

Risk Manager

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Assessing business risks

Business insurance and risk management programs are designed to reduce and control costs. In assessing the risk exposures particular to *your* business, you should consider *what* can go wrong and *how* such events might affect the running of your business.

Risk exposures generally fall into three categories: direct and indirect property losses; loss of income attributable to property losses; and liability losses of a general, statutory, or contractual nature.

Renewing policies without taking a fresh look at risk exposures may prove costly. For example, if a business has grown, coverage limits that were adequate at one time

may not meet *current* requirements. Furthermore, changes in the nature of your business may mean that additional *types* of coverage should be considered.



In evaluating your business, it may be helpful to enlist both management and employee input. Often, daily familiarity with specific areas of operation can make one person aware of potential risk exposures that may seem insignificant to someone with a different perspective. Also, an examination of past loss patterns can help you determine how successful your loss control strategies have been in the past.

Where Should You Start?

Here are some questions you might ask to determine the adequacy of your current coverage:

- What is your product or service, and to what extent could someone be harmed by using it?
- Does your business own or lease property?
- What is the current value of the property used in the business?
- Does the location of the property make it susceptible to particular hazards (e.g., high crime area, flood plain)?

- Does the use of the property entail unique risk exposure?
- Is your business involved in storing or transporting goods?
- To what extent is the business dependent on a major supplier or major purchaser?
- How would different types of property loss affect your ability to get the business back up and running?
- How central is computerization and data management to the operation of your business?
- How does “down time” translate into cash flow drain and lost earnings?
- Do any of the contracts, or leases you are involved in, require you to assume liability for another party(ies)?

While by no means a complete list, those are some of the questions you might want to pose as you begin to assess your risk management program. Usually, the parameters of property exposure will help to uncover

Did You Know

Benefit Bits

Although you may want to help keep your employees healthy, offering your employees group health care benefits may sometimes prove to be expensive. However, according to a study conducted from 1981 to 2000 by the Employee Benefits Research Institute (EBRI), employer spending on group health insurance has decreased from a high of 17.5% of employer expenses in 1981 to 7.1% in 2000.

Boost in Home Business

If it seems that the number of people starting businesses out of their homes is rising, you may be correct. According to the Small Business Administration (SBA, 2002), 53% of all small businesses (there are approximately 22.4 million small businesses in the United States today), are based out of the home, and 3% of all small businesses are franchises.

Are Injuries Expensive?

For a small business owner, concern for the safety of employees is paramount. However, the cost of employee injuries is an important subject to address, as well. According to the Occupational Safety and Health Administration (OSHA, 2002), approximately \$125 billion is spent on employee injuries each year. This is a result of an annual six million workers who suffer non-fatal workplace injuries.

Little-known facts about flood insurance

Generally speaking, if you don't live in a flood zone, you may know little about flood insurance. However, considering its relative low cost and attendant peace of mind, flood insurance may still be a valuable addition to your business insurance program. Be sure to remember the following when considering flood insurance:

- **Anyone can be a flood victim.** Your business doesn't have to be located near water to be flooded. Storms, melting snow, hurricanes, backup due



to inadequate or overloaded drainage systems, and dam or levee failure can all cause floods.

- **Other policies do not cover flood damage.** The only way you can protect your business location and belongings from flood damage is with a policy backed by the National Flood Insurance Program (NFIP), a division of the Federal Emergency Management Agency (FEMA). Coverage for non-residential property is available for up to \$500,000 for the building and \$500,000 for contents.
- **Flood insurance is available everywhere.** It doesn't matter whether your flood risk is high, medium, or low, insurance is available as long as your community participates in the NFIP program.
- **Low-cost policies are available for low to moderate risk.** According to the National Flood Insurance Program (2001), a preferred risk policy costs a little over \$100. The average policy in a designated area costs a little more than \$300 a year for about \$100,000 of property coverage. In contrast, a disaster loan for \$50,000 can cost you more than \$300 a month for 20 years.
- **Contents coverage is separate.** Coverage on the building itself is separate from contents *inside* the building. Therefore, property owners should note that contents coverage is not automatically included and should be requested in addition to coverage for the building. This also means that renters can insure their belongings, though renter's maximum available coverage may be less than what is available for owners.
- **There is a customary 30-day waiting period.** Plan ahead so you're not caught without flood insurance when you need it. That's because there is typically a 30-day waiting period before coverage actually goes into effect.

Remember, federal disaster assistance is only available if the president declares a disaster, which occurs in less than 10% of all disasters. However, a flood insurance policy will pay whether or not a disaster is declared. Feel free to give us a call or stop by for more information. We'd be happy to help you "keep your head above water."

For Your Information



Compliance Concerns

Do you ever wonder if you are complying with the myriad of employment laws? If you do, the Equal Employment Opportunity Commission (EEOC) offers free information regarding employment regulations on issues such as discrimination and mediation. To obtain free publications, contact the EEOC by phone at 800-669-3362, or visit them online at www.eeoc.gov.

Postal Pointers

Although the Internet has become a popular tool for conducting business these days, the United States Postal Service (USPS) still plays a key role. Their website www.usps.com has a *small business tools* section designed to aid small business owners in meeting the delivery needs of their customers. The USPS site also answers your personal postal questions.

Small Business Security

Have you recently started your own small business? Do you have questions about keeping your business secure? If so, the Commerce Clearing House (CCH) *Business Owner's Toolkit* offers some simple tips to help keep your newly established business from becoming a victim of employee malfeasance. For example, did you know that opening your business's mail *yourself* could potentially save your business from employee fraud? For more details, visit the CCH online at www.toolkit.cch.com.

Business owners policy: packaged for convenience

Most businesses are faced with two major types of insurance coverage—**property and liability**. Property insurance covers damage to, or loss of, your business property, whereas, if somebody sued you for damages caused by you or your business, the cost of defending and, if necessary, settling a lawsuit would be covered by your liability insurance. Many small businesses are insured under a package policy known as a **business owners policy**, or **BOP** for short. The BOP combines coverage for property and liability, and for loss of income, in a *single* package.



Generally, the BOP package provides small businesses with comprehensive insurance coverage at a lower cost than would individual policies for property, liability, and/or loss of income. Additional coverage for property, liability, and/or perils otherwise excluded (such as flood protection) can be purchased separately or as endorsements to a standard policy. Your insurance advisor can help you decide which policy or

policies are appropriate for your particular business.

Typically, a BOP covers business property that is exposed to risks such as fire, smoke, hail, wind, theft, vandalism, and some forms of water damage (for instance, from leaking roofs or broken pipes). Insurable property includes buildings, office furniture and equipment, machinery, inventory, signs, glass, and tenant improvements to the building (if you happen to rent or lease).

Third Party Coverage

Liability coverage, on the other hand, includes accidents that cause bodily injury to other people (third party), accidents that cause damage to other people's property, and personal injury such as libel, slander, wrongful eviction, invasion of privacy, false arrest, or advertising injury as in a copyright infringement or false advertising.

If your business has to slow down or close because of repairs to damaged areas due to a property loss, loss of income coverage can replace your lost profits in addition to paying essential expenses such as rent, payroll, taxes, etc. Additional coverage is also available to pay the difference in before- and after-loss business income for a few months, while you're in the process of regaining your customers.

Because businesses vary in nature, there is no standard policy available to cover all contingencies. For instance, restaurants, wholesalers, and automobile garages have special liability needs that a standard business owners policy may not satisfy. Therefore, a frequent review of your coverage options may help you determine what may be the best choice you can make for your business.

Get “up and running” quickly after a computer disaster

Suppose you open your doors for business one morning only to discover that water damage from heavy rains the night before has shorted out your computer equipment, leaving your automated systems inoperative. Or, perhaps, an overnight power failure has wiped out a large portion of your critical electronic records. Without warning, your entire business operation could be in jeopardy. Fortunately, this type of disaster needn't be a major setback for your company. By taking the right steps *now*, you can get yourself “up and running” with minimal delay.

1. Insure yourself against electronic data processing losses. Standard commercial insurance packages don't cover some losses relating to computers and other electronic equipment. **Electronic Data Processing (EDP) insurance** is specifically designed to fill this gap. An EDP policy generally



covers your electronic data processing equipment, all your computer data, and the disks or tapes on which it is stored,

as well as additional costs necessary to continue normal business operations after a disaster. It also covers any lost business income due to the disaster. EDP insurance may include protection against a wide range of threats including damage from water or other liquids, rust, corrosion, mechanical breakdowns, changes in temperature and humidity, power fluctuations, sewer backups, theft, vandalism, and earthquakes.

2. Back up your systems regularly. From customer records to accounts receivable and payable, your company undoubtedly relies on a vast store of electronic data. If this information were lost, it could be expensive and time-consuming—and, in some cases, impossible—to recreate. Make it a practice to back up your critical data nightly and to store the backup data in

a safe, offsite location. It's also a good idea to keep a second backup copy from the previous day.

3. Practice recovery drills. Even if you have the foresight and commitment to back up your systems on a regular basis, how quickly could you get your computers up and running if disaster strikes? Do you know exactly how to restore the data? Are you sure the tape drive you use for backups is still compatible with your system and is not outdated? The best way to answer these questions is to run a practice drill occasionally. This will confirm your backup tapes are free of defects, and that you could indeed respond quickly in a true emergency.

In today's competitive business environment you can't afford to lose a day to a computer shutdown. If you are unable to service your customers' needs, your competition will be happy to do so. Businesses that plan ahead are in the best position to keep disruption to a minimum. Following these steps can help get your company “up and running” quickly if disaster strikes. Stop by, or give us a call today, for more information on an EDP policy.

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CONTINUED FROM PAGE ONE

the areas of income and liability exposure that need to be addressed.

We Can Help You

Once you know the scope and magnitude of the risk exposures specific to your business, you can begin to design an effective risk management program.

While various types of insurance may play a central role in your strategy, eliminating or reducing risk should also be considered integral parts of a complete program.

In the business world, things can change quickly, and sometimes it may

be easy to fall into a false sense of security. By meeting with one of our qualified insurance professionals, you can assess how your business is growing and changing, thereby assuring your risk management program remains adequate for your needs.