

Do You Have Enough Insurance?



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Can any business withstand the financial hit of a fire that results in a two-month shutdown of operations? What about a customer who suffers a heart attack after being hit by the operation's vehicle? Can it survive an employee who embezzles sizeable amounts from the business?

Obviously, man-made events can drastically affect the business where it hurts: its pocketbook. Natural disasters can teach every business owner an invaluable lesson. Years after Hurricane Katrina devastated New Orleans and the Gulf Coast, the courts are still filled with cases between insurance companies and property owners over whether damages resulted from Katrina's winds or its rising waters – damage covered by few insurance policies.

Selecting the right type of insurance for your business is only one factor every owner or manager must consider. Finding an insurance company willing to insure the business almost renders the question of cost irrelevant. How can you hope to find an insurance company, select the right types of insurance needed for your unique operation and, most importantly, afford those steadily increasing insurance expenses?

Managing risk

The first step in finding essential, available and affordable insurance protection involves managing the risks facing the business. The process of managing risk has three basic components:

- Evaluate the operation's exposure to risk
- Develop a plan to help prevent losses from occurring and maximizing those that do occur
- Purchase insurance to provide the funds needed to help restore the operation in the event of a loss

Before anything else, it is necessary to evaluate property, equipment and employee-related exposure to risk. Carefully review the various parts of the

business, looking for places where the operation is exposed to loss.

Areas that are vulnerable to physical harm include the shop building, equipment, vehicles and people. Obviously, every business has its own exposure to loss, depending on the nature of its operations. Perhaps, as one example, fire suppression devices have not been upgraded to reflect technological advances. Your equipment may have had some or all safety devices removed. Either scenario could cause injury to employees or visitors, resulting in serious financial loss.

Planning = savings

A loss prevention plan or program can help every business protect itself. Should a loss occur, despite precautions, the loss program offers strategies for preventing additional losses. Without such a plan, losses can leave the business vulnerable to failure and employees or customers exposed to injury.

A comprehensive plan can help the business recover quickly from any type of loss in a cost-effective and efficient way. That is important in today's highly competitive business environment, where closing the operation's doors can erode its customer base—and its competitive edge.

Managing risks creates a safer work environment, which aids in attracting and retaining good employees. Effective loss prevention can also enhance the quality of your services. By reducing the threat of third-party claims, it can also help the business avoid the embarrassment of negative publicity.

Basic insurance basics

Every business should think about its basic insurance needs. After all, insurance provides the funds needed to help recover in the event of a loss.

Basic business insurance coverage should consist of four fundamental types of insurance: workers' compensation; general liability; auto and property/casualty; and an added layer of protection over these, often called an umbrella policy.

Every business must have workers' compensation insurance to protect injured workers and the business from employee lawsuits. Whether obtained through the state or from a private insurance company, it is the law. A good accident prevention program or a more comprehensive plan for managing workers' compensation claims goes a long way toward keeping these costs manageable.

General liability is the most confusing and misunderstood type of insurance coverage. Overall, commercial general liability coverage insures a business against accidents and injury that might happen on its premises, as well as risk exposure related to its services.

The best strategy with general liability is to determine the amount of coverage needed. The old rule was that you should buy general liability insurance equal to the business's net worth. Unfortunately, that does not work anymore because people now sue for the amount of the policy—and the

owner's net worth.

Two strategies you might want to consider: The first, the so-called "empty pockets" approach, is to buy little or no insurance so as not to become a target of lawsuits. The other approach is to buy \$2 million to \$3 million of liability insurance—generally, all that is needed.

Much like workers' compensation, auto insurance is fairly straightforward. Even saving money is routine: simply increase the amount of the deductible. Good driving records for those allowed behind the wheel of the business's vehicles also helps.

When it comes to protecting the operation's property, most property insurance is written on an "all risks" basis as opposed to a "named peril" basis. The latter offers coverage for specific perils spelled out in the policy. If a loss occurs from a peril not named, then it is not covered.

For starters, make sure your operation is protected by an "all risks" policy. Then, go the extra step and carefully review the policy's exclusions. Many policies cover loss by fire; but what about such casualties as floods, hailstorms or explosions? Many businesses purchase coverage for all of these risks.

Whenever possible, "replacement cost" insurance should be purchased. This will replace the damaged property at today's prices regardless of the cost when you bought the equipment or property. It is also protection against inflation. Naturally, total replacements should not exceed the policy cap.

In addition to the four basic types of insurance, many insurance professionals recommend an umbrella policy, which protects you from payments in excess of your existing coverage, or for liabilities not covered under your other policies.

Many small businesses are protected with "package" insurance policies that cover the major property and liability exposures as well as loss of income. Generally, these packages, often called the business owners' policy (BOP), provide the small business owner more complete coverage at a lower price than separate policies for each type of insurance. Naturally, additional coverage for property, liability or perils or conditions otherwise excluded (e.g. flood protection) can be purchased as endorsements to a standard policy or as a separate, second policy called a difference-in-conditions policy.

Keeping costs manageable

When it comes to buying insurance, many professionals rediscover what it feels like to be a teenager seeking an automobile liability policy. While many insurers will not offer insurance within a growing number of industries, they are also cutting back the amount of primary general liability coverage they will issue and are raising rates sharply.

All insurance premiums are based on the risks involved. Safety is also paramount when it comes to qualifying as an insurable landscaping or

turfgrass business. Consider a few of the steps that can help qualify for lower insurance rates:

- Provide all employees with adequate protective equipment and demand they utilize them while on the job,
- Keep only a small amount of cash on hand
- Keep good records of inventory, accounts receivable, equipment purchases and the like. In fact, a second set of records kept off-site, such as with the operation's accountant, insurance agent or at home.
- Make sure employees have good driving records, and
- Think about raising the amount of your policies' deductible. How high to raise the deductible should be governed by how much the operation can afford to pay out of pocket.
- Consider using the services of a risk manager. These outside consultants can render advice about safety or environmental regulations that might have been overlooked.

Shopping for an economical pro

Although insurance is a heavily regulated industry, finding the right professional for your operation's insurance needs can be difficult. There are two kinds of insurance agents: those who represent only one insurance company and those who represent more than one insurance company.

Agents offering only the policies of one insurance company are called "captive agents," because the company they represent does not allow them to offer their customers competitive alternatives. On the other hand, agents offering the policies of more than one insurance company are "independent agents" or "brokers," and they can shop around for the best insurance values among a variety of competing companies.

The bottom line, however, is to determine the risks faced by your business, develop strategies to minimize those potential risks and find someone to share those risks. Doing so, at an affordable cost, is far easier with a plan in place.