

## Tips for obtaining appropriate business insurance coverage



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It is important for any business to have appropriate insurance coverage. Nevertheless, many businesses fail to evaluate the scope of coverage necessary to offset business risks. Oftentimes, questions related to insurance coverage do not receive much attention. The cost to acquire just enough coverage to satisfy contract requirements is usually the main concern. The failure to obtain proper insurance coverage can be disastrous for a business. Underinsuring or not insuring for certain risks can have dire consequences for business owners, yet many do not manage their risks or procure insurance properly. This article provides a brief summary of the types of insurance coverage businesses often require and identifies common mistakes businesses make when it comes to obtaining insurance coverage.

### Common types of insurance

Insurance is required for all businesses. Both large and small businesses face business risks and the need for insurance coverage to avoid financial loss. Larger businesses commonly employ or hire risk managers to evaluate specific business risks and the necessary insurance coverage to mitigate identified risk. Small businesses also often face a wide range of risks and problems. These risks may be presented to a small business by the nature of the business, location or even its employees. Often the risks presented to businesses — small or large — are outside the control of business owners.

There are several risks a business faces, including property damage, inventory loss or equipment loss; business interruption; liability for third-party injuries or damage; supply chain interruption; cybercrime; wrongful employment practices; environmental loss; and workers' compensation claims. For common risks, most businesses require commercial general liability insurance, property insurance, insurance for its vehicles, and workers' compensation and employers' liability insurance.

**General liability insurance:** General liability insurance protects a business from "general" claims involving bodily injuries and property damage. Almost every business has a need for general liability insurance. General liability insurance can help cover medical expenses and attorney fees resulting from bodily injuries and property damage for which a company may be legally responsible. General liability insurance policies typically cover a company for claims involving bodily injuries and property damage resulting from a company's products, services or operations.

**Property insurance:** Property insurance helps cover the damage or loss of property, like structures or buildings, and items including equipment, furniture, inventory, supplies and fixtures. It can also help cover the costs to repair or replace stolen, damaged or destroyed

property, including property and equipment that does not belong to the company but is in its care and custody. Some commercial property insurance policies also provide business interruption coverage that can help supplement a business's income if the business cannot operate due to a covered loss.

**Commercial automobile insurance:** Commercial automobile insurance is a business insurance policy that applies to autos owned by or used in a business that protects the business against liability for damages caused by accidents involving business automobiles. If a business owns vehicles, a commercial auto insurance policy can provide valuable financial protection to the company and its employees who may be driving a company-owned vehicle or a hired or personally-owned auto in its business operations.

**Workers' compensation and employers' liability insurance:** Most employers are familiar with workers' compensation insurance, which is a mandatory form of coverage in New York when you have employees. But the related policy is actually composed of two parts:

- Part I covers the statutory obligations the employer has to protect workers when they are injured on the job (i.e., for medical fees or lost wages).
- Part II, known as employers' liability insurance, protects the business for legal liabilities arising from an employee's work-related injury or illness not covered in Part I of the policy.

**Business owner policies:** A business owner policy combines protection for all major property and liability risks and assembles the basic coverages required by a business owner into one bundle. In addition, a business owner policy can be more cost effective as it is usually sold at a premium that is less than the total cost of the individual coverages. A business owner policy offers several insurance products rolled into one, and is generally targeted to small- and mid-size businesses. Yet, most policies require businesses to meet certain eligibility criteria to qualify and not all businesses qualify for business owner policies. Eligibility requirements differ among providers. Insurance providers may have requirements regarding business location, the size of the location, revenue and class of business. It is important to understand that a business owner policy does not cover all risks associated with running a business and the coverage limits are usually lower. For example, a business owner policy often does not cover employee discrimination lawsuits. You can often increase the protection provided by a business owner policy by adding an excess liability or umbrella insurance policy. This type of supplemental policy will boost coverage beyond the limits of primary insurance policies.

### Common insurance mistakes

**Not understanding the risks the business faces.** Without understanding the risks a business will have, a business cannot be certain to select the proper insurances.

While a business will most likely have a good understanding of the risks that are self-evident and directly related to what they do, they may not see the whole range of risks associated with running the business. For example, the loss, compromise or theft of electronic data can have a negative impact on a business, including the loss of customers and revenue. Businesses may be liable for damages stemming from the theft of third-party data. Traditional commercial general liability and property insurance policies typically exclude cyber risks from its terms, leading to the emergence of cybersecurity insurance as a stand-alone line of coverage. Cybersecurity insurance can provide protection against a wide range of cyber incident losses that businesses may suffer directly or cause to others, including costs arising from data destruction and/or theft, extortion demands, hacking, denial of service attacks, crisis management activity related to data breaches, and legal claims for defamation, fraud and privacy violations. Regularly assisting business owners in analyzing coverage needs, insurance brokers can also assist in identifying methods of managing hazards that the business may not have considered. The value an insurance broker provides in this regard should be considered.

**Failing to notify the insurance company of changes.** It is not uncommon for a company to fail to notify its insurers of changes. For example, the company enters into a contract that requires increased coverage limits or the operations of the business change slightly. It is imperative to regularly reevaluate risk and update coverages.

**Failing to engage insurance coverage counsel immediately.** Not engaging counsel specializing in insurance coverage could be the difference between a claim being covered or the business being left to pay the loss on its own. Counsel regularly assist businesses in understanding whether a loss or occurrence is covered by a policy of insurance, the possibility of potential claims, and to report and manage those claims, should they occur. A business does not always get the coverage it bargained for when it comes time for an insurance company to pay on a claim. Even after paying significant annual premiums, it is not uncommon for a business to decide not to pursue an insurance claim after receiving a denial of claim, no matter how incomplete or baseless. When an insurance company tries to erroneously limit its obligations, fails to consider all available coverages under a policy, or neglects to review exceptions to policy exclusions, a business should consider fighting back. An attorney specializing in insurance coverage can help determine how best to proceed and should be consulted as early as possible.

Purchasing the right insurance coverage should not be an intimidating or difficult process, and following these tips prior to a loss claim will make a significant difference in the success of that business.

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