

PROTECTING THE MACHINE THAT PRINTS YOUR MONEY

How to Properly Insure Your Business and Protect Your Livelihood

By: Todd W. Balderson



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About Todd Balderson



Introduction

My Name is Todd Balderson, and I have been helping business owners just like you protect their businesses (and subsequently their families) for over 2 decades.

Here are a few alarming statistics¹:

- An estimated 75 percent of businesses in the United States are underinsured by 40 percent or more. (Source: Marshall & Swift/Boeckh)
- 40 percent of businesses never reopen after a disaster. (Source: SCORE)

Just like you, I am passionate about being a small business owner. I enjoy the freedoms it has allowed me and my family.

I got into the insurance business to help people recover from the events in their life that they had no control over, yet could cost them their business if not properly protected. Early on, I learned that insurance is an amazing tool that can provide a business owner with the money to recover from losses and minimize disruption to business and daily life.

I have been on a mission for the past two decades to help educate and empower business owners by sharing how the right insurance protection can help them live a less stressful life as a business owner by transferring the “worry” to the insurance company.

So many business owners pour their life savings into getting their business started with the goal of taking care of their families. In the end, these same business owners often fail to protect themselves and their families along the way, putting all of their life savings and hard work at risk. Wouldn't it make sense to transfer some - or all - of the risk to someone else for a small monthly tax deductible cost?

I am passionate about offering financial guidance to entrepreneurs and business owners so they are free to pursue growing their business, while being financially protected through the power of insurance.

I hope that you will find this guide helpful and most of all, I hope you take the time to assess your level of protection. As an insurance expert, I can certainly help you if you need someone to review your coverage.

I wish you all the success in the world. You deserve it! (Just make sure you protect it!)

1. Source: <https://www.entrepreneur.com/article/321029>

Chapter 01

Protecting The Machine that Prints Your Money

Insurance is often one of those things that entrepreneurs think of last; almost as if it's a luxury and not a necessity.

Business owners often take out large loans, put their homes on the line, or tie up other assets that could be lost to lien holders to buy equipment or start a business, and don't think twice until things start to take a turn for the worse. That's no way to live while working hard to grow your business. We can not use the full potential of our minds and keep a positive mindset to be creative and move forward if we are thinking about the fear of the "what if's". What would you say if I told you that we can remove the fears that come with "what if's," would you be interested in learning more?

What if you saw insurance as protecting the machine that prints your money? Now, you are probably a bit more interested in hearing what I have to say.

Think about it - we buy warranties and insurance for things like cars or appliances to ensure that we don't incur a "loss". That loss is nothing when compared to losing your business and the income and freedom it provides for you and your family.

As a business owner, your business is likely your most valuable asset and it's success is very likely tied to the lifestyle you will be able to enjoy as well as how well you retire. Perhaps I have your attention now? :-)

I know you are busy, so I made this guide brief. I am going to share with you some of the more common types of insurance that can protect you, your business, and your family.

One thing I often hear is that "now is not a good time" or "I will do it later". I want to challenge you with two realities.

Reality #1 - *You will actually feel better and be less stressed once you know you are protected by the right type of insurance. Why? Subconsciously, people often know when they are underinsured. It eats at them. When they hear stories of business losses or business owners dying too soon, a little gut check goes off on the inside. That little voice inside says, "yes, that could have been you... you know you are not prepared for something like that."*

Chances are you know someone or have heard of someone that this has happened to. I remember about 20 years ago this happened to one of my favorite places to eat. They had been around for a long time; they had great food and were always busy, and even did a good amount of catering. One fateful day when a bad snow day hit, everything changed. The roof of their restaurant building collapsed from the weight of the snow. The owners of this restaurant happened to also own the building and had no insurance on the building, nor did they have the

money to rebuild or replace the roofing system. Just like that, this family was out of business and heading towards possible bankruptcy. The business never reopened and the building sat vacant for years before it was purchased by another owner. This family did not protect the machine that was printing their money. In fact, they ended up having to start over and find new employment (as did all of those they had employed). How would a crisis like this impact your family?

Reality #2 - *Sometimes "later" never comes.* For the business owner that dies without insurance, their business is often shut down, leaving their family confused, hurt, and financially challenged while grieving the loss of their loved one. In many cases, they will assume that you did the right thing and had protection for them, which will add to their confusion... but they can't stop and grieve too long because now they have to figure out their new normal. They now have to figure out how to fend for themselves. They may have to embark on a new job or career journey. Perhaps they will have to deal with your creditors or angry customers; maybe even some public backlash if many of your customers are left hanging in the wind. That's not the legacy you want to leave.

The best time to protect your family is now; don't wait until tomorrow because it is not guaranteed.

There are two types of insurance products that I always advise business owners to have. The first protects your family against the loss of your income (life insurance). The second protects you and your family from a loss of the business income (business insurance). I will go into detail on each of these throughout this guide.

It has been said that we find the money for what we find important. My hope is that you will realize how important insurance is to you, your business, and your family. More than that, I hope you realize that it is important to make sure that you are protected sooner rather than later.

Chapter 02

Types of Business Insurance Coverage

In this section, I will discuss the various types of insurance available to business owners. My goal is not to overwhelm you so please know that chances are you don't need every one of these types of coverage. Additionally, as a professional insurance agent, I am able to put together packages to make purchasing multiple lines of insurance more cost effective.

General Liability Insurance

General liability insurance is business insurance that provides general protection for your company or professional practice against liability claims from third parties. A general liability policy covers the costs to defend/settle claims against your business in a number of areas, including:

- **Bodily Injury:** Commercial liability covers the cost of medical expenses, loss of services, and restitution (in the event of a death) for physical injuries to others that are the fault of your business.
- **Property Damage:** If you or an employee of your business causes damage to someone else's property, the policy may compensate up to the value of the damaged property as well as loss of use.
- **Product/Service Use Injury:** If others are injured as a result of your company's completed products/services, general liability would compensate for damages as well as legal bills (up to the limits of the policy).
- **Personal Injury:** The majority of commercial liability policies provide coverage for when you are accused of slander, libel, false arrest, malicious prosecution, wrongful eviction, advertising injury, and most other types of personal injury.
- **Contractual Liability:** If you enter into a contract with another party (such as a commercial property lease), the policy covers the liability you assume as a result of the contract.

It is important to note that general liability insurance does not replace certain specialty policies, such as errors and omission insurance and several others which I will discuss later in this guide.

I highly recommend that every business have general liability insurance regardless of whether you own your building, have employees, or work out of your home. However, the following categories have a greater need for this type of insurance:

- Business owners with a large amount of personal assets at risk.
- Business owners that are required to carry general liability insurance by their clients (or investors) as a condition of doing business.
- Business owners that are required to carry commercial liability insurance in order to gain membership into a trade group.
- Businesses that operate in industries with a risk of lawsuits.

If you own a commercial property, the majority of which is leased to other business owners, you will also need lessors risk insurance to protect you from liability arising from the activities of your tenants. I will discuss lessor risk insurance in the next section.

Lastly, please know that general liability insurance does not cover your business equipment or vehicles. I will also discuss the types of insurance required to ensure that your equipment and vehicles are protected.

Lessors Risk Insurance

A lessor's risk policy is not to be confused with the general liability policy you have on your commercial property. It is for liability that results specifically from the lessee's business activities. Some examples include:

- Damage/theft/loss to the lessee's contents or property located within the building
- Injuries sustained by a lessee or his/her employees inside lessor's building
- Injuries to the lessee's customers during the course of business
- Loss of the lessee's business income by a covered loss

To qualify for a lessor's risk policy, the property owner typically needs to have no higher than a 25% vacancy in the building. In other words, 75% of your square footage should be leased to third party clients. The policy premium will depend on several factors; including:

- Overall square footage of the building
- Age of the building and materials used in its construction
- Type(s) of businesses your lessees are involved in
- Number of employees your lessees have

Some carriers will only insure up to a maximum of 30,000 square feet and certain older buildings or buildings in higher risk areas may be deemed uninsurable.

Inland Marine Insurance (Business Equipment Protection)

Inland marine insurance protects businesses with off-premises exposure and/or those that need similar special protections.

Any business with products or equipment that is frequently transported to off-premises locations needs the specialized protection that an inland marine insurance policy provides. A prime example is a construction company that keeps their tools, equipment, and supplies at the building site. Then after the project is over, the tools and equipment are moved to the next site. However, while the job is ongoing and when in transport to the next job, these valuable items are at risk.

Here are some of the more common protections provided by an inland marine insurance policy:

- Contractor Tools and Equipment
- Transported Goods
- Buildings Partially Constructed
- Mobile Computer Equipment
- Mobile Communications Equipment
- Advertising Signs
- Installer's Equipment
- Traveling Salesperson's Samples
- Valuable Artwork for Exhibits
- Cameras and other Photographer Equipment
- Catering Equipment
- Other Types of Mobile Merchant Property

An inland marine policy can protect your business from a wide range of perils and losses, including:

- Theft
- Vandalism
- Fire
- Lightning
- Floods
- Earthquakes
- Landslides
- Collisions
- Vehicle Rollovers
- Train Derailments
- Bridge Collapses

Your business equipment is among your most valuable assets. If the items essential to your business operations are frequently mobile and away from your premises, you need the special protection only an inland marine policy can give you.

Workers Compensation Insurance

Worker's Compensation coverage provides insurance to employees who are injured on the job. This type of insurance provides medical benefits to those who are injured while working as well as wage replacement (usually about two thirds of the regular wages of the employee) and death benefits to surviving spouses and dependents. In exchange for these benefits, the employee gives up his rights to sue his employer for the incident. As a business owner, it is very important to have worker's compensation insurance because it protects you and your company from legal complications. State laws will vary, but all states require you to have workers compensation insurance if you have W2 employees. Penalties for non-compliance can be very stiff. For example, in my home state of Maryland, failure to comply with this requirement is a misdemeanor punishable with fines of up to \$5,000 and up to one year in prison.

Incidents covered by workers compensation insurance include:

- On-the-job accidents/injuries (whether they occur on or off premises)
- Work-related illnesses
- Work-related auto accidents
- Workers comp policies provide coverage even when an injury or illness is the result of the carelessness of the employee or employee.

There are limitations to the carelessness, however; and there are instances in which coverage may be denied, including:

- Injuries that occur as a result of employee intoxication
- Injuries sustained while committing a serious crime
- Self-inflicted injuries
- Injuries resulting from a violation of company policy

In some instances, workers compensation may pay for retraining the employee for a new position. For example, employees who sustain a serious back injury may no longer be able to lift items up to a certain weight. This could necessitate moving them to a new role within the company.

Workers compensation is a legal requirement if you have employees and it protects your business from lawsuits should any of your employees become ill or injured on the job. Rates vary by carrier and industry.

Directors and Officers (D&O) Insurance

If your company (or nonprofit) has a corporate board - whether your company is publicly traded or not - you should have D&O insurance. This type of insurance protects the directors and officers of a company against their actions that affect the profitability or operations of the company. If a director or officer of your company, as a direct result of their actions on the job, finds him or herself in a legal situation, this type of insurance can cover costs or damages lost as a result of a lawsuit.

This is a commonly overlooked aspect of insurance protection for nonprofit organizations, where the board members could end up liable for actions of the nonprofit. This even includes home owner associations, where board members could have liability without D&O insurance.

Cyber Liability / Data Breach Insurance

If your business stores sensitive or non-public information about employees or clients on their computers, servers or in paper files, they are responsible for protecting that information. If a breach occurs either electronically or from a paper file, a Cyber Liability or Data Breach policy will provide protection against the loss.

Additionally, if you have sales people selling out in the field and collecting payments, and one of them loses a clients credit card information, or has it stolen (i.e. someone breaks into their vehicle), this is another form of data breach.

It is estimated that 95% of cyber breaches and/or data breaches are the fault of employees not securing sensitive data.

Keyman / Key Person Insurance (Life Insurance for Business Owners)

Keyman insurance – also referred to as key person insurance, executive insurance, and sometimes key employee insurance – is a life insurance policy that provides a death benefit to the company should one of their key employees, owners, or executives die. Taking out a keyman policy on essential employees provides the assurance that the organization will continue to survive (and thrive) even after losing someone that was vital to its operation.

Keyman insurance can be taken out to cover any member of an organization. Some common examples include:

- Executives of the company
- Owners, partners or shareholders of the company
- Employees with key roles in the organization
- Employees that deal directly with customers, clients or suppliers
- Any employee that would be difficult to replace

Since the organization (and not the family) is the beneficiary of the policy, they will typically apply the death benefit to help ease the transition the company must make after the key member is gone. For example, if your company has a salesperson that brings in over 50% of your annual revenue, you will need some time to train someone else to move into that role. In the meantime, your business revenue could drop significantly. Keyman insurance allows you to use the death benefits for training costs and to help compensate for lost business income.

Another scenario is the potential disruption caused by the loss of one of the owners or shareholders. Rather than allowing ownership to fall into the hands of someone who does not share the vision of the company, a keyman policy can provide the funds needed to buy back the owner's shares from his/her heirs. In this case, the policy should be accompanied by a written buy-sell agreement between the owners.

Keyman insurance is a highly specialized life insurance product and rates can vary widely by carrier.

Commercial Auto Insurance

If you use your vehicle for business purposes or you have a business that owns or leases vehicles for company use, you may need commercial auto insurance. A commercial auto insurance policy is similar to personal auto insurance however it covers vehicles used in business activity. For example, if you have a business vehicle or fleet of vehicles that are used regularly, your business may be liable for property damage and injuries resulting from an accident involving one of these vehicles.

A typical commercial auto policy will include most (or all) of the following coverages:

- **Property Damage Liability:** Provides coverage for damage to the personal property of other parties caused by your commercial vehicle.
- **Personal Injury Liability:** Provides coverage for bodily and other personal injuries for which your covered vehicle is legally responsible.
- **Personal Injury Protection (PIP):** Covers medical expenses, hospitalization, rehab, and lost wages/services that result from an injury to you or a member of your family. In the event of a death to an insured or family member, death/survivor benefits are also provided.
- **Medical Expenses:** Reasonable/necessary medical costs for other parties that are injured while inside your vehicle or getting in or out of it.
- **Uninsured/Underinsured Motorist:** Provides coverage for accidents where another party is at fault and is either uninsured or is not carrying enough liability coverage to compensate for your injuries.
- **Collision:** Covers damage to your vehicle resulting from a collision with a car or another object.
- **Comprehensive:** Covers damage to your vehicle from incidents other than collision; such as vandalism, fires, explosions, hailstorms, fallen trees, etc.
- **Additional Expenses:** Covers the cost of car rentals, food, hotels and other expenses resulting from a covered loss under the comprehensive or collision sections of your policy.
- **Hired Auto Physical Damage/Liability:** Provides coverage for vehicles that are loaned, hired or leased by the business on a short-term basis.
- **Employers Non-Ownership Liability:** Provides coverage for commercially used vehicles not belonging to the business (such as an employee-owned vehicle) or business-owned vehicles that are used infrequently.

Professional Liability (E&O) Insurance

If you are a professional that provides a service based on your specialized expertise, a general liability policy will not provide all of the coverage you need to ensure that you are fully protected. Professional liability (also referred to as errors and omission) insurance offers extended coverage for negligence resulting from the services performed by you or someone employed by your practice.

Errors and omission insurance is a necessity for virtually any type of professional. Some examples include:

- Lawyers
- Accountants
- Insurance Agents
- Counseling Services
- Engineers
- Architects
- Photographers
- Personal Trainers
- Technology / IT Professionals
- Real Estate Agents (although usually provided through their broker)
- Hairdressers / Cosmetologists

Errors and omissions insurance is similar to medical malpractice insurance for doctors. The policy covers instances when a client alleges that you are guilty of some type of negligence in your work. Examples include:

- Giving incorrect information or advice
- Omitting essential information
- Professional liability will pay damages and defense costs up to the policy limits for covered incidents.

Errors and omissions insurance covers you for nearly all types of professional negligence, actual or alleged. There are exclusions, however, depending on the specific policy and carrier. In general, most professional liability policies will not cover intentional errors and omissions or illegal activity.

Professional liability insurance does not replace a general liability policy. It does not cover bodily injury, property damage, and other forms of personal injury. An errors and omissions policy works best in conjunction with general commercial liability insurance to provide comprehensive coverage for professional practices.

Property Insurance

If you own your building or have business personal property, including office equipment, computers, inventory or tools you should consider purchasing a policy that will protect you if you have a fire, vandalism, theft, smoke damage etc. This includes any equipment that you carry in and out of your office. You may also want to consider business interruption / loss of earning insurance as part of the policy to protect your earnings if the business is unable to operate.

Business Owner's Policy (BOP)

A business owner policy packages all required coverage a business owner would need. Often, BOP's will include business interruption insurance, property insurance, vehicle coverage, liability insurance, and crime insurance . Based on your company's specific needs, you can not alter what is included in a BOP. Typically, a business owner will save money by choosing a BOP because the bundle of services often costs less than the total cost of all the individual coverage.

Chapter 03

Personal Insurance Coverage That Can Protect You As a Business Owner

Life Insurance

A 2018 study by LIMRA² shared that 40% of American's had no life insurance and of those that did, 20% said they felt they did not have enough protection. As a business owner - and especially if you are a provider for a family - one of the most important things you can do is make sure that you have sufficient life insurance.

In the event of your untimely death, those who count on you need to be assured that as they grieve your loss that they won't also be met with financial despair. The amount of coverage you need will depend on several factors such as your liabilities (i.e. mortgage and other debts), dependents, and age of your surviving family members.

You Have a Target On Your Back

As a business owner, you are a target. If you have the misfortune of being on the wrong side of an accident or other calamity where someone is injured or dies, the other party will very likely seek to collect as much money as possible from you. If you are personally uninsured, and they find out that you are a business owner, your business assets could be at risk.

For this reason, you never want to find yourself in a position of being personally uninsured or underinsured as a business owner. If you are underinsured and you lose a lawsuit, your business assets could be at risk.

Here are a few things to consider in your insurance policies to protect you as a business owner.

Homeowners / Renters Insurance.

If you work out of your home and people visit you, it is critical that you have sufficient insurance coverage. It is also important that you have the right licensing and are not violating any laws by working from your home because if there is ever a lawsuit all of that can come into play.

It is also imperative that you are protected from everyday occurrences as a homeowner or renter, such that a personal lawsuit never becomes an issue for you.

Auto Insurance.

We never get into our cars expecting to have an accident, yet there were 36,560 people killed in motor vehicle crashes in 2018³. As a business owner if you are found at fault for a fatal accident and you are underinsured, your business assets might be at risk.

Umbrella Insurance.

An Umbrella insurance policy is one that covers the policyholder for any claims in excess of what their homeowners or automobile insurance would cover. We live in a world where anything is possible and a financial calamity could easily turn your financial (and emotional) world upside down if you lack the proper coverage.

As a lay person, you may not know if you are protected which is why it is important to speak with someone like me who can assess your coverage needs and ensure that you and your family are protected.

2. Source: <https://www.limra.com/en/newsroom/limra-unplugged/2020-Life-Insurance-Awareness-Month/>

3. Source: <https://www.nhtsa.gov/traffic-deaths-2018>

Chapter 04

Rethinking Your Risk Tolerance

Risk tolerance refers to how willing someone is to take a gamble on being uninsured or underinsured up against the chance that they will suffer a financial loss that they can't withstand.

I can tell you that in most cases for small business owners, this is a bad gamble. Even for larger companies with larger reserves, they are a bigger target, so I don't believe that being uninsured or underinsured is ever a good gamble.

A press release put out by The Hartford⁴ in 2015 stated that 40% of small businesses would experience a property or general liability claim over the next 10 years. It further went on to state that if such a claim were litigated, the costs could exceed \$75,000. I don't know about you, but most business owners don't have an extra \$75,000 sitting around.

Do you remember the story I shared of the restaurant owner who lost his business? If he could go back in time, I am sure he would rethink his approach.

The reality is that every business owner that takes the gamble of being uninsured or underinsured lives with the underlying stress of knowing that by savings a few pennies, a catastrophe could cost not just thousands, but their business, their livelihood, and their future.

In the introduction I asked this question, "wouldn't it make sense to transfer some - or all - of the risk to someone else for a small tax deductible cost?" The reality is that what you pay for insurance pays off in terms of allowing you to focus on growing your business and not carrying extra stress. And yes, business insurance is also a tax deductible expense.

Let's talk about getting you protected!

4. Source: <https://newsroom.thehartford.com/newsroom-home/news-releases/news-releases-details/2015/The-Hartford-Reports-More-Than-40-Percent-Of-Small-Businesses-Will-Experience-A-Claim-In-The-Next-10-Years/default.aspx>

Chapter 05

How Can I Help You?

As a veteran insurance advisor, one of the first ways I can help you is by reviewing your current insurance coverage. In this review, we may discover the following:

- You could be paying for insurance coverage that you don't need.
- You could be paying too much money for the insurance coverage that you have.
- You might be underinsured, which leaves you (and possibly your family) unprotected from financial losses.

As life circumstances change and your business grows, your insurance needs will change so it is critical to have a periodic review of your personal and business insurance policies.

The second way I can help you is to educate you and answer any questions you may have about insurance. If you have a unique situation, I am always happy to get on the phone with a carrier to get the answers you need to make an informed decision about your protection.

The third way I can help you is to ensure that you get the coverage that you need to ensure that you are protected if it is determined that you need it.

The final way I can help you is by serving as your single point of contact for all of your insurance needs. This will also save you time in the long run, not having to manage multiple relationships with a variety of different insurance providers.

I hope you have found this helpful. If you would like to set an appointment for a FREE insurance policy review, simply reach out to me at todd@toddbalderson.com or call me at (301) 874-0772.

