

## CHAPTER 9

### *INSURANCE*

Business insurance, like many types of expenditures is one of those items which business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity which you purchase. Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks which could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general, and product liability.

Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Self insurance can be accomplished by not buying coverage for incidental risks or increasing the deductibles on policies which you do buy. Often, raising the deductible can have a very favorable impact on policy premiums. The administrative costs for insurance companies to process small claims are quite high. Consequently, the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

#### **Required Policies**

Very little insurance coverage is mandatory. The only insurance coverage typically required by law is worker's compensation which covers injuries to employees while on the job. Your insurance agent can explain the required coverage, the rating systems, and help you purchase a policy.

You must also be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies which you may wish to consider. The specific coverage provided by each and the related costs can be explained in depth by a qualified insurance broker.

Some of the types of insurance coverage which you might consider for your business are listed below:

**Business Interruption.** This coverage, as the name implies, covers the loss of revenues your business would have generated if had not been forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shut-down of operations.

**Employee Fidelity Bond.** This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by regulatory authorities.

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**Umbrella Coverage.** This type of insurance covers losses above and beyond the limits of other policies which you carry. Umbrella policies usually pertain to liability of various sorts and are usually valuable if your business or you have a net worth which requires protection in the event of a catastrophic loss.

Insurance is like any other product which you purchase. Before purchasing it you should consult with more than one broker as to your needs for protection. You should discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage you should check out the reputation of the company that is underwriting the policy. Insurance companies are regulated in Virginia by the State Corporation Commission Insurance Bureau and are licensed to do business in the state. Companies are rated by the A.M. Best Company and such ratings are available through your insurance broker.