

# Demystifying Business Insurance

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COMMERCIAL INSURANCE

EMPLOYEE BENEFITS

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# What is Insurance?



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## The Quick ABC's of Insurance

Insurance is defined as: "The pooling of a large number of individual risks. Funds to cover individual losses are raised by collecting small amounts (premiums) from a broad base of buyers."

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# Why do You Need Insurance?



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## Why do you need insurance?

- Sometimes it's required
  - To protect your business assets & personal assets
  - Insuring your employees have protection against accidents (Workers Comp)
  - Protecting your customers/clients against unexpected losses that you may be found negligent & be held liable to pay
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# What is 1<sup>st</sup> Party & 3<sup>rd</sup> Party Insurance Coverage?



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## What is 1st Party Insurance Coverage?

- 1st Party Insurance Coverage is coverage provided for your business losses.

Example - Commercial Property coverage for damage to your building as a result of a fire loss would be considered a 1st Party Covered Loss.

## What is 3rd Party Insurance Coverage?

- 3rd Party Insurance Coverage is coverage for any parties that may make allegations of bodily injury or property damage loss to them as a result of your negligence.  
Example - You are visiting one of your clients at their place of business and you accidentally spill a liquid on their computer causing property damage to their computer. The insurance would cover this loss as you would be seen negligent for your actions and the client would want to obtain a replacement computer.
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# How Do You Know What Kind of Insurance You Need?



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## How Do You Know What Kind of Insurance You Need?

Various industries have specific types of insurance that are required, but by and large, most businesses who are worried about 3rd Party losses will obtain General Liability Insurance Coverage.

A small business owner who leases a space will need a General Liability policy, but also will oftentimes want some Business Content/Equipment Coverage. Business Content/Equipment Coverage is a 1st Party coverage that provides the policyholder with some coverage for their personal business content or equipment that may be damaged as a result of a covered loss.

A manufacturing company will likely have a myriad of coverage needs for their business operations such as: General Liability, Commercial Property, Business Content/Equipment, Loss of Business Income and Products & Completed Ops (which is generally a part of a General Liability Policy Form unless it has been excluded). Example - The 502 (Cannabis Industry) General Liability Policy Form usually takes away the Products & Completed Ops coverage, and the policyholder would need to obtain a Products & Completed Ops Policy specifically to cover their products.

### Other types of popular coverage forms:

- **Errors & Omissions (a.k.a Professional Liability)**
- **Commercial/Business Auto**
- **Inland Marine**
- **Crime/Employee Theft**



# “What is Stated vs Reality”



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**Stated:** "I just want the bare minimum that the state requires."

**Reality:** For common business insurance policies, a lot of insurance companies do not write low limits such as a \$250,000 Combined Single Limit; which are the minimum requirements that the Department of Labor & Industries requires Contractors to obtain, and even if a preferred carrier did, it would likely cost the same as the higher limits. Most preferred carriers starting limits are \$1,000,000 per occurrence/\$2,000,000 aggregate. And oftentimes in certain industries, those amounts would simply be a minimum premium anyway.

Example - A small Businessowners Policy (often called a BOP) is a mix of both General Liability & Business Property and/or Content coverage. A new home-based small business owner with less than \$100,000 in gross sales and no employees will likely pay \$500 for a BOP policy, and with most insurance carriers that would be considered the minimum premium; meaning, that's the lowest premium charge for that particular policy coverage with \$1,000,000 per occ/\$2,000,000 agg limits.

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# “What is Stated vs Reality”



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**Stated:** "I feel my insurance agent is ripping me off and offering me coverage that I don't need."

**Reality:** Most insurance agents do NOT want to "rip off" their clients. Some policies are written with items that are included in the policy for no additional premium charge. They are oftentimes items that (even in my opinion) likely won't ever occur or be utilized, but they are a part of the policy and are free. If an item is optional, it is spelled out, and an additional premium is charged for that coverage, like Cyber coverage. Most policies offer Cyber coverage as an optional item; however, due to the increasing nature of issues of Cyber crime and data breaches, you may see many carriers move to add that as a part of their policies; at least with some minimal amount of coverage being included.

When starting a business, it's difficult to know what your gross sales will be, or if you will need to hire employees, because you are new and have no historical data to go off of. That's why it is imperative to speak with and work with your agent as your business grows and develops.

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# Resources



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- SBA - <https://www.sba.gov/>
- Washington State Dept of Labor & Industries - <http://www.lni.wa.gov/>
- Washington Restaurant Association - <http://warestaurant.org/>
- IRMI (Insurance & Risk Management Glossary) - <https://www.irmi.com/online/insuranceglossary/terms.aspx>
- Google is your friend - let your fingers do the walking

