

## 5.0 INSURANCE CONSIDERATIONS

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### 5.1 Introduction and Summary

Carrying several of the types of insurance indicated in the following paragraphs would be considered prudent for the average business.

### 5.2 Forms of Insurance

**5.2.1 Business Interruption** coverage provides financial compensation for the loss of income resulting from a forced stoppage of business activity due to a covered occurrence.

**5.2.2 Business Life Insurance or Key Man** insurance is normally purchased by a business on individual(s) considered critical to the business, in order to protect the business from the loss of skills, knowledge or services resulting from the untimely death of the individual(s). The premium is traditionally paid by the company, which owns the policy. Business Life Insurance can take the form of deferred compensation for a key employee, with a portion of the death benefit repaying the company's premiums and the balance going to the individual's Estate.

**5.2.3 Errors and Omissions** is a form of insurance that covers liability for mistakes, negligence or errors, as well as unintentional omissions, judgmental omissions or other factors. Such insurance does not cover fraudulent behavior or criminal acts. This type of insurance is often purchased by businesses engaged in buying and selling activities involving contracts with other individuals or businesses.

**5.2.4 Federal Deposit Insurance** is provided by the Federal Deposit Insurance Corporation (FDIC), a federal agency that guarantees (within limits) funds on deposit by member banks and the banks' depositors. In addition, the FDIC assists with banking regulation enforcement for monetary stability.

**5.2.5 Fidelity Bond Insurance** covers employees who handle money, are entrusted with negotiable securities or are responsible for valuable assets. Such bonded persons are required by the bonding insurance company to carry out their duties and responsibilities effectively and honestly. This is also called a **Surety Bond**.

**5.2.6 Floor Plan Insurance** is coverage for displayed merchandise (the display room floor). Usually, coverage is for the lender in the amount of a loan collateralized by the merchandise, e.g. coverage for automobiles in a dealer's showroom.

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**5.2.7 Group Insurance** is a type of coverage offered by insurance companies wherein the policy written covers all the people in the similar risk category, called a group. Thus an employer can purchase an insurance policy that covers all the employees employed by the firm (who are not part of another group defined by a labor agreement or other form of contract.) Group insurance commonly carried by employers includes healthcare, life, accidental disability and dental, which are becoming very common in the fringe benefit packages for many companies. It is often desirable for the company to require direct employees to cover a fraction of the premiums of a group policy.

**5.2.8 Hazard Insurance** covers a loss resulting from physical damage to property due to an occurrence such as fire, flood and wind storm.

**5.2.9 Liability Insurance** is issued in a fixed amount to cover the cost of monetary losses (damages) incurred by a second party for which an individual or business may be legally obligated, resulting from an act or failure to act. This type of insurance can be structured to cover legal costs associated with damage claims by the second party.

**5.2.10 Product Liability Insurance** reimburses a manufacturing company for financial obligations on the part of the manufacturer, which may arise from costs incurred by a customer as a result of their using or employing the manufacturer's product, net of a significant deductible,

**5.2.11 Reinsurance** is the sharing of risk among two or more insurance companies. Part of the primary insurance company's risk is assumed by back-up companies. Reinsurance allows an individual company to take on clients whose coverage needs are greater than the individual insurance company's capacity alone.

**5.2.12 Self-insurance** is a term describing a company's assuming the direct cost of part or all of a financial loss. In most small companies, this will be limited to the deductible portion of a loss covered by an insurance policy. It should be noted that the cost of an insurance premium varies inversely with the deductible amount as defined in the policy.

**5.2.13 Unemployment Insurance** is coverage for payment of monies to individuals who fit a precise definition of being unemployed.

**5.2.14 Workers' Compensation Insurance** is required and is paid for through mandatory state and federal payments pursuant to workers' compensation laws, designed to prevent an employee from suing his/her employer for work-related injuries. The insurance pays a salary to employees who may be injured on the job.