

do **1** thing/BUSINESS

SMALL STEPS TOWARD PREPARING YOUR BUSINESS FOR EMERGENCIES

Step 4: Insurance



THE GOAL: Make sure you have insurance that will enable you to get back into business after a disaster.

Finding the capital to make repairs and restore vital resources can be difficult after a disaster. It is critical for businesses to move quickly in reopening their doors. Having the right insurance and the necessary amount of coverage can be the difference between success and failure.

▶▶▶ CHOOSE ONE OR ALL OF THE FOLLOWING THINGS TO DO THIS MONTH TO PREPARE YOUR BUSINESS FOR A POTENTIAL EMERGENCY:

- ☐ **Assess the insurance your business will need if you are affected by disaster.**
- ☐ **Assess the insurance your building will need if you are affected by disaster.**
- ☐ **Purchase special hazard insurance, such as flood and wind damage insurance.**

Government assistance for businesses after a disaster is primarily in the form of loans, and may come with stipulations attached. For example, if your business is located in the floodplain and you get assistance from FEMA after a disaster (even if it isn't a flood) you will be required to get flood insurance.

☐ **Assess the insurance your business will need if you are affected by disaster.**

With adequate insurance, a business has options after a disaster. This is especially important for small businesses, where the owner's financial health is often closely tied to the health of the business.

The cost of insurance will vary between companies. It also changes based on what deductible you choose, what coverage options you choose, and the size of your business. Ask any professional associations you belong to if they work with insurance companies that offer discounts to members.

INSURANCE CAN COVER MANY DIFFERENT AREAS; HERE IS A LIST TO CONSIDER:

- **A business owners policy or commercial package policy** generally provides property protection, liability protection, and may also cover certain losses from business interruption (business income). Talk to your insurance agent about what your policy covers. Some businesses are considered high risk and may not be acceptable to all carriers.
- **Property Insurance**—Covers damage and loss of buildings, business inventory, and equipment. It can cover items that you lease as well as what you own. (You may also purchase coverage for other people's property in your care, custody or control.) Ask about coverage for computers and data, and for vital records. If your business requires travel, find out what coverage your policy provides to equipment you use while you are on the road. Also find out if goods you own are covered while being shipped or in transit.

PROPERTY POLICIES MAY EXCLUDE:

- Valuable papers and records
- Money and financial documents
- Property off of the insured premises
- Certain types of outdoor property

»» What happens without insurance?

- The owner may lose their investment in the business – which may be their life savings.
- The owner may feel compelled to reopen, even if the prospects for survival are not good.
- The owner may have to invest additional personal assets and even take on loans, further worsening a shaky personal financial condition.

TENANT OR FIRE LIABILITY INSURANCE

- If you don't own the building you are in, you may still be liable for damage to the facility. The liability portion of your BOP or commercial package should provide coverage for fire liability. Clarify with the building owner who provides insurance for disaster damage, as well as more common occurrences like broken windows or damage to plumbing. Make sure your policy covers what your landlord's doesn't.

BUSINESS INTERRUPTION/BUSINESS INCOME INSURANCE

- Covers lost income when the business is shut down. This is usually limited to shut downs caused by direct losses from events like fire, flood or tornado. You may also be able to get coverage for direct losses to suppliers and customers that cause your business to be interrupted.
 - Examine your need for business income coverage for losses caused by a power or utility failure off the business premises, for example during a regional blackout.
 - If staying open is important for retaining customers, look for a policy that does not limit extra expense recovery, covering additional necessary expenses that help you remain open during a repair period, even if they exceed the business income loss.

INVESTIGATE BEFORE YOU BUY:

- Identify your assets at risk
- Look for exclusions
- Compare coverage and cost
- Look into adding flood, earthquake, and hurricane events to the policy if you have these risks.

Reassess your business insurance needs annually. Did you buy new equipment? Has the number of people on your staff changed? Have operations or the scope of your business changed? If so, is the new operation properly covered? As your business changes, your coverage needs may change as well.

FOR MORE INFORMATION:

- Flood Smart: <http://www.floodsmart.gov/floodsmart/>
- FEMA: <http://www.fema.gov/business/nfip/>
- <http://www.ready.gov/business/>
- <http://www.fema.gov/business/guide/index.shtm>
- <http://www.sba.gov/content/buying-insurance>

☐ **Assess the insurance your building will need if you are affected by disaster.**

If you own the building your business is located in, or if you are a landlord, you need to do more than just ensure the business can continue, you need to ensure that the investment you have made into the structure is protected.

PROPERTY INSURANCE

- If you own both the business and the building, your property insurance policy will probably cover both the structure and your equipment and inventory. If you own just the building, make sure your tenant understands what your policy covers and what they should insure for themselves.
- Find out whether your policy covers the actual cash value or the replacement value of the property. If you have a mortgage on the building, your mortgage lender may require you to insure for replacement value.
- What a tenant uses the premises for, or what nearby businesses are doing, can affect your insurance rates, as well as theirs. Insurance may be more expensive for some types of businesses, and you may be required to carry more insurance.
- Make sure your policy adequately covers things outside the building, such as: fences, outdoor signs and landscaping.

ORDINANCE OR LAW COVERAGE

- If you have an older building that is grandfathered under your local building code, ordinance insurance will cover the cost of bringing it up to current codes after it is damaged. Flood insurance policies through the National Flood Insurance Program contain a rider that will cover these costs (up to \$30,000). It is called the Increased Cost of Compliance rider.

INVESTIGATE BEFORE YOU BUY:

- Look for exclusions
- Compare coverage and cost

Reassess your building insurance needs annually. Did you expand, or replace any building systems? Do you have a new tenant? Remember that your building insurance needs may change if uses of the building change.

»» Factors that affect the coverage and premiums offered by insurers include:

- The type of construction of the business' premises (fire rating)
- Protection class—based on fire department ratings and the distance to the nearest fire hydrant
- The risks of the type of business and those in the same development
- Any built-in hazard protection such as a reliable sprinkler system, fire alarm or burglary system
- Location of the business in relation to known hazards, like rivers, levees, or fault lines

☐ **Purchase special hazard insurance, such as flood, earthquake, and wind damage insurance.**

Business Owners Policies and most property policies do not cover losses from certain natural and manmade hazards.

THESE INCLUDE:

- Earthquake (and other ground movement)
- Flood
- Wind damage from hurricanes
- Loss of utilities
- **Earthquake Insurance**—About 90% of Americans live in an area at risk from earthquakes. The likelihood of your business being damaged by an earthquake depends on two things: your seismic hazard zone and the construction of your building.

Earthquake insurance typically covers structural repairs and damage to other property, as well as for the removal of debris. It may cover the increased costs of bringing your building into compliance with earthquake codes. It may also pay for temporary relocation while your building is being repaired (Go to www.naic.org/documents/consumer_guide_earthquake.pdf for more information).

- **Flood Insurance**—Flood insurance through the National Flood Insurance Program covers losses from flooding, regardless of whether or not you are in the floodplain, and regardless of the source of the flooding (stormwater, body of water, broken water main, etc.). However, the water must be from an overland flood—not from a basement drain—and not solely contained to your property. Back up from drains and sewers can be covered by the property section of your BOP or Commercial Package. Check your policy to make sure you're covered (Visit Floodsmart.gov for more information).

Note: The National Flood Insurance Agency does not provide coverage for Business Income or Business Interruption. Unfortunately, because flooding is excluded on the BOP or Commercial Package, there would be no coverage from that policy either.

- **Hurricane Insurance**—Hurricane damage comes from wind and water. Coverage for flooding caused by hurricanes is covered by the National Flood Insurance Program (see above). The wind coverage should be provided by your property policy. If you live in a coastal area, your wind coverage may have a second deductible that is different than the deductible for other damage. Hurricane wind deductibles are generally not set as a dollar amount, but as a percentage of the damage (typically 3 to 5%). In some areas, dollar amount deductibles are available, if you agree to a higher premium.
- **Loss of Utilities**—In 2008, changes in the insurance industry led to the exclusion of losses caused by utility failure from most policies. Utility Service insurance is still available, but it must be purchased as a separate endorsement. Coverage typically includes the interruption of water, power, and communications services (including internet and cell service). Policies typically exclude power surges and may exclude some failures that result from on-premises equipment. (Power surges are considered “sudden and accidental damage from artificially generated electrical current.” Check with your insurance agent to see if your property policy covers those losses.)

Reimbursement for some disaster losses may be available after an event through a Presidential Disaster Declaration. Not every event receives a Presidential Disaster Declaration, and not every Presidential Disaster Declaration results in assistance for damaged homes and businesses. In some cases, low-interest loans may be available through the Small Business Administration or other federal agencies. Adequate insurance coverage is your best bet for getting back in business quickly after a disaster.

Information in this factsheet was adapted from: Surviving Extreme Events: A Guide to Help Small Businesses and Not-for-Profit Organizations Prepare for and Recover from Extreme Events by Daniel J. Alesch and James N. Holly. Available through the Public Entity Risk Institute at <http://www.riskinstitute.org>.

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