

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 some important insurance coverages you need to consider.

To determine your business insurance needs, you should review your potential risks. Your property may consist of the building, 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 held responsible for injuries of your employees.

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Types of Property & Liability Coverage



Workers' Compensation and 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 and employer's liability insurance policy.

A workers' compensation and employer's liability policy provides medical and partial loss of wages 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 which generally includes employer's liability coverage.

The premium is determined by the type of commercial business and the classification codes pertaining to each individual employed. Each code has a specific rate depending on the degree of risk of injury from the type of work. For example, the classification code for a clerical worker has a significantly lower rate than the classification code for a roofer, because the chances of frequency and severity of an injury from roofing work are higher than clerical work.

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**. For more information on workers' compensation insurance, call the Workers' Compensation Employer Customer Service Center at (850) 413-1609; or visit the Division's website at **www.MyFloridaCFO.com/Division/WC/**.

Commercial Auto Coverage

Commercial auto coverage is required for vehicles being operated for business-related purposes. The types of coverage and limits of liability requirements may be based on the gross vehicle weight and/or its usage. Some types of business such as interstate trucking may have federal requirements. Additional information can be obtained through the Department of Highway Safety and Motor Vehicles at: **www.flhsmv.gov/**.

Requirements and coverage 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 resulting from the operation of the 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, specific insurance may be required. You can visit their website for additional information at **www.MyFloridaLicense.com/dbpr/**.

Banks or Lending Institutions

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.

Often the lender requires to be listed as a "Loss Payee" on your insurance policy if the property is held as collateral to the loan. This protects their interest in any outstanding balance owed. You may be contractually obligated to carry certain types of insurance on leased equipment and buildings. Check your lease agreement for details and discuss your needs with an insurance agent.



Optional Coverage

Even if the law does not require your business to carry insurance, you may want to purchase it 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 multiple types of insurance coverages commonly needed by small businesses. These coverages typically include business property, liability, business income and extra expense incurred to continue operations when the property is damaged due to a covered cause of loss.

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.

Surety bonds guarantee that the bonded entity will perform a specific action or provide work of a certain quality. For example, if a bonded contractor fails to perform as agreed, the client can submit a claim to the insurer who underwrote the bond. Then if the surety pays, the contractor will be responsible for repaying the surety insurer.

Equipment breakdown insurance covers breakdown of equipment used in your business. This may include manufacturing and office machinery.

Business income or business interruption insurance pays for lost earnings if you must suspend operation of your business because of a covered 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 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 and property damage arising from their premises and operations. It can also provide coverage for liability due to advertising and personal injury liability. You may also want to consider adding an endorsement called products and completed operations.

Products-and-Completed-Operations coverage protects business organizations against liability arising out of an insured's products and operations, such as a service that is completed away from your location.

Professional Liability insurance pays for liability claims arising from wrongful practice by physicians, attorneys and 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 a business's real and personal property. Specialized coverage for intangible assets such as copyrights and patents can also be purchased.

There are three main types of property coverage:

- **Named-peril coverage** only covers damage arising from events specified in the policy. For example, a policy may only list fire, explosion, smoke and lightening damage as the perils from which a loss would be covered.
- **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.

To determine your business insurance needs, you should consult an experienced agent who specializes in commercial coverages.



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Purchasing Options



You have the option of purchasing insurance through a variety of channels, depending on the type and size of your business. Many admitted 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, whether they are purchased through admitted or surplus lines insurers. The following sections outline the types of insurance providers and explains how they are licensed and regulated.

Admitted Insurers

An admitted insurer is a company which has obtained a certificate of authority from the Florida Office of Insurance Regulation (FLOIR), to provide insurance products in Florida. Most business owners seek coverage through admitted insurers and licensed agents who represent them. These companies must use forms and rates approved by the FLOIR for most of the lines of business they offer.

Admitted insurers participate in the Florida Insurance Guaranty Association, which covers claims for policyholders when an admitted insurer becomes insolvent. Although many business-owners choose to use admitted insurers, other options may be available. The admitted insurers are also known as “authorized” insurers.

Alternatives to Admitted Insurers

Commercial Self-insurance Funds

With this type of plan, a group of business owners pool their resources to cover their losses. This is achieved through the mechanism of a commercial self-insurance fund. The financial responsibility for covering the claims is assumed by the fund and not by a traditional insurance company nor by the individual members themselves. The fund must have enough assets to guarantee the payment of claims, and all rates must be filed with the Florida Office of Insurance Regulation (FLOIR). A commercial self-insurance fund may provide Commercial Liability, Property and

Workers' Compensation insurance. Their rates and forms must be approved by the FLOIR. Commercial self-insurance funds for property and liability risks issue assessable policies. That is, if the fund does not have sufficient money to pay claims, the participating members are issued assessments, to cover shortfalls. Because these are assessable policies, the funds are not protected by the Florida Insurance Guaranty Association (FIGA). Thus, FIGA will not pay claims of a commercial self-insured fund that becomes insolvent. However, a self-insurance fund created to obtain workers compensation coverage for employees, must participate in the Florida Self-Insurers Guaranty Association. This entity guarantees that the injured workers of insolvent self-insurers continue to receive their benefits.

Joint Underwriting Associations

A Joint Underwriting Association (JUA) is an insurance mechanism formulated to cover individuals or businesses who are unable to obtain coverage in standard, private insurance market. They are designed to accommodate high-risk classes of business which the private insurers are unwilling or unable to insure. The coverage is underwritten by insurers who are authorized to operate in Florida. Profits and losses of the pool are distributed to the participating insurers.

JUAs are overseen by Florida Office of Insurance Regulation. Presently, there are three JUAs operating in Florida. The Florida Automobile Joint Underwriting Association for personal and commercial vehicles, Florida Workers Compensation Joint Underwriting Association for workers compensation coverage and the Florida Medical Malpractice Joint Malpractice Joint Underwriting Association for medical malpractice liability.

In 2002, two JUAs were combined to create the Citizens Property Insurance Corporation. The purpose of this entity is to provide property insurance coverage. It is a merged product of the Florida Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association, Citizens also offers wind-only policies, should you wish to obtain coverage for perils other than wind in the private market.

Risk Retention Groups

A Risk Retention Group (RRG) is a liability insurance company that is owned by its members. These are formed using a combination of state and federal laws under the auspices of the Federal Liability Risk Retention Act (LRRA). They are domiciled in one state but may conduct business in any other state by completing a registration process. Generally, RRGs are created to cover interstate risks such as interstate trucking. RRGs are not subject to the same financial requirements and oversight as the admitted insurers. Neither their rates nor policy forms must be approved by the Florida Office of Insurance Regulation.

RRGs do not participate in the Florida Insurance Guaranty Fund. In case of insolvency, the Florida Insurance Guaranty Fund does not pay their outstanding claim obligations.

Surplus Lines Insurers

Surplus lines insurance is an alternative means of obtaining coverage for those risks which the admitted carriers are unable or unwilling to underwrite. These may be unusual risks, or risks that have higher than normal susceptibility to losses. High-risk operations such as fire-work manufacturers, older homes, firearms retailers and armed security firms, often fail to obtain coverage from admitted insurers and turn to the surplus lines market for coverage.

These insurers are not required to use rates and forms approved by the Florida Office of Insurance Regulation (FLOIR). They are required to be registered with the FLOIR and obtain a "Letter of Eligibility". The most well-known surplus lines insurance mechanism is the Lloyds of London.

Surplus lines insurers do not have the protection of the Florida Guaranty Act. Therefore, the policyholders will not have their unpaid claims or unearned premium refunds paid out of an insolvent insurer's assets in contrast to the insolvent admitted carriers whose assets are liquidated and obligations managed by the Florida Insurance Guaranty Association.

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 Florida Office of Insurance Regulation. Purchasing groups must obtain coverage from an admitted insurer, a risk retention group or an eligible surplus lines insurer. Coverage through purchasing groups is not protected by the Florida Insurance Guaranty Association.

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 business 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 would most likely need a business-owners insurance policy.

Health Coverage Options

If you want health coverage, you may have to shop around for an individual health coverage until you qualify for a small-group policy. You can visit the federal Marketplace at www.healthcare.gov for options and find out if you qualify for premium assistance. If you are married, your spouse's employer may offer health coverage, and you may be insurable under his or her employer's plan. You may be able to take advantage of group insurance through your membership in associations or professional organizations. Always verify the company is licensed in Florida before signing up.

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 Demotech. 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** and click on the "Company Search" option under the Quick Links section.



Insurance Fraud Costs Us All



The Coalition Against Insurance Fraud reports that insurance fraud steals at least $308.6 Billion annually from the American consumers. Fraud can occur in all lines of insurance and often goes undetected and unreported. Ultimately the economic cost of fraud is borne by policyholders in the form of higher premiums for life, health, automobile, property and all other lines of insurance.

Common examples of insurance fraud 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 collude to bilk insurance money through phony slip and fall 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, when in fact 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.

Phony Insurance – A discount plan being sold as a health insurance policy.

Sliding – An extra coverage or product added to the policy under the guise that it is required by law in conjunction with the purchase of insurance, such as addition of a motor club membership.

Stolen Premiums – An agent issues a false certificate of insurance and pockets the premiums paid.

Exaggeration of Claim Amounts – An automobile repair facility or a contractor inflating the scope of repairs needed to bring the damaged vehicle or property to its pre-loss condition.

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**.

Notes

Glossary



Agent – An agent is a person who sells and services insurance policies. Agents must be licensed by the Department of Financial Services to sell insurance in Florida.

Authorized Insurer – An authorized insurer is an insurance company that has a Certificate of Authority from the Florida Office of Insurance Regulation to operate in Florida. The authorized insurers are sometimes called "admitted" insurers.

Commercial Liability – Commercial liability is an insurance coverage that protects businesses from claims of bodily or personal injury that they are responsible for causing. Some of these policies include coverage for the cost of defense against such allegations.

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 – A non-profit corporation of licensed property and casualty direct insurance writers that services pending claims for policyholders if a member insurer becomes insolvent.

Foreign Insurer – A foreign insurer is an insurance company formed under the laws of a state other than Florida, but which is authorized to offer 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 – 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 or entity covered under an insurance policy.

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

Liability Limits – The liability limit is the maximum amount an 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.

Managing General Agent – An agent or agency that is allowed to by an insurance company to bind coverage, issue policies, arrange for purchase of reinsurance and other such functions. These entities are delegated a much broader degree of authority. These entities must obtain a specific type of appointment from the Florida Department of Financial Services.

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 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 an organization licensed by the Florida 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. However, these entities are allowed to write business in Florida under a "letter of eligibility" issued by the Florida Office of Insurance Regulation. These entities are often known as "surplus lines" or "non-admitted" insurers.



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