

Essential Business Insurance Types

Type of Insurance	What It Covers
General Liability	Property damage, bodily injury, products & completed operations, and personal & advertising injury.
Commercial Property	Buildings, contents, and the property of others in your care.
Business Income (or Business Interruption)	Loss of income if your business is unable to operate due to damage or destruction of property by a covered peril.
Business Owner's Policy (BOP)	Combines liability, property, and business income insurance coverages that most small businesses would need.

General Liability Insurance

General liability insurance is the most common type of insurance for businesses. If your business or an employee injures a third-party in the course of business, general liability insurance can help protect your business against the financial consequences of lawsuits. Third-parties include anyone who is not an employee of your business, such as a vendor, customer, or landlord.

This type of insurance covers claims from physical injuries or property damage caused by your business or products. It also covers non-physical injuries such as libel, slander, copyright infringement, or false advertising. General liability insurance typically excludes auto liability and professional liability, so separate policies are necessary to cover these risks.

If your business is responsible for damages, general liability insurance will pay for damages up to the policy limits. Additionally, it will cover attorneys' fees related to defending your business in court.

Examples of situations liability insurance would cover include:

- **Bodily injury:** *The floor in your retail store has just been mopped. A customer walks on the floor, slips, and injures himself.*
- **Property damage:** *The operations at your facility cause a fire, and the fire spreads to the neighboring unit's office, burning it down. General liability insurance would cover the damages your business is responsible for paying to the neighbor.*
- **Products liability:** *Your product has a defect that you were not aware of, and the product malfunctions, injuring a customer.*
- **Copyright liability:** *Your marketing material looks too similar to a competitor's, and they sue you for copyright infringement.*

Commercial Property Insurance

Commercial property insurance will compensate your business if property that you use in your business is damaged or lost due to accidents or disasters. It covers property such as buildings, equipment, inventory, furniture, tools, and computers. Common covered causes of loss include fire, wind, hail, and vandalism. In some policies, theft is also covered, but even when theft is covered, employee theft is usually excluded.

Examples of situations property insurance would cover include:

- *A fire is accidentally started in your restaurant kitchen, destroying your kitchen appliances and your food inventory.*
- *The building your business owns has its roof damaged by a severe hailstorm.*
- *A pipe bursts in your retail store, destroying fixtures and ruining merchandise.*

Generally, your business will prepare a list of the property owned by the business in order to determine the appropriate amount of property insurance to buy. If you do not purchase enough insurance to cover the full value of your property, the insurance company may only reimburse you for a portion of the claim when a loss occurs due to a concept known as coinsurance.

A common choice in property insurance is the choice between replacement cost (RC) coverage and actual cash value (ACV) coverage. With replacement cost coverage, in the event of a loss, the insurance company will pay the cost to replace the property. With ACV coverage, the insurance company will deduct a depreciation charge, in order to account for the lower value of the item as you use it over time. ACV coverage costs less than RC coverage, but it also pays less in the event of a claim.

Flooding and earthquakes are commonly excluded from property insurance coverage.

Business Income Insurance

Business income insurance, also commonly referred to as business interruption insurance, is coverage you can add to your property insurance coverage. If a covered cause of loss forces your business to stop operating, business income insurance will compensate your business for the lost profits it would have earned had the disaster not occurred.

This type of coverage allows your business to continue paying its fixed expenses like rents and salaries while your business operations recover from the disaster. This way, you can retain your employees and pay for your financial obligations while reopening your business.

Example:

- *You own a wholesale bakery that earns monthly profits of \$10,000. A fire severely damages your bakery and you must shut down operations while you rebuild. Business income insurance would cover your monthly profits of \$10,000, plus your fixed expenses like salaries, rent, and utilities while your business recovers from the fire. Any loss of inventory you experienced due to the fire would be covered under your property insurance policy.*

Business Owner's Policy (BOP)

A common insurance policy bundle offered to eligible small and midsize businesses is called a **business owner's policy**, or BOP. This type of policy bundles together general liability and property insurance into a single policy. The pricing on a BOP can often be lower than purchasing the insurance policies separately. Often, business interruption insurance is also included in BOP plans.

In order to determine whether your business qualifies for a BOP, the insurance carrier will consider factors including:

- Number of employees
- Annual sales
- Size of office or facility
- Industry (high-risk industries are usually excluded)

Common Additional Coverages

Type of Insurance	What It Covers
Workers' Compensation	Wages and medical expenses for your employees who are injured while on the job.
Employers Liability Insurance	Defense and judgement costs against suits brought on my employees who are injured while on the job.
Commercial Auto	Vehicles owned or leased by your business and used primarily for business purposes.
Professional Liability (or Errors & Omissions)	Liability created in the performance of professional duties for professionals such as lawyers, architects, brokers, etc.

Workers' Compensation Insurance

Workers' compensation insurance covers wages and medical expenses for your employees who are injured while on the job. If an injured employee decides to accept these monetary benefits, he or she agrees not to sue your business. Most states require workers' compensation insurance for businesses that have employees and will issue fines (or criminal penalties in some states) for companies that don't have this coverage.

Example:

- *Your employee falls off a ladder while at work and is seriously injured. The employee cannot return to work, so workers' compensation insurance would pay for the cost of the employee's medical bills and rehabilitation. It will also pay for a portion of the employee's lost wages while recuperating. If the employee chooses to accept these benefits, they would waive the right to file a lawsuit against your business.*

Additionally, most states also require unemployment insurance and disability insurance. In many states, unemployment and disability are programs administered by the state government and may be automatically included in your payroll tax filings.

Employers Liability Insurance

Employers liability insurance is typically sold as part of a workers' compensation policy. It is often referred to as "Part 2" of workers' compensation. While workers' compensation insurance (Part 1) covers medical expenses and lost wages for an employee who gets sick or injured on the job, employers liability insurance will cover your business if an employee sues your company for additional damages, outside of what is covered under workers' comp.

Commercial Auto Insurance

Commercial auto insurance covers vehicles owned or leased by your business and used primarily for business purposes. It can cover both physical damage or theft of the vehicles and liability for automobile crashes caused by employees of your business.

Examples of situations commercial auto insurance would cover include:

- *Your employee is driving to meet a client in a company-owned vehicle. The employee crashes into another vehicle, injures another driver, and is at fault for the crash. The other driver sues your company, since your employee was driving a company-owned vehicle while working. Commercial auto insurance would cover damages awarded against your company for the crash such as the other driver's lost wages and medical expenses.*
- *Your company van is parked outside of your warehouse. Over the weekend, the van is stolen and the police are unable to locate it. After a waiting period, your insurance company will reimburse your company for the value of the van.*

If your employees use their personal vehicles for company business such as sales calls or to run errands for the company, you may also want to have hired and non-owned auto insurance coverage. This coverage can protect your business in the event that an employee using a personal vehicle for

business purposes causes a crash where the liability for the crash exceeds the employee's personal auto insurance limits.

Example:

- *Your employee drives his personal car to a business meeting with a vendor. On the way to the meeting, your employee hits several pedestrians and is at fault for the crash. In total, the damages for the crash exceed \$500,000, but the employee's personal insurance only has \$100,000 of coverage. The injured sue your company since the employee was using their car for a business purpose. Hired and non-owned auto would cover the remaining \$400,000 of the damages beyond the employee's personal coverage limit.*

Professional Liability Insurance

Professional liability insurance, also known as errors & omissions or E&O insurance, covers professional service businesses such as lawyers, architects, brokers, investment advisers, technology consultants, and medical professionals for liability created in the performance of their professional duties.

If a client perceives that your business has injured them or caused financial losses through your mistakes or negligence, they may sue you and your business, and professional liability insurance can help pay for damages and legal fees. This type of professional liability is usually excluded from a general liability insurance policy.

For medical professionals, this insurance is also known as medical malpractice insurance.

Examples of situations professional liability insurance would cover include:

- *An investment advisor makes investments for a client and the investments lose money. The client sues the advisor for negligence. Professional liability insurance would cover the costs of defending the suit as well as any damages awarded.*
- *An architect draws up plans for a building, but the work includes an undiscovered error. When the building is built, the error is discovered, and the client sues the architect.*
- *A doctor treats a patient but prescribes the incorrect drug, leading to patient harm. The patient sues the doctor for damages.*

Professional liability insurance is usually offered on a claims-made basis, which means that the claim will only be covered if both the incident and the claim happen while the policy is in force. If coverage is dropped, incidents that occur before the coverage was dropped but not filed until after the coverage is dropped will not be covered.

Specialized Business Insurance Types

Type of Insurance	What It Covers
Bailee's Customer Insurance	Losses resulting from damage to customer items in your possession.
Commercial Crime	Losses from crime such as theft and robbery.
Commercial Flood	Property damage caused by flooding.
Commercial Umbrella	Additional coverage when limits of general liability, auto liability, or other coverages are not enough.
Cyber Liability	Loss of information and data caused by thieves or hackers.
Directors & Officers Liability	Directors and officers of a company if they are personally sued for management actions they made.
Employment Practices Liability	Employee lawsuits based on accusations of wrongful termination, sexual harassment, and discrimination.
Equipment Breakdown Coverage	Costs of repair or replacement of malfunctioned or damaged equipment and related expenses.
Extra Expense Coverage	Costs outside of day-to-day operations needed to keep your business open in the event of a loss or disaster.
Fidelity Bonds	Losses caused by theft or dishonesty by an employee or group of employees.
Hired and Non-Owned Auto Insurance	Third-party property damage, bodily injury, and legal defense costs due to a car accident in a hired or non-owned vehicle.
Inland Marine Insurance	Goods, tools, equipment, and other property that is not tied to a fixed location.
Key Employee Insurance	Untimely death of a key employee.
Key Person Disability	Financial costs resulting from a key employee becoming disabled.

Type of Insurance	What It Covers
Management Liability Insurance	Lawsuits from mismanagement or wrongful acts within the context of operating a business.
Product Liability Insurance	Bodily injury, property damage, or financial losses caused by your product.
Product Recall Insurance	Financial costs of performing a voluntary or involuntary product recall.
Special Event Insurance	Bodily injury or property damage to third-parties during a special event hosted by your business.
Surety Bonds	Guarantees that a company or individual will deliver on their obligations.

Commercial Umbrella Insurance

Commercial umbrella insurance gives your business added protection from large lawsuits and accidents. It serves as additional coverage that begins when the limits of your general liability, auto liability, or other insurance coverages are not enough to cover the damages.

Umbrella insurance is a cost-effective way to add to your insurance coverage and protect against large judgments. This type of insurance is a good choice for companies with substantial assets to protect or high-risk exposures like retail storefronts. Other risks suitable for umbrella insurance include having high net worth clients or businesses that involve a lot of driving. Umbrella insurance usually starts at \$1 million in coverage and is sold in increments of additional \$1 million.

Commercial Flood Insurance

Commercial flood insurance is offered by the National Flood Insurance Program (NFIP), which is administered by the federal government. It helps protect your business from property damage caused by flooding, which is generally excluded from most general property insurance coverages.

Floods are caused by natural water sources such as inland, tidal, or surface waters affecting two or more properties. Water damage caused by man-made sources, such as a burst pipe, is not considered floods and are covered under property insurance.

Only businesses in certain communities qualify for flood insurance from the federal program, and a community must elect to participate in the NFIP. Communities that want to participate in the NFIP are required to adopt plans for floodplain management.

Employment Practices Liability Insurance

Employment practices liability insurance (EPLI) protects your business against employee lawsuits based on accusations of wrongful termination, sexual harassment, and discrimination. EPLI will pay for your company's legal defense, as well as any judgments against your company, up to the limit of coverage.

EPLI is usually offered on a **claims-made basis**, which means that the claim will only be covered if both the incident and the claim happen while the policy is in force. If EPLI coverage is dropped, claims filed after the coverage is dropped for incidents that occurred before the coverage was dropped will not be covered.

Directors & Officers Liability Insurance

Directors and officers liability insurance, also known as D&O insurance, protects directors and officers of a company if they are personally sued for management actions they made in their role as directors or officers of a company. Although the company purchases the insurance, the benefit of the insurance is paid to the individual directors and officers themselves.

D&O insurance is helpful for companies that want to attract outside directors and officers, as many talented professionals are unwilling to risk personal liability for the actions they take as directors or executives. D&O Insurance is usually written on a **claims-made basis**.

Key Employee Insurance

Key employee insurance protects your business against the untimely death of a key employee. This type of insurance is a life insurance policy on the life of the key employee, with the policy owned and paid for by the business. In the event of the death of the key employee, the business will be compensated in order to provide funds for the business to continue operating and find a replacement for the key employee. Unlike most types of commercial insurance, which are generally tax-deductible as business expenses, key employee insurance is not allowed as a business deduction by the IRS.

Key Person Disability Insurance

Key person disability insurance, also known as key man disability insurance or key employee disability insurance, is a type of business insurance that provides short-term financial benefits to a company if a key employee is no longer able to fulfill the demands of the job due to the onset of an illness, injury, or accident.

Cyber Liability Insurance

Cyber liability insurance protects your business against the loss of information and data caused by thieves or hackers. This insurance helps cover the cost of notifying your customers, public relations efforts, as well as the cost of legal liability and legal fees to defend against lawsuits due to the data breach.

Commercial Crime Insurance

Commercial crime insurance protects your business against losses from crime such as theft and robbery, which are generally not covered by property insurance. It also provides protection against losses from forgery or computer fraud. Many crime insurance policies also provide protection from employee theft, which is also commonly excluded from general property insurance coverage.

Product Liability Insurance

Product liability insurance is a form of general liability insurance meant to protect your business from acquiring financial and legal risk because of the quality of your business's sold goods or products. It covers the legal and court costs of defending any claims of bodily injury, property damage, or financial losses caused by your product.

Product Recall Insurance

Product recall insurance protects your business from the financial costs of performing a voluntary or involuntary product recall. If your company produces a product that is found to cause bodily injury or property damage to consumers, you may be forced to perform a recall by the relevant regulatory body, or you may decide to issue a voluntary recall.

Special Event Insurance

Special event insurance is a form of liability coverage that can protect a company in the case of bodily injury or property damage to third-parties during a special event hosted by the business.

Extra Expense Coverage

Extra expense coverage is a type of insurance one can add to a traditional commercial property policy in order to protect a business from shutting down in the case of an extraordinary situation. Often times, this extra expense coverage kicks in when the commercial property of a business is compromised to the point of threatening the business's shutdown.

Equipment Breakdown Coverage

Equipment breakdown insurance covers the repair or replacement of malfunctioned or damaged equipment and many of the costs associated with the breakdown of equipment, including spoiled inventory and losses to business income.

Inland Marine Insurance

Inland marine insurance is a form of property insurance that covers goods, tools, equipment, and other property that is not tied to a fixed location and is not covered by a standard commercial property policy.

Management liability insurance

Management liability insurance is a combination of coverages that protects you from a variety of risks that arise when running and managing a business. Management liability insurance provides a hybrid solution that packages multiple coverages into one convenient insurance vehicle, most commonly covering D&O liability, employment practices liability, and fiduciary liability.

Fidelity Bonds

A fidelity bond is a type of insurance policy that protects your company against losses caused by theft or dishonesty by an employee or group of employees. Since your commercial property insurance policy does not cover money, securities, or property stolen by employees, a fidelity bond can help your company manage the risk from that exposure.

Surety Bonds

A surety bond is a legally binding agreement that provides a guarantee that a company or individual will deliver on their obligations. Surety bonds help to ensure a company or person will complete the duties it has promised to carry out.

Bailee's Customer Insurance

Bailee's customer insurance, often called bailee's coverage or bailee's liability coverage, is a type of inland marine insurance that covers your business for losses to customer property in your care, custody, or control. If your business ever takes possession of your customer's property, no matter how small, bailee's customer insurance protects you.

Hired and Non-Owned Auto Insurance

Hired and non-owned auto insurance protects your company from liability should you or your employees cause an accident while operating a hired or non-owned vehicle for business purposes.