goods, not just food but to products that are damaged during manufacturing when a process is interrupted.

Who Needs It: Businesses and government operations that rely on equipment and technology. Also, businesses that lease property or space, especially if they are dependent on the equipment of the property owner.

What You Need To Know: A buyer will want assurance that the insurer is keeping current with technological change. Buyers will also want to consider the quality of claims service and the commitment and capability of an insurer to quickly restore operations.

Errors and Omissions

What It Protects Against: Claims by customers that a company made mistakes or failed to perform contractual work. It includes coverage of the costs of legal defense. It may also be referred to as professional liability insurance.

How It Works: It insures mistakes made by a company's owners, employees and contractors. Similar to a doctor's medical malpractice insurance.

Who Needs It: Anyone who advises, recommends, consults or designs solutions should consider this coverage. Also, firms involved in providing technology and software as well as companies involved in mergers and acquisitions are likely to purchase this coverage.

What You Need To Know: The biggest liabilities in the area of errors and omissions are the costs of legal defense and any judgment if the defense is unsuccessful.

Farmowners

What It Protects Against: Financial effects of particularly bad growing results, the kind that can put a farmer out of business. It also protects against disastrous losses of buildings and equipment.

How It Works: Types of plans include multiple-peril crop insurance policies which are available for most insured crops; yield based insurance coverage and revenue insurance plans. Among yield based plans are actual production history, which protects against yield losses due to natural causes. Group risk plans pay for losses based on a county index. Dollar plans are based on the cost of growing a crop in a specific area. Revenue

insurance plans are group risk income protection, adjusted gross revenue, crop revenue, income protection.

Who Needs It: Crop insurance can protect more than 100 kinds of crops, including fruits, vegetables and nursery products. Pilot programs protect swine, dairy and feeder cattle. Natural disasters, drought, excess water, freeze, hail, plant disease, wind, flood, insects and loss of revenue are all covered perils.

What You Need To Know: Drought and excessive moisture account for 60% of crop failure in the U.S.

General Liability

What It Protects Against: Accidents and injuries that occur on company property or the property of a customer. It protects against product liabilities as well.

How It Works: Commercial General Liability includes payments to an injured person or to an owner of property that is damaged. These can cover medical expenses and the cost of defending lawsuits, including legal settlements or investigations. This type of policy also covers libel, slander, copyright infringement and other personal and advertising injuries. It may also provide the means to post bonds during legal proceedings or to pay judgments.

Who Needs It: Most, if not all, companies. This is the most basic type of liability insurance.

What You Need To Know: This type of policy excludes losses that can be covered under other types of policies, such as auto liability, workers' compensation, directors and officers liability, errors and omissions liability, professional liability, pollution liability and employment practices liability. Commercial General Liability policies are limited to covering legal liability. They do not cover loss to the insured's personal property.

Intellectual Property

What It Protects Against: Costs of claims and lawsuits arising from copyright, trademark or patent infringement allegations, and loss of intellectual property.

How It Works: A policy will pay for legal defense and judgments up to the policy's limits, or to initiate a suit. Some policies may not pay judgments only the costs to defend a suit. Policies known as infringement-abatement or "pursuit" insurance cover costs if a company needs to launch a lawsuit.

Who Needs It: Makers of hardware and software in the information technology field that are active in intellectual-property suits. A reported trend is for insurers to add endorsements to business policies to specifically exclude intellectual-property coverage.

What You Need To Know: Many policies for sale in the U.S. may only cover legal actions brought in this country. Policies usually require insureds to retain a certain dollar amount of risk and to co-insure a certain percentage of coverage. Buyers will want to know whether the policy will cover claims that arise before the policy goes into effect. They will also want to know if they will be able to choose their own lawyer.

Endorsements may exclude coverage for willful infringements on a competitor's intellectual property, punitive damages, and liability damages arising from an unsuccessful defense. They may also exclude costs for pending litigation or prior litigation, declaratory judgments or pre-existing claims.

Medical Malpractice

What It Protects Against: Liability lawsuits that arise from medical errors, alleged errors or negligence in the treatment of patients by doctors, hospitals or other health-care professionals or facilities.

How It Works: Doctors' coverage is not generally experience-rated. Premiums are set according to a physician's specialty and geographic location. Hospitals pay according to location, types of care offered, and, to a lesser extent, their experience rating.

Who Needs It: Virtually all health care providers. Most states require that doctors have medical malpractice insurance, and doctors may need it to see patients in a hospital.

What You Need To Know: Some states allow claims to be filed up to three years after the alleged malpractice. It can take years to resolve a claim. Regulation of medical malpractice insurance varies by state.

Product Liability

What It Protects Against: Costs of judgments, settlements and legal fees arising from damages or alleged damages caused by a faulty or defective product.

How It Works: Coverage costs depends on the kinds of products being underwritten. Goods with a high potential for injury include automobiles, automobile products, food, medicines, medical devices, cosmetics, and children's toys. Insurance cost can also be affected by state laws, insurance caps, and apportionment of liability.

Who Needs It: The manufacturer, seller and even then wholesaler of the product needs this insurance because they each may be liable. Liability may extend to advertising claims, quality of instructions for use, labels or warnings on the product, shipping or display packaging, and design or manufacturing of the product itself.

What You Need To Know: Litigators may challenge product design and safety, testing and hazard potential. They may also question the level of customer education or product recall activity.

Architects, electricians, mechanics or other installation contractors, may also need a form of product liability.

Professional Liability

What It Protects Against: The financial effects of liability lawsuits filed by clients.

How It Works: It protects professionals who cause harm to a client due to incompetence, errors or negligence. Legal defense costs are generally covered.

Who Needs It: Many professionals such as engineers, lawyers, accountants, stockbrokers, financial advisors, insurance agents, court reporters, dentists, nurses and teachers.

What You Need To Know: Buyers may want to check whether a policy covers employees and even subcontractors. Coverage may overlap with errors and omissions insurance. Buyers should make sure that a policy covers their own profession. It is important to know what a policy limits or excludes, as well as what it covers. Severability of limits is important to a professional with employees, but not to a solo practitioner.

Umbrella

What It Protects Against: Liabilities and losses after primary insurance benefits have been exhausted.

How It Works: This supplemental coverage kicks in only after property and liability policies have paid their maximum benefits. It pays the difference between actual costs and the benefits paid by the primary insurance.

Who Needs It: This is an optional coverage. A business may want the policy because a legal judgment against a business can easily go over the coverage limit of primary policies. It is a piece of mind policy; it covers over and above your current policy limits.

What You Need To Know: Umbrella insurance does not apply to professional liability claims.

Workers' Compensation

What It Protects Against: Lawsuits stemming from workplace accidents. It provides medical care to injured employees, along with compensation for lost income.

How It Works: The workers' compensation system is established by state law. The intent of the system is to eliminate or greatly reduce lawsuits by expediting care of an injured employee, regardless of whether the employee or employer caused the work-related injury. Workers are covered if they are injured while at work on the premises or elsewhere, or in automobile accidents while on company business. They are also covered for work-related illnesses. The insurance pays regardless of who was at fault. It also provides death benefits for surviving spouses and dependents.

Who Needs It: Virtually every employer. Businesses are required to buy workers' compensation insurance in almost every state.

What You Need To Know: Benefits of workers' compensation insurance vary by state, including the amount and duration of medical services and rehabilitation. The coverage is available only as a separate policy.

Because an employer's premiums are tied to claims experience, worker's compensation plans also serve to promote safety and health on the job.