

Part 1
Property & Casualty Insurance for Maine Small Businesses
(Property & Liability Coverage)

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Welcome to Property and Casualty Insurance for Maine Small Businesses. This workshop is designed for Maine certified Disadvantaged Business Enterprises or DBEs and presented by DBE Supportive Services.

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There are four major types of property/casualty insurance coverage: property insurance, liability insurance, workers' compensation insurance and automobile insurance. This workshop segment will cover property insurance and liability insurance. Workers' compensation insurance and automobile insurance are covered in a separate online workshop segment.

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It is important to understand that insurance policies are contracts entered into between yourself and your insurance company. Be sure to read them thoroughly to understand your rights and responsibilities under your insurance policy. To get answers to your questions about your specific situation and insurance coverage needs seek the expertise of a licensed insurance agent. You can also reach out to the Maine Bureau of Insurance.

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According to the National Association of Insurance Commissioners, the NAIC, "Many small businesses...are exposed to serious risks that could be decreased by a clearer understanding of insurance options." The NAIC has found, based on 2007 research, that only 35% of small businesses have business interruption insurance coverage, only 48% of small businesses have commercial automobile insurance coverage and 48% of home-based businesses depend on their homeowners' insurance to protect their business. For the purposes of this research, the NAIC defined "small business" as businesses with fewer than 100 employees.

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This workshop segment will focus on property and liability insurance coverage. Per the Maine Bureau of Insurance, although property and liability insurance coverage is not required by Maine law, as a small business owner you should seriously consider buying property and liability insurance coverage to protect yourself, your property and your financial investment in your business. According to the Maine Bureau of Insurance, "Without insurance protection, your business could face financial ruin either because of a property loss or due to a lawsuit."

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To learn more about property and liability coverage, let's first look at property insurance and answer the following question. Why does a small business need property insurance? According to the Maine Bureau of Insurance, "Property insurance is one of the most important types of insurance that you can buy to protect the property, inventory and equipment used in running your business." According to the NAIC, "Property

insurance protects small business owners from losses due to damage to physical space or equipment and as a result of theft.”

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The next question we will answer is what does property insurance cover? For insurance purposes, a business’ property includes the physical building in which it resides and its other business assets. All of the following, whether owned or leased, can be considered business property for property insurance purposes: the actual building; inventory; furniture, equipment and supplies; machinery; computers and data processing equipment; valuable papers, books and documents; artwork and antiques; television sets, VCRs, DVD players, satellite dishes and similar devices; signs, fences and outdoor property not attached to the building; and even non-tangible items such as trademarks and copyrights.

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There are three types of property insurance plans. The first, known as “basic form” or “named peril”, only covers events that are specifically listed in the policy, for example, fire, hail, vandalism, windstorm, or sprinkler damage. Basic form or named peril policies provide limited coverage at lower premiums. The second, known as “broad form”, includes basic form coverages plus extended coverage for losses from additional named perils, for example, roof collapse due to weight of snow or ice or damage caused by accidental discharge of water or steam. As with basic form, covered losses will be specifically listed in a broad form policy. And the third is known as “special form” or “all risk.” This includes basic and broad form coverages plus coverage for all direct physical losses, except under conditions specifically excluded in the policy. Special form policies do not cover losses listed as exclusions in the policy. A popular type of policy, the business owner’s policy commonly referred to as a BOP, is generally offered as a special form, all risk policy.

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It is important to understand the two ways that insured value can be determined in the event of a covered loss under a property insurance policy. The amount of payment received for a property loss claim will depend on whether you purchased *replacement cost* coverage or *actual cash value* coverage. Replacement cost coverage pays the cost to replace or rebuild your property with materials of like kind and quality without deducting for depreciation. Actual cash value coverage, also known as ACV coverage, is defined by Maine law as “the replacement cost of an insured item of property at the time of loss, less the value of the physical depreciation as to the item damaged.” Because of depreciation, on an ACV basis, the older the property, the lower the insurance payment will be for a loss.

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It is important to understand that property value for insurance purposes is not the same as market value, appraisal value or assessment value. Property value for insurance purposes is the cost necessary to fix or replace the property per the terms of your contract, your insurance policy, on a replacement cost or actual cash value basis, depending on the type of coverage you choose when you purchase or renew your property insurance policy.

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Here is an important property insurance tip. Work with your insurance agent to determine the best type of coverage and the amount of coverage that is right for your business. When purchasing property insurance you will need to decide on the following - the type of coverage: whether "basic form" or "named peril", "broad form", or "special form" or "all risk" often a BOP policy; the amount of coverage: replacement cost or actual cash value and the applicable policy limits, also known as the limit of liability. This sets the maximum amount the insurer will pay for the covered loss. You as the policyholder are responsible for losses above the policy limits.

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Let's discuss how you cover equipment loss. Fixtures and permanently installed equipment and machinery can be covered as part of the building. You must consider their value when deciding on coverage limits for the building. This includes fire extinguishing equipment, heating and air conditioning systems, refrigeration equipment and permanently installed floor and window coverings. Other specific coverages, like boiler and machinery coverage for loss or damage to your property as a result of a sudden and accidental equipment breakdown, are also available.

What about equipment not attached to the building or used off premises, like contractors' mobile equipment? These types of equipment are covered with an Inland Marine Contractor's Equipment Floater. Additional coverage forms are also available for a wide range of specific risks, like accounts receivable and equipment dealers, among many others. Similarly, cargo and transportation insurance can be purchased to cover products transported by your company.

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Another important type of coverage to consider for your business is business interruption coverage. This pays for lost earnings if you must close your business as the result of an insured property loss. Business interruption coverage covers expenses associated with running a business, for example, payroll, utility bills, etc. Costs for business interruption coverage are tied to the type of small business you operate. For example, business interruption coverage premiums would be lower for a travel agency than an art gallery, as it would take less time to reopen a travel agency than an art gallery following the destruction of the business premises. Even if you purchase business interruption coverage make sure you have sufficient funds to tide you over for any waiting period applicable to the policy. Waiting periods under business interruption coverage can range from as short as a few hours to several days. Business interruption coverage can be purchased as part of a policy known as a package policy (this is often a BOP) or as add-on coverage to a property policy.

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Following are some property insurance tips and considerations from the NAIC. Have your property value assessed before and periodically after you purchase property insurance. Keep copies of receipts for equipment, furniture and other valuable items and physical photos of your property in another location, as well as digital pictures that you store on your computer or with a Web service. High value specialty items like antiques and artwork should also be assessed by a reputable appraiser before you buy property insurance. These types of items are usually covered for an agreed upon amount before a policy is written. It is important to tell your agent about these specialty items so that the correct coverage is provided.

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If you lease your building or offices, do not rely on your landlord to provide coverage for your business property. The building will typically provide insurance only for the basic structure and common areas. Be sure to read your lease carefully; other requirements or penalties may be set out in the fine print. Check to see what is and is not covered so that you are fully protected if something happens to your property and equipment. A property insurance policy generally includes a statement specifying the limit of liability. Be sure to understand how that works. The limit of liability is defined as the maximum amount an insurer will pay for a covered loss. The policyholder is responsible for losses above the policy limit.

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Let's review what we have learned about property insurance coverage by reviewing a question from the NAIC's Insure U. You have the option to insure your office furniture for its replacement cost. Which of the following statements is true?

- A. Replacement cost coverage takes into account the amount of time you owned your office contents;
- B. Replacement cost coverage provides payment to replace your office contents or repair damage as you please, without restrictions on the kind or quality of material used; or
- C. Replacement cost is the amount it would take to replace your office contents or repair damages *without deducting for depreciation*.

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The correct answer is C! Replacement cost is the amount it would take to replace your office contents, such as furniture, with materials of similar kind and quality, *without deducting for depreciation*. In contrast, actual cash value (ACV) is coverage for the amount it would take to repair damage to your office contents or replace items *after taking depreciation into account*.

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Let's answer another question from NAIC's Insure U. A property insurance policy generally includes a statement specifying the limit of liability. Based on that statement, the policyholder would:

- A. Be responsible for amounts above a stated limit in the policy;
- B. Be responsible for amounts until the limit in the policy is reached;
- C. Share the cost of the premium with their employees; or
- D. Only pay a deductible towards the policy's premium.

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The correct answer is A! The limit of liability is defined as the maximum amount an insurer will pay for a covered loss. Typically, the insurer will bear responsibility up to a certain limit, as stated in the policy, with the policyholder responsible for amounts above that limit.

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The next type of insurance coverage that we will review is liability insurance coverage. Let's start by answering the following question. Why does a small business need liability insurance? Liability insurance protects you if someone is hurt while using your product or service or if someone is injured while on your property. A lawsuit could mean a large loss to your business; liability insurance is a way to protect yourself against such

potential loss. Liability insurance protects you against potential financial loss resulting from claims for injuries, death or property damage that are caused by your products, business operations or employees. For example, if someone falls while visiting your business premises or a customer is hurt by a product your business sells, you can be held responsible. That's the type of risk that liability insurance covers.

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The next question we will answer is what does liability insurance cover? Liability insurance, also called Commercial General Liability or CGL covers four categories of events for which you could be held responsible:

1. Bodily injury,
2. Damage to others' property,
3. Personal injury (including slander & libel), and
4. False or misleading advertising.

CGL pays for the injured party's medical expenses. Please note that this excludes your employees covered by workers' compensation. Did you know that even trespassers can sue you if they fall and get hurt on your premises?

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There are three types of legal damages you can be sued for that are typically covered by a Commercial General Liability policy:

1. Compensatory Damages - for financial losses suffered by the injured party and future losses they may suffer resulting from an injury they claim in the lawsuit;
2. General Damages - for non-monetary losses suffered by the injured party such as pain and suffering or mental anguish; and
3. Punitive Damages - which are additional penalties and charges the defendant must pay.

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It is important to note that standard liability insurance does not protect a business against responsibility for claims related to that business' employment practices, for example, sexual harassment, wrongful termination, failure to employ or promote, or race and gender discrimination lawsuits. Separate Employment Practices Liability coverage is available. Standard liability insurance does not protect a business against responsibility for claims related to operation of a motor vehicle, a car or truck. Motor vehicle liability coverage is mandatory in the state of Maine. You should purchase separate automobile insurance coverage.

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Standard liability insurance does not protect a business against responsibility for claims related to wrongful practices by professional service providers. Separate professional liability coverage is available for professional service providers. Standard liability insurance does not cover a business against responsibility for claims related to work-related employee injuries or illnesses. These are covered by workers' compensation insurance. Workers' compensation insurance is required by Maine law and regulated by the state.

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Let's review some other types of available liability insurance coverages. An umbrella liability policy provides protection above a standard policy, with typical limits of one to five million dollars; for business owners with significant assets or who are especially

vulnerable to lawsuits. Crime insurance provides protection against theft and malicious damage, for example, employee embezzlement. And E-insurance or Internet Business Insurance provides protection for Web-based businesses against damages caused by computer hackers and viruses.

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Following are some liability insurance tips and considerations from the NAIC. Liability insurance premiums are typically based on a business' sales and payroll estimates provided prior to policy inception. If the actual amounts turn out to be higher after the policy has been issued you may need to pay additional premium. Conversely, if the amounts are less than estimated, you could get a refund. Other factors that influence liability premiums include: type of business covered and the risks generally associated with it. Insurance companies evaluate a business' risk for liability coverage based on many factors including: general industry experience or probability of a claim for a similar type of company; the financial stability and longevity of a business; state laws; business products and/or operation; and a business' approach to handling and preventing potential risks or loss control. If you have solid, documented safety procedures and practices in place you may be considered a lower risk by an insurance company for liability insurance and therefore be charged lower premiums.

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Let's review what we've learned about liability insurance coverage by reviewing a question from NAIC's Insure U. Which of the following would generally be covered under a standard liability insurance policy?

- A. A wrongful termination claim by an employee;
- B. A sexual harassment claim by an employee;
- C. An injury sustained by a visitor to your business property; or
- D. An injury sustained by an employee on your business property.

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The correct answer is C! An injury sustained by a visitor to your business property. Liability Insurance covers events for which you could be held responsible, including bodily injury, damage to others' property and personal injury. For answer A, a wrongful termination claim, and B, an employee sexual harassment claim, you would need to purchase separate Employment Practices Liability coverage. For answer D, an injury sustained by an employee on your business property, you are required by state law to purchase workers' compensation coverage.

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Property and liability coverage can be purchased in a package policy which is most commonly in the form of the business owners' policy or BOP. The BOP is a package policy purchased by many small business owners which typically includes the following coverages which we have already reviewed: property insurance, business interruption or continuation insurance, liability insurance. Among the benefits, a BOP often costs less than buying coverages separately. Many insurers offer customized BOPs by business type. Among the cautions, not all businesses qualify for a BOP. A BOP is not for businesses with unique risks that require more customized coverage, for example, factories or jewelry stores. While a BOP can be a good starting point for insurance coverage, it is important to make sure to expand coverage as necessary as your business grows.

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Following are tips and considerations for lowering property and liability insurance costs from the NAIC. Review your insurance policies annually and note any changes that may affect your coverage costs, for example, addition or reduction in employees, clients, product offering or inventory; alterations to your premises; or changes in state regulations. Find out how policies differ to make sure you're purchasing the best policy for your particular business at a competitive price. See if you are eligible to claim a tax deduction for your premiums on property and liability insurance. Avoid purchasing overlapping policies; read the policy terms carefully to make sure that you are not covered for the same risk in two separate policies. This also helps ensure that you are not missing crucial coverage in other areas.

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Let's review some claims processing tips. Be sure to document all your business assets. Keep detailed records of all your insurance policies. Keep records or copies of all paid premiums. Keep records or copies of any documents concerning losses and recoveries under your insurance policies.

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Let's spend a few minutes discussing the insurance needs of home-based businesses. According to the Small Business Administration, home-based businesses are those businesses exclusively run from a home and no other location. Home-based businesses comprise roughly half of all U.S. businesses and generate a huge amount of economic activity. Among the top types of home-based businesses are the following: professional, scientific and technical services; consultants and freelancers; construction; retail; and specialized services (like music instructors, daycare, etc.). According to the SBA, 90% of home-based businesses are sole proprietors, 7.2% have fewer than five employees, just over 1% have 5-19 employees, and about 0.2% have 20 or more employees.

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Regardless of their size or type, home-based businesses, like all businesses, should be properly insured to protect their assets and their owners against certain risks. Often home-based businesses are underinsured, a fact the owners discover only after an incident occurs when they realize the insurance they have is inadequate to address the type and magnitude of the problem they face after a loss. If you have a home-based business, it's a good idea to learn about the range of insurance products available for your business. While your specific business may not need to purchase certain types of insurance coverage, it is important to understand your potential risks and insurance options.

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It is important for home-based businesses to protect against loss or damage to your business property and equipment, such as computers, and claims due to accidents or injuries to customers, clients or others who may visit your home in order to conduct business. Many home-based business owners believe their homeowners' or renters' insurance policy will adequately cover their home-based business, however that coverage is rarely enough. For property claims, most homeowners' insurance policies limit coverage due to damage or loss of business property to \$2,500 in the home and \$250 away from the home. These limits might be far too low if a fire destroyed your home office and all of its contents. For liability claims your regular homeowners' policy might totally exclude business-related liability claims, thereby exposing your business to

serious risks if a customer, client or supplier were seriously injured during an appointment on your premises.

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Homeowners' policy endorsements can provide additional coverage for some home-based businesses. For property insurance, you may be able to add a simple endorsement to your existing homeowners' insurance policy that can increase the standard property coverage for business equipment. If you use expensive equipment like computers or construction tools, this option may be worth considering. However, this endorsement is generally only available to businesses with revenues of \$5,000 or less per year. For liability insurance, some types of home-based businesses may be able to purchase a homeowners' liability endorsement to protect you in case someone gets hurt in your home in the course of conducting business. However, this endorsement is generally only available to businesses that have few visitors.

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A comprehensive home-based business property and liability policy provides greater coverage for business property and for liability than the homeowners' policy endorsement. Depending on the policy terms, an in-home business policy can provide coverage for loss or damage to business property, loss of important records and papers, lost income associated with business interruption due to covered loss (for example, a fire), expenses of operating out of a temporary location, and injuries suffered by other people in the course of doing business in your home, or accidents caused by the products or services that you offer.

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The business owner's policy (or BOP) offers a good property and general liability insurance option for some mid to larger-size home-based businesses. Please note that BOPs do not cover workers' compensation or automobile insurance, these coverages must be purchased separately. Note also that some level of business interruption or continuation coverage may be included in each coverage option discussed above. However, home-based businesses with heightened business interruption concerns should consider purchasing a separate policy that expressly covers this risk.

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Let's review some home-based business property and liability insurance tips and considerations from the NAIC. Don't assume your existing homeowners' or renters' insurance policy will cover your home-based business. Coverage for business property is limited and liability insurance is not provided by most homeowners' insurance for home-based businesses. Check your homeowners' policy to determine exactly what it covers and to identify what it does not cover. In-home business policies vary greatly depending on the insurer and may not be available for all types of home-based businesses. Check with your insurance agent or company or the state Bureau of Insurance to see if your business qualifies for a homeowners' policy endorsement or an in-home business policy.

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Always keep a clean and safe business environment to avoid injury or damaged equipment; make sure that stairs are free of clutter, all electrical cords are wrapped tightly, spills are wiped up immediately, you have fire alarms in your home-based business area. Keep a record of all business documents and receipts for all business

equipment and store them in a safe place away from your home. Make a computer inventory of all your business property and its value. Update this inventory annually or more often if you buy a lot of new equipment. Take photographs of your premises and equipment. Back up computer files and store them remotely. Intellectual property, like financial records, customer lists, proposals, work product, etc., is extremely important to your business, but very difficult to value and fully recover through insurance. Safeguard it from loss or damage.

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Let's review what we learned about home-based business property and liability insurance coverage by reviewing a question from NAIC Insure U. True or false, for a home-based small business, a typical homeowners' or renters' insurance policy is adequate to cover the business and its assets?

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That statement is false. While a typical homeowners' or renters' policy does offer some limited property coverage, there are significant limitations with regard to the coverage for damages to or loss of business property. Also, most homeowners' or renters' policies totally exclude business-related liability claims from coverage.

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Let's review some tips and considerations for reducing small business risk from the NAIC. The following steps can be taken to minimize risk in the workplace and help to lower your insurance premiums: install fire and security alarms; plan and train employees for an emergency on the premises (such as fire and evacuation); have employees keep wallets and other personal items in a secure place; keep the business' cash and valuables in a safe; if employees work with machinery, provide goggles, gloves and other recommended safety gear to help prevent injuries; keep office space in good physical condition; maintain carpeting and railings on stairs; make sure telephone and computer wiring is in good working condition and does not create any hazards; if your employees operate a company car, make sure that they have clean driving records and are trained properly.

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Let's review the elements of an insured loss. In this illustration the total insured loss is \$300,000, with a policy deductible of \$2,500. Please note policy deductibles are not applicable to all types of coverage. The policy limit in this illustration is \$250,000. Under this example, the insured would be responsible for payment in the amount up to the policy deductible and over the policy limits; in this case \$0 to \$2,500 and \$250,000 to \$300,000, for a total policyholder responsibility of \$52,500. The insurer on the other hand is responsible for the amount above the policy deductible up to the policy limits; in this case from \$2,500 to \$250,000, for a total insurer responsibility of \$247,500. It is important to understand the elements of an insured loss in order to make sure that you purchase an adequate and appropriate amount of insurance coverage.

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Following are additional informational resources including: the NAIC Consumer Information Source, the NAIC Insure U for Small Business, the Maine Bureau of Insurance and the Maine Insurance Agents Association.

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If you have further questions about your property and liability insurance coverage please contact a licensed insurance agent or broker or your insurance company. They are the best resource for answering questions about the type of coverage that is right for your business. Thank you for participating in our online workshop. We would appreciate any feedback you may have about this workshop. To take a short survey, please click the survey link at the bottom of this slide.

Links Included in Presentation with Hyperlinks

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- Maine Insurance Agents Association
 - <http://www.iiaba.net/me/default?ContentPreference=ME&ActiveTab=STATE&ActiveState=ME>
- Maine Bureau of Insurance
 - <http://www.maine.gov/pfr/insurance/>

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- NAIC Consumer Information Source (CIS)
 - <https://eapps.naic.org/cis/>
- NAIC Insure U for Small Business
 - <http://www.insurance.insureuonline.org/smallbusiness/>
- Maine Bureau of Insurance
 - <http://www.maine.gov/pfr/insurance/>
- Maine Insurance Agents Association
 - <http://www.iiaba.net/me/default?ContentPreference=ME&ActiveTab=STATE&ActiveState=ME>