PARTICIPANT GUIDE

FDIC Money Smart

Financial Education Curriculum

SBA

U.S. Small Business Administration



Insurance for a Small Business

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Table of Contents

Welcome 3
Objectives 3
What Do You Know? Insurance for a Small Business 4
Pre-Test 5
Insurance for Your Business 7
Discussion Point #1: Work-specific Insurance 8
Required Insurance for Employers 8
Other Types of Insurance to Consider 9
Discussion Point #2: Required Insurance 10
Lender or Investor-required Insurance 10
Discussion Point #3: "Key Person" Policy 11
Surety Bonds 11
Reasons for Insurance 12
Selecting Insurance 13
Six Key Points to Remember 14
For Further Information 15
Post-Test 16
Evaluation Form 18

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Welcome

Welcome to the *Insurance for a Small Business* training. By taking this training, you are taking an important step to building a better business. This guide accompanies the *Insurance for a Small Business PowerPoint Presentation*.

Objectives

After completing this module, you will be able to:

- Identify the types of insurance which are required by a small business.
- Identify other types of insurance that a small business should consider.
- Explain why insurance is important for a small business.

What Do You Know?
Insurance for a Small Business

Instructor: _____ Date: _____

This form will allow you and your instructors to find out what you know about insurance both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before Training				**After** Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I can identify the types of insurance which are required by a small business.	1	2	3	4	1	2	3	4
2. I can identify other types of insurance that a small business should consider.	1	2	3	4	1	2	3	4
3. I can explain why insurance is important for a small business.	1	2	3	4	1	2	3	4

Pre-Test

Test your knowledge of insurance before you start the training.

1. **Why is it important to have insurance? Select all that apply.**
   a. Helps to manage the risks involved in running a business.
   b. Some insurance is required by law or regulation.
   c. Can protect a business from loss of income.
   d. It is a tool for planning to reach new markets.

2. **Liability laws _____. For this reason it is important to _____.**
   a. Can be difficult to understand … consider purchasing surety bonds
   b. Hardly ever change … consider purchasing surety bonds
   c. Can change … stay informed
   d. Can change … purchase flood insurance

3. **Traditional homeowner's insurance may *not* cover damage caused by a home-based business.**
   a. True
   b. False

4. **When selecting insurance which of the following questions is important to consider?**
   a. What's *not* covered by the insurance?
   b. Does the insurance provide for growth of the business?
   c. Does the risk of loss justify the cost of the insurance?
   d. Both a. and c.
   e. All three: a., b., and c.

5. **When selecting an insurance company and agent which of the following is important to consider?**
   a. Size of the agency
   b. Reviews in magazines, journals, and blogs
   c. Time of year (1st quarter vs. 3rd quarter)
   d. Both b. and c.
   e. Both a. and b.

6. **Typically, complaints about insurance (e.g., claim was not paid) are filed with which of the following?**
   a. State insurance department or commissioner
   b. Internal Revenue Service (IRS)
   c. Federal Department of Insurance Regulation (FDIR)
   d. Federal Deposit Insurance Corporation (FDIC)

7. **Unemployment insurance is optional for businesses with fewer than 10 employees.**
   a. True
   b. False

8. The maximum amount your insurer will pay if you have a valid policy claim is called the _____.

a. Term
b. Deductible
c. Coverage
d. Cash flow

Insurance for Your Business

State and Local Requirements

An insurance guide is often available through your state government's web site. You should also contact your state, county, and city with questions regarding obligations you may have to purchase insurance. States may provide guidelines on insurance company program requirements for small businesses (usually defined as those with 2 to 50 employees). State guidelines may also describe requirements for a *small business* itself—to provide employees with the opportunity to participate in health insurance programs, for example.

> Prior to contacting state, county, and city officials regarding insurance requirements, you may want to make a list of questions. To help compile a list of questions, do some investigative work. Consider searching the internet for "small businesses and insurance requirements" in your area. Jot down questions as they come to mind. Later go back to review the list of questions and organize them by priority.

Many states also require autos to be insured for liability at a minimum level whether the autos are used for business or personal use. You may be required to provide additional coverage and insurance for employees who use your personal or company vehicle for business purposes.

Federal laws may be reflected in state laws, but it is advisable to review laws at both the federal and state level. You may also want to contact federal agencies and state regulatory divisions that apply specifically to your line of business.

Liability Insurance

People you do business with or otherwise interact with could sue you for what you or your employees did or failed to do that caused them harm, injury, or a loss.

Business owners providing services should consider having **professional liability insurance** (also known as errors and omissions insurance). This type of liability coverage will generally protect your business if sued for malpractice, errors, and negligence when providing services to your customers. Depending on your profession, you may be required by your state government to carry such a policy. The issuance of certain licenses, business certificates, and registrations require a business to carry work-specific insurance. Check with your state government for these requirements.

Check with your insurance agent to help decide if you should also purchase a separate **general liability policy** to fully protect the business in the event of a claim.

In addition, while your state may not make it mandatory to provide liability coverage for directors or officers of a corporation, lawsuits could be filed in response to the actions (or inactions) of a director or officer. This insurance coverage is often referred to as a D&O (directors and officers) policy.

Your liability insurance needs change. For this reason, it is important to stay informed of changes or contact your agent to verify that you have the minimum, or greater, coverage needed to not only meet any legal requirements but also protect your business and personal assets in the event of an incident or circumstance that results in a claim.

Discussion Point #1: Work-specific Insurance

Insurance can be work-specific due to licensing requirements. Be sure to check federal, state, and local laws for your business. Here are a few examples:

- Doctors—malpractice insurance
- Certified Public Accountants—liability for specific work they conduct on behalf of others and for errors
- Lawyers—malpractice insurance
- Construction companies—contractors liability insurance
- Engineers and Draftsman—errors and omissions insurance
- Lenders and Underwriters—errors and omission insurance
- Freight carriers—Automotive and liability insurance, depending on the materials being handled

Can you list other work-specific insurance?
_____
_____
_____

Required Insurance for Employers

Businesses with employees are required by law to pay for certain types of insurance: workers' compensation insurance, unemployment insurance, and, depending on where the business is located, disability insurance.

Worker's Compensation Insurance

Nearly every state has laws regarding worker's compensation insurance. This insurance protects employees against lost income resulting from work-related illnesses or injuries. These insurance laws address amounts to be paid in, rehabilitation, retraining, beneficiaries, and medical payout limits.

Some states allow a business owner to purchase insurance through a commercial carrier or through the state Workers' Compensation Insurance program. Check on your state government's website to learn the requirements in your state and what options may be available to you to meet the requirements. For example, some state-facilitated programs may provide specific plans for sole proprietorships.

Unemployment Insurance

Unemployment insurance provides benefits to employees who become unemployed through no fault of their own. They must be willing and able to work and they must be actively searching for employment.

Federal laws regulate unemployment insurance, but state agencies administer the programs. Employers remit tax payments to both federal and state funds. The federal tax amount is a percentage of the income earned by the employee, up to a specified amount for the calendar year. Each state provides calculations for payroll taxes. As unemployment claims rise, the percentage of income to be remitted may also climb.

Businesses with employees are required to pay these unemployment insurance taxes under certain conditions. If your business is required to pay these taxes, you must register your business with your state's workforce agency. Information on unemployment insurance can be obtained directly from your state and the U.S. Department of Labor.

Do not take the payment of this payroll tax lightly. Some employers fail to pay the required tax when cash flow is tight and fall into trouble. Penalties and interest can be high and repeated failure to pay may result in a filing of a lien. In some states, continued nonpayment may be considered a misdemeanor or felony.

Disability Insurance

Some states require employers to provide partial wage replacement insurance coverage to their eligible employees for non-work related sickness or injury. Currently, if your employees are located in California, Hawaii, New Jersey, New York, Puerto Rico, or Rhode Island, you are likely required to purchase disability insurance:

Other Types of Insurance to Consider

Property Insurance

Property insurance for your business can replace or repair your building and its contents (such as equipment and inventory) in the event of fire, storm damage, and other types of occurrences, as listed in the policy. The definition of "property" can be broad and even include business interruption.

Even if you rent or lease a space, you may still obtain insurance on the contents of the building. Inventory coverage is based on the average inventory in the warehouse on a monthly basis. Depending on the policy, this insurance covers goods owned and in your possession, on consignment, or sold and not yet delivered. Confirm with insurance vendors on the coverage in place for stock ordered but not delivered to your location. Shipping terms may also determine responsibility in the event of loss or damage.

Property insurance policies come in two basic forms:

- All-risk policies covering a wide-range of incidents and perils except those noted in the policy;
- Peril-specific policies that cover losses from only those perils listed in the policy. Examples of peril-specific policies include flood, earthquake, and business interruption insurance.

All-risk policies generally cover risks faced by the average small business, while peril-specific policies are usually purchased when there is high risk of peril in a certain area. Certain risks may require additional costs to upgrade a policy, such as the risk from heavy snow falls, which may not be covered in a basic policy. Consult your insurance agent or broker about the type of business property insurance best suited for your business.

Flood and earthquake insurance should be considered even when it's not required, especially in areas prone to these types of disasters. Even when an earthquake does not damage a building, it can create indirect damage by causing a sprinkler system to flood a building, for example.

A property in a *100-year floodplain* would be covered by water in the event of a *100-year flood*. Every year, there is a 1 percent chance of this type of flood.

Other Insurance

Property insurance may cover the contents of the building, but can you or your business survive until it is back up and running? Loss-of-business income policies will replace some of the business's income if business operations are interrupted due to a covered loss, as well as certain other losses. Some policies begin paying after 30 days of the loss and others 60 days. It is important to know the policy details so you are not surprised at a time you can least afford it. Loss-of-income protection for a business can be added to a policy, but, for example, when a business is closed due to a flood and the policy does not contain flood coverage, the policy may not pay for loss of income in the event of a flood. Also, losses must be proven to be paid. Be sure to keep accurate and organized records of income and expenses.

Discussion Point #2: Required Insurance

After the previous discussion of required insurance, please discuss the insurance requirements of your business.

Is your business required to carry any of these types of insurance?
_____
_____
_____

Lender or Investor-required Insurance

Financing your business creates risk for a lender or investor. To protect the bank or investor, certain insurance obligations may be spelled out in your financing agreement.

A loan may require providing the lender proof of adequate insurance coverage on a building and other property necessary for continuing operations. The requirement may include a provision for the interruption of business by providing for funds during the time of reconstruction or repairs. A bank may also require that it be listed as the "loss payee" on the policy to protect the bank's interests in the event of a claim.

Many banks and government loan programs require a "key person" policy (also known as a "key man" policy). This policy provides funds for business continuity when a person who is vital to continued operations dies or becomes ill. A policy may supply funds for a transition period in the event of the death or illness of the covered person or if he/she is called to active duty status in the military. Another option the lender may take is to stipulate that the borrower purchase a

standard life insurance policy that names the bank as the primary beneficiary or a third party beneficiary. The amount of insurance coverage must be no less than the original balance of the loan.

Discussion Point #3: "Key Person" Policy

The purpose of this section is to discuss your "key person" policy.

Do you have a list of the names of those who could run your business or that you would trust to do so, if you were ill for an extended period of time?
_____ _____ _____

Surety Bonds

A surety bond is a form of guarantee for contract completion. An obligee (or business) seeks a principal (or contractor) to fulfill a contract. But the business who is hiring the contractor wants to be assured that the project will be completed as required. To insure the business a successful delivery of the contract, the contractor buys a surety bond so the surety company becomes responsible for the contractor's obligations. If the contractor defaults, the surety company can either find someone else to fulfill the contract or compensate the financial losses of the obligee. In other words, the surety assures a successful contract because it assumes all financial obligations if the contractor does not deliver. Most public construction contracts and some private projects require one, so if you're a construction contractor bidding on a government project, there is a good chance that you will need a surety bond.

There are three types of surety bonds:

- *Bid Bond*: Guarantees that the bidder on a contract will enter into the contract and furnish the required payment and performance bonds if awarded the contract.
- *Payment Bond*: Guarantees that suppliers and subcontractors will be paid for work performed under the contract.
- *Performance Bond*: Guarantees that the contractor will perform the contract in accordance with its terms and conditions.

Some types of businesses that are required to purchase bonds to secure licensing include car dealers, mortgage brokers, loan officers, professionals in healthcare, professionals handling or administering an estate, and construction contractors.

Reasons for Insurance

Insurance manages the impact of risks on life and business. Without insurance, we would be left to bear the brunt of the costs of casualties. Whether your cash deposits in the bank are protected with FDIC insurance or you are protecting real, personal, or business property from losses, insurance can replace or repair the damages. Insurance is a precautionary measure that diminishes the adverse effects an event can have on you, your business, and your family.

Loss-of-income insurance could mean the difference between success and failure in the event of an accidental injury or illness. This income assists in making payments during those difficult times.

Purchasing required insurance and paying the premiums will keep your business running. Failure to comply with federal, state, county, and local regulations that require you to purchase certain types of insurance can have repercussions that damage the reputation of the owner and the business.

Disasters, system crashes, and electronic downtime will happen. Shielding your business from these effects with insurance, a plan for business continuity, and reliable system providers are constructive steps to managing your assets. Cash flow returns to normal in an expedited manner and losses that could have closed the doors are minimized. Business owners desire to have the best products, employees, and market reputation. However, faulty work, inadequate, or hazardous products, damages, and incidents do happen. Liability insurance minimizes these effects on the business, assists in settlements, and allows the business to continue.

Insurance and benefit packages are incentives to help retain employees. Employees may think twice about leaving your business for the competition, if they particularly appreciate the benefits your business offers. Unemployment and worker's compensation insurances afford workers support in less favorable times or when injured at work.

Location-related Considerations

A couple of options are available to a home-based business owner. Many homeowners' policies allow add-on coverage (a rider, for example) for this type of business and will include liability protection from injury to a customer or employee on the premises. But, a traditional homeowner's or renter's insurance policy (without a rider) will not cover small business activity. For example, if your home were to catch fire due to a short circuit in your business equipment, your homeowner's insurance probably would not cover the damage, unless you had purchased small business coverage.

The other alternative is a separate business policy. This policy is beneficial to those with more than one location for business or for businesses with product manufacturing in a different location. A product or property belonging to others, which is being repaired or worked on in the home, should be covered from damages such as fire, water, and theft.

Retailer liability insurance is similar to insurance for a home-based business, but with higher degrees of coverage. Protection from theft of inventory, credit card theft, or loss of receipts and coverage for a personal vehicle used in connection with deliveries may be needed for a retailer. Separate locations could be placed under one policy, but confirm with your agent.

Commercial insurance builds on retailer insurance. Many of the same coverage types apply, but added equipment, fixtures, customer traffic, multiple locations, and additional employees may require greater coverage. Construction

liability for past projects or products, medical liability, landlord, and numerous other profession-related protections can be included in a commercial policy. A vendor, who displays, demonstrates, or sells products from a kiosk—at festivals or gatherings, for example—may purchase policies for full time coverage or for each event. The nature of these policies is to cover liability, bodily injury, and personal injury and for advertising protection.

Selecting Insurance

Policy

Deciding to insure is part of managing your risks. If the replacement cost or losses in the event of a possible incident that could give rise to an insurance claim are significant and you would not be able to cover the costs or losses in order to continue doing business, it is a rational decision to purchase coverage. Purchasing insurance can be a good idea if the potential losses you are insuring against would be significant to you, even if you think it is unlikely that you will have a need to file an insurance claim.

Factors that affect your premium are the amount of the deductible, the coverage limits, and your credit. For now, let's focus on the first two factors.

- **Deductibles** are out of pocket expenses paid with each filed claim. The greater amount you are expected to pay, the lower your premium should be.
- Claims will have a **coverage limit** on the amount that will be paid. For instance, you may have $300,000 liability coverage per incident. Should a claim be filed, the insurer will pay up to a maximum of $300,000. Be certain the amounts are within reason for your type of business and that you are not buying coverage above or beneath your needs.

Your policy should allow for growth of the business. If you currently have one location, but plan for another, your policy should allow for this expansion. If the policy is new or recently renewed and changes are expected, discuss possible related costs with the agent. Certain policies may require time and cost to expand coverage. Ask about the impacts of your growth expectations, before you purchase a policy.

Company and Agent

Since insurance is protection, you want to know that you are getting the best. Imagine you have made a list of your risks, your liabilities, and what you can pay. Now you are ready to shop for the best policy and agent. Consumer and business reviews in magazines, journals, and blogs on the internet are a start. Reliable and unbiased sources provide the best information, so investigate the source or writer. Learn to network with other professionals in your field. Contact your state's insurance commissioner to verify the background of the agency/company.

Weighing a larger company versus a smaller one may come down to a preference, if both insurers are reputable and solid. Some individuals prefer an agent they can visit. Others may feel a larger company is more accessible by having call centers available during extended hours. Be accurate when making comparisons of quotes. Creating a spreadsheet can help to compare premiums, coverage, and deductibles. Across the top, list each item or event you expect to cover with the amount of coverage you need. On the left side, list the names of the companies providing quotes. For each company, move across the list and place a check under the coverage included in their quote. If all are equal, then which one has the best pricing? Know what *isn't* covered before purchasing the policy. Uncovered events represent risks you are willing to take.

What to Do After the Purchase

Your policies should be kept in a safe, but accessible place. You should know exactly where to find them in the event of a claim or for review. Keeping all policies together in a paper file or scanned to an electronic file saves time.

Whether you use a day planner, card file, or electronic files keep emergency phone numbers or claim contact information close at hand. Let employees know where to find this information. If using electronic files, consider a paper copy too. If the system is down, electronic files will be inaccessible. Train staff on the steps to take and who to call. All this information should be added to your business continuity or disaster recovery plan. Meet with your agent and review your policies periodically. Add an annual reminder to your calendar.

It is a great feeling to pay off a debt. However, we often forget about the life insurance policies that list the bank as the third party beneficiary. The beneficiary cannot be changed until a bank officer completes the notarized release form provided by the insurance company. Obtain this release as soon as possible after the loan payoff. Waiting longer than a few months from the debt payoff could prolong obtaining the signature because the loan file may be sent to an offsite storage and need to be ordered back in. Failure to obtain the release could cause added grief to a surviving spouse or beneficiary.

As you recall, we spoke of credit being a determining factor in determining the amount of an insurance premium. Paying premiums promptly also helps to keep premiums lower.

When cancelling a policy, don't forget about the amount you will be credited or refunded. You may be upgrading to a new policy from the same company. A credit from the old policy may be able to be applied to the first premium of the new policy. Otherwise, speak with your insurance representative about a refund check.

Finally, if you have a complaint, for example if a claim was not paid, you may have to file with your state insurance department or state commissioner (in some states). Every state is different, with its own process. The state will then investigate your complaint. In some cases the process can be quite lengthy, sometimes taking several months.

Six Key Points to Remember

1. Check federal, state, county and local laws for insurance requirements
2. Paying Unemployment Insurance and Worker's Compensation premiums on time will keep your business reputation intact and help you avoid costly penalties
3. Professional licensing may require additional insurance or surety bonds
4. Lenders and investors often require you to obtain certain types of insurance
5. Insurance:
   - Minimizes the impact risks can have on your ability to continue operations
   - Impacts continued financing
   - Helps retain employees
   - Provides protection from liability claims
6. Your location, facilities, autos and type of business operations all help determine your insurance needs

For Further Information

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov

The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

The FDIC encourages bank lending to creditworthy small businesses. The FDIC also encourages small businesses that may have an inquiry or concern about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or www.fdic.gov/smallbusiness. Another FDIC web site, www.fdic.gov/buying/goods, provides resources to assist small businesses that may want to do business with the FDIC.

U.S. Small Business Administration (SBA)

www.sba.gov (Find Tools and Learning Center sections)

SBA Answer Desk: 1-800-827-5722

The U.S. Small Business Administration (SBA) web site provides resources, answers to frequently asked questions and other significant information for small business owners.

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the federal government's one-stop web site that provides financial education resources from more than 20 federal agencies.

Post-Test

Now that you've gone through the training, check what you've learned.

1. **Which of the following is *not* a type of insurance?**
   a. Liability
   b. Surety bond
   c. Unemployment
   d. Loss payee

2. **Some licenses or permits may require specifically the purchase of what type of insurance?**
   a. Surety bond
   b. Loss payee
   c. Unemployment
   d. Property

3. **A "bid bond" may be required to submit a bid to the government.**
   a. True
   b. False

4. **Which of the following are reasons for having insurance? Select all that apply.**
   a. Manage the risks involved in business
   b. Protection of assets – cash and property
   c. Protection from loss-of-income
   d. Protection from aggressive competitors
   e. Legal and regulatory requirements

5. **Which of the following is a "location-related" consideration when purchasing insurance?**
   a. Business sells products from a kiosk
   b. Business is home-based
   c. Business is retail shop
   d. Both b. and c.
   e. All three: a., b., and c.

6. **Which of the following might be important to remember to do when making the final payment of a loan?**
   a. Remove the bank as a third party beneficiary from your life insurance
   b. Contact the state insurance department or commissioner
   c. Apply for a premium refund if you have liability insurance
   d. Purchase key person insurance

7. **Typical homeowner's insurance will cover damage caused by a home-based business.**
   a. True
   b. False

8. The amount that must be paid by the insured before insurance pays the remainder of a claim is called a _____.

a. Term
b. Policy
c. Coverage limit
d. Deductible

9. Which of the following should be done *after* purchasing insurance? Select all that apply.

a. Keep emergency phone numbers readily accessible
b. Maintain insurance-related procedures in a business continuity plan
c. For policy cancellations, get credited or get a refund
d. Meet with an insurance agent periodically to review policies

Evaluation Form

Your feedback is important. Please fill out this evaluation of the *Insurance for Small Business* training.

Training Rating

1. Overall, I felt the module was (check one):
   - [ ] Excellent
   - [ ] Very Good
   - [ ] Good
   - [ ] Fair
   - [ ] Poor

Please indicate the degree to which you agree by circling a number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.

	None				Advanced
9. My knowledge/skill level of the subject matter **before taking the training**.	1	2	3	4	5
10. My knowledge/skill level of the subject matter **upon completion of the training**.	1	2	3	4	5

Instructor Rating

11. Instructor Name:

Please use the response scale to rate your instructor by circling a number.

	Poor	Fair	Good	Very Good	Excellent
12. Made the subject understandable.	1	2	3	4	5
13. Encouraged questions.	1	2	3	4	5
14. Provided technical knowledge.	1	2	3	4	5

15. What was the most useful part of the training?

_____

_____

_____

16. What was the least useful part of the training and how could it be improved?

_____

_____

_____