SMALL BUSINESS OWNERS' INSURANCE

A GUIDE FOR CONSUMERS

Small Business Owners' Insurance

Finding the best insurance plan to protect your business is one of the many important decisions a small business owner makes. This guide explains required and optional coverage you need to consider.

To determine your business insurance needs, you should review your potential risks. Your property may consist of the building, its contents used for business purposes, business equipment and the inventory. You must also consider the potential liability risks that result in injuries or death of others from your premises, operations or even your completed operations. You may also be responsible for injuries of your employees.

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Types of Property & Liability Coverage

Workers' Compensation or Employer's Liability Coverage

Florida law requires business owners to purchase workers' compensation insurance. This insurance is required for any non-construction business employing four or more people and any construction business with at least one employee. However, you may be held liable for injuries of employees whether or not you are required by law to purchase workers' compensation insurance. You should discuss this with your agent to determine your options concerning a worker's compensation or employer's liability insurance policy.

Workers' compensation coverage or employer's liability coverage provide medical and partial loss of income benefits to employees injured because of work-related activity. This coverage can also provide the employer protection from lawsuits by an employee with a work-related injury. This coverage is provided by a workers' compensation policy or an employer's liability policy, secured by the employer.

The premium is normally determined by the type of commercial business and the classification codes pertaining to each individual employed. Each one of these codes has an individual rate dependent on the risk of that workplace exposure. For example, the classification code for a clerical worker has a significantly lower rate than the one used with the code for a roofer, because the average workplace exposures of those two types of employment are obviously quite different.

In some instances, a self-employed person may be able to obtain an exemption to the workers' compensation requirement. Exemption application forms are available from and must be submitted to the Florida Department of Financial Services (DFS), Division of Workers' Compensation for approval. These applications have specific requirements and may require submission of additional documentation. Applications and instructions are available at the Division's website at **www.myfloridacfo.com/Division/WC/Employer/Exemptions/default.htm**. For more information on workers' compensation insurance, call the DFS Bureau of Compliance toll-free at 1-800-742-2214; the Workers' Compensation Employer Customer Service Center at (850) 413-1601; or visit the Division's website at **www.myfloridacfo.com/Division/WC/**.

Commercial Auto Coverage

Commercial auto coverage is required for any vehicle being operated for any business-related purposes. The limits of liability required are based on the Gross Vehicle Weight. Additional information can be obtained through the Department of Highway Safety and Motor Vehicles at: **www.flhsmv.gov/**.

Requirements and options vary, so check with your insurance agent to determine what types of coverage you need. You also should contact your city, county government and the U.S. Department of Transportation to check for any other requirements.

Commercial motor vehicle coverage is similar to the auto insurance most people carry on their personal cars. Most policies include physical damage coverage for the insured vehicle, as well as liability coverage for damage caused by an employee driving a company vehicle. If you are using your personal automobile for business purposes, you may not be covered, as the rules and guidelines are different for each insurance company. Review the business use of your personal vehicle with your personal lines insurance agent to be sure you are covered.

You can purchase coverage through an insurance company, or you can self-insure your vehicles. For more information on self-insurance, contact the Florida Department of Highway Safety and Motor Vehicles, Bureau of Motorist Compliance at **selfinsurance@flhsmv.gov** or call (850) 617-2666.

City, State and County Requirements

While workers' compensation and commercial automobile coverage may be the only coverage required by Florida law, the city or county you operate in may have additional requirements. Call the occupational license office in your county or city to find out if you need additional insurance. Also, if you hold a license through the Department of Business and Professional Regulation or the Department of Agriculture, additional insurance may be required. You can visit their website for additional information at **www.myfloridalicense.com/dbpr/**.

Banks or Lending Institutions

Though not required by law, your bank or lending institution may require you to purchase insurance coverage if you borrow money to pay for buildings, equipment, inventory or other items used in your business.

If the lender is listed as an insured party, this protects their interest in any outstanding balance owed. It also allows you to repair, replace or pay off balances for items that are damaged or destroyed. Leased equipment or property also could have insurance requirements. Check your lease agreement for details.

Optional Coverage

Even if the law does not require your business to carry insurance, you may want to purchase some coverage to protect you, your property and your assets. A business-owners' policy, commonly referred to as a BOP, is sold as a package policy that includes several types of insurance. For example: Property, liability and automobile coverage could all be included in a BOP.

Different businesses have different needs. Ask your agent to help you choose the type of insurance coverage that best suits you. Here are some brief descriptions of the many types of insurance available to business owners.

Bonds guarantee that you will perform a specific action or provide work of a certain quality. For example, if a bonded builder fails to perform as agreed, the client can get some money back through a settlement.

Boiler and machinery insurance pays for loss or damage to your property resulting from a sudden and accidental breakdown of equipment.

Business income or interruption insurance pays lost earnings if you must suspend operation of your business because of an insured property loss.

Extra expense coverage reimburses your business for any added expenses incurred during the restoration period following damage to the business and impairment of its operations as the result of a covered loss.

Cargo and transportation insurance covers your company's goods and products while they are in transit.

Errors and omissions insurance protects professionals from losses caused by their errors or omissions.

Fidelity insurance covers business clients or owners for losses due to dishonest acts by owners or employees.

Flood insurance covers losses to your building(s) and its contents due to flooding. In some instances, this coverage may be provided by an endorsement to your Commercial Property Insurance Policy.

Commercial general liability insurance protects business organizations against liability claims for bodily injury (BI) and property damage (PD) arising from their premises and operations. It can also provide coverage for liability due to advertising and personal injury (PI) liability. You may also want to consider adding an endorsement called products and completed operations.

- Products-and-completed-operations protects business organizations against liability arising out of the insured's products or business operations conducted away from the premises once those operations have been completed or abandoned.

Professional liability insurance pays liability claims arising from wrongful practice by physicians, attorneys or other professionals.

Directors and officers coverage pays claims made against directors and officers while serving on a board of directors and/or as an officer of the company.

Commercial property insurance protects business property and physical assets. There are three main types:

- **Named-peril coverage** specifies the events that the policy will cover. For example, you may buy a named-peril policy as protection from losses caused by fire, explosion and smoke.
- **Comprehensive coverage** provides broader coverage for all perils, except those specifically excluded in the policy.
- **Windstorm insurance** pays for losses to buildings and their contents caused by windstorms (such as hurricanes and tornadoes) or hail.

With property insurance, you can buy either replacement cost or actual cash value coverage.

Actual cash value (ACV) insurance pays the cost of damaged property and goods after deducting for their depreciation. For example, if you paid $2,000 for a computer five years ago, ACV would only pay its current value, say $500.

Replacement cost coverage is more expensive. It pays the cost of replacing your property without deducting for depreciation. You should compare the premiums for replacement cost versus actual cash value when buying or renewing a policy.

To determine your individual businesses' insurance needs, you should consult an experienced agent that specializes in commercial coverages.

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Purchasing Options

In Florida, you have the option of purchasing your insurance through a variety of insurance channels, depending on the type and size of your business. Many authorized insurers are licensed to sell commercial insurance in Florida. Also, surplus lines insurers can provide coverage for businesses and professionals in high-risk or unusual situations.

There are exclusions and limitations associated with all policies through all types of insurance providers. The following sections outline the types of insurance providers and explains how they are licensed, approved and regulated.

Admitted Insurers

An admitted insurer is a company issued a certificate of authority by the Office of Insurance Regulation (OIR) to provide insurance products in Florida. Most business owners seek coverage through admitted insurers and licensed agents who represent them. The OIR reviews forms and rates of admitted insurers. Admitted insurers must participate in the Florida Insurance Guaranty Association (FIGA), which covers claims for policyholders if an admitted insurer becomes insolvent. Although many business-owners choose to use admitted insurers, other options may be available.

Alternatives to Admitted Insurers

Commercial self-insurance funds

With this type of plan, a group of business owners pools its risks and money to provide insurance through a shared fund. The fund must have enough assets to guarantee the payment of claims, and all rates must be filed with the OIR. A commercial self-insurance fund may provide commercial liability, property and workers' compensation insurance. Commercial self-insurance funds issue assessable policies. This means that if the fund does not have sufficient money to pay

claims, the other participating insureds are assessed, or charged, to cover any shortfalls. Because these are assessment policies, the fund does not participate in the Florida Insurance Guaranty Association (FIGA). That means FIGA will not pay claims of a commercial self-insured fund that becomes insolvent. Commercial self-insurance funds must file and receive approval for all rates and forms used in Florida.

Joint Underwriting Associations (JUA)

A joint underwriting association is a forum for applicants who are unable to obtain coverage due to underwriting issues, or lack of availability in the licensed and admitted insurance market. Insurers doing business in the state generally must participate in these pools. Insurance may be purchased through various types of JUAs, including the Workers' Compensation Joint Underwriting Association and Citizens Property Insurance Corporation which provides commercial property and liability coverages including windstorm only. Citizens Property Insurance Corporation can be reached toll-free at 866-411-2742. Visit its website at **www.citizensfla.com**.

Risk Retention Groups

A risk retention group (RRG) is a liability insurance company that is owned by its members. Under the Liability Risk Retention Act (LRRA), RRGs must be domiciled in a state. Once licensed by its state of domicile, an RRG can insure members in all states. Because the LRRA is a federal law, it preempts state regulation, making it much easier for RRGs to operate nationally. As insurance companies, RRGs retain risk. Therefore, they do not participate in the Florida Insurance Guaranty Fund in case of insolvency. FIGA does not pay claims if the group becomes insolvent.

Surplus Lines Insurers

Admitted insurance companies may not be willing to insure some high-risk businesses who do not meet their underwriting criteria. It is also not unusual for an admitted insurer to refuse coverage to some business locations. Surplus lines insurers fill this need. Freedom from some regulation allows surplus lines insurers to respond to the needs of insurance consumers. The Office of Insurance Regulation (OIR) does not issue "licenses" to operate in Florida to these companies. However, the OIR must "approve" them to do business in Florida. The OIR does not review the contracts used or the rates charged and FIGA does not guarantee any coverage for claims if a surplus lines company becomes insolvent. Therefore, if you obtain a surplus lines policy, it is important that you read it thoroughly. These policies frequently involve differences in coverage and deductibles than those found in other policies.

Purchasing Groups

Business owners or professionals may form a purchasing group to buy commercial coverage, thereby saving money by negotiating a group rate through a trade association rather than by purchasing individual policies. Before buying coverage for a group of businesses, the purchasing group must get approval from the Office of Insurance Regulation (OIR). Purchasing groups must obtain coverage from authorized insurers, a risk retention group or an eligible surplus lines insurer. Coverage through purchasing groups is not protected by the Florida Insurance Guaranty Association (FIGA).

Insuring Your One-Person or At-Home Business

If you run a home-based or one-person business, most of the information presented in this guide applies to you as well. Do not assume that your homeowners' or renters' insurance policy will cover the professional equipment in your home or your liability needs. Most homeowners and renters' policies specifically exclude property and liability coverages if your home is used for business purposes. It is also possible to have a claim denied if you did not disclose the presence of an at-home business at the time of application.

If your home-based business involves products, inventory or walk-in customers, you normally need a business-owners insurance policy.

Health Coverage Options

If you want health coverage, you may have to shop around for an individual policy or a Health Maintenance Organization (HMO) until you qualify for a small-group policy. If you are married, your spouse's employer may offer health care coverage and you may be insurable under his or her employer's plan. You also may be able to take advantage of group insurance through your membership in associations or professional organizations.

Review our **Health Insurance and Health Maintenance Organizations Guide** for more information on health insurance options for small businesses.

www.MyFloridaCFO.com/Division/Consumers/UnderstandingCoverage/Guides

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Selecting an Insurance Agent & Company

How to Select an Insurance Agent

When selecting an agent, choose one who is licensed to sell insurance in Florida. In addition to being licensed by the State, some agents have professional insurance designations such as the following:

- **CEBS** Certified Employee Benefits Specialist
- **CFP** Certified Financial Planner
- **ChFC** Chartered Financial Consultant
- **CIC** Certified Insurance Counselor
- **CLU** Chartered Life Underwriter
- **CPCU** Chartered Property and Casualty Underwriter
- **LUTCF** Life Underwriting Training Council Fellow
- **RHU** Registered Health Underwriter

Make sure you select an agent with whom you feel comfortable and who will be available to answer your questions.

Remember: An agent may represent more than one company. To verify whether an agent is licensed, call the Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236). You can also go to **www.myfloridacfo.com/** and click on the **"Verify Agent's License" button** to search for licensing information.

How to Select an Insurance Company

When selecting an insurance company, it is wise to know that company's rating. Several organizations publish insurance company ratings which are available on the internet. These organizations include: A.M. Best Company, Standard & Poor's, Weiss Ratings Inc., Moody's Investors Service and Duff & Phelps. Companies are rated on several elements, such as financial data (including assets and liabilities), management operations and the company's history.

Before buying insurance, verify whether a company is licensed to sell insurance in Florida by calling the DFS Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236). Be sure to have the full, legal name of the insurance company when you call. You can also go to **www.MyFloridaCFO.com/Division/Consumers/needourhelp.htm** and click on the "Company Search" option under the Quick Links section.

Protecting You & Your Privacy

Your Insurers and Financial Institutions

Under federal law, some banks and insurance companies may have the right to share sensitive and personal information about you with other entities and business interests—without your permission. As the policyholder, you must take the lead in protecting your personal information.

Many companies will send you a privacy notice that will give you the opportunity to tell them that you want your personal information kept confidential. Unless you complete and return these forms, your personal financial and medical information may be shared with other companies. You may have to complete these forms on an annual basis.

When you receive a privacy notice form, read it carefully before signing it to avoid unintentionally giving the company permission to share information about you. If you have questions or concerns about these forms, call the Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

Insurance Fraud Costs Us All!

At least $80 billion in fraudulent claims are made annually in the United States according to the Coalition Against Insurance Fraud's estimates. This includes all lines of insurance. It's also a conservative figure because much insurance fraud goes undetected and unreported. Insurance companies generally pass the costs of bogus claims – and fighting fraud – onto its policyholders. This includes the money you pay for life, auto, health, commercial, homeowners and other types of insurance. You can protect your personal and family's finances by learning about the many different types of fraud schemes and scams.

Some common examples include:

Fictional Injury – An attorney informs a small business owner that a client suffered serious injury after falling at the owner's place of business. Actually, the attorney and client work together to bilk insurance money through phony accident claims.

Rigged Robbery – A small business owner files a phony claim of stolen property or exaggerates the value of missing items.

Arson for Profit – The co-owner of a financially strapped business intentionally sets fire to the workplace in hopes of obtaining insurance settlement money.

Unauthorized Referral – A laboratory bills an insurance company for a patient's tests using information stolen from a referring physician. Actually, the laboratory has never tested the patient.

Deceptive Claim – An employee who suffers a minor injury at work exaggerates the loss or uses a pre-existing injury to file for workers' compensation.

There are many other types of insurance fraud. If you suspect such a crime has occurred, call the DFS Fraud Hotline toll-free at 1-800-378-0445 or visit **first.fldfs.com**.

Glossary

Agent – An agent is a person who sells and services insurance policies. Agents must be licensed by DFS to sell insurance in Florida.

Authorized Insurer – An authorized insurer is an insurance company that has a Certificate of Authority from the Office of Insurance Regulation (OIR) to operate in Florida.

Commercial Liability – Commercial liability is an insurance policy written for businesses to cover negligent acts that cause injury or damage to persons or property unrelated to the business.

Deductible – A deductible is the amount that a policyholder must pay before the insurance company pays.

Domestic Insurer – A domestic insurer is an insurance company formed under Florida laws.

Florida Insurance Guaranty Association (FIGA) – A non-profit corporation of licensed property and casualty insurance writers that pays most claims for policyholders if an insurer becomes insolvent.

Foreign Insurer – A foreign insurer is an insurance company formed under the laws of a state other than Florida, but which offers policies in Florida.

Group Insurance – Group insurance is an insurance policy written on a group of people under a single master policy.

Health Maintenance Organization (HMO) – An organization which provides a wide range of health care services through a network of providers. Members are required to access services through an in-network provider or facility, except in case of an emergency.

Insured – The insured is the person covered under an insurance policy.

Insurer – The insurer is the company that provides the insurance.

Liability Limits – The liability limit is the maximum amount your insurance company will pay for a liability loss.

Loss – A loss is an occurrence or event resulting in damage or destruction of property, injury or death. A policy may cover, limit or exclude certain losses, depending on the terms of the policy.

Named Perils – Named perils are specific, named causes of loss that are covered in a property insurance policy. Some examples are fire, windstorm, theft and smoke damage.

Pool – A pool is an organization that provides certain coverages to applicants who are unable to get coverage through the voluntary market.

Risk – Risk is a chance of loss.

Risk Management – Risk management is the management of the various risks that might affect a business. Its purpose is to identify potential loss situations to determine if they are best avoided, assumed, or transferred to an insurer. A Risk Management Program helps to control losses through safety programs and the purchase of insurance.

Self-Funded or Self-Insured - A plan is self-funded when the employer assumes the financial risk for providing healthcare benefits to the employees. Self-funded, single employer plans are regulated by the federal government, not the state.

Small Group Market – The market for health insurance coverage offered to small businesses that employ up to 50 individuals.

Third-Party Administrator – A third-party administrator is a business approved by the Office of Insurance Regulation to handle administrative duties, including claims handling for insurance companies or self-insured programs.

Unauthorized Insurer – An unauthorized insurer is an insurance company or entity not issued a Certificate of Authority or approved to conduct insurance business in the state.

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