



Department of Business Regulation
Insurance Division
1511 Pontiac Avenue, Bldg. 69-2
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Consumer Alert 2011-2

DISASTER PLANNING FOR SMALL BUSINESSES:

**Review and Update Your Business Insurance in Case
Disaster Strikes**

Tornado. Wildfire. Winter melt. Hurricane. Flood. Across the country, springtime can bring all kinds of potentially damaging weather. Now is the time for small business owners to get prepared for the possibility of disaster by reviewing their business insurance needs and policies. Because you never know when disaster will strike, here's a checklist from the National Association of Insurance Commissioners' (NAIC) Insure U for Small Business education program to get your review started.

General Planning

» Is your business ready for disaster?

- Do you have an emergency response plan for employees and customers?
- Do you have copies of important papers and information stored off site?
- Does the information include: receipts, photos, insurance policies, contact details for your agent or company, employee roster, etc.? These documents will assist you when you file a claim later.

» Minimize your insurance risks by:

- Installing fire and security alarms.
- Planning and training employees for emergencies on the premises, such as fires and evacuations.
- Having employees keep wallets and other personal items in a secure place.
Keeping the business' cash and other valuables in a safe.
- Keeping office space in good physical condition.

» Review your insurance needs and your current policies.

- Are your policies up-to-date with your insurance coverage needs and are the limits for each coverage at a level that protects your investment?

Property Insurance

Your property insurance policy covers you for damage or theft of the physical property and equipment of your small business. If you own the physical structure of your business address, your property insurance should cover both the structure and its other assets. If you lease the space you occupy, you are responsible for insuring your personal property/contents. As a leaseholder, you need to have a contingency plan in case your landlord or your landlord's insurer is not able to promptly repair the building where your business is located.

» Here are a few things you should know about your property insurance policy:

- There are three types of property insurance – each covering a wider range of perils. Know which form your business has – Basic, Broad or Special – and what perils are covered.
- Check to see if your property will be replaced for the actual cash value (ACV) or replacement cost. ACV reimburses the cost to replace, rebuild or repair damages, taking depreciation into consideration. Replacement cost does not factor in depreciation. Flood is not a covered peril in a standard business property insurance policy. You can purchase flood coverage from the National Flood Insurance Program (NFIP), administered by FEMA. You generally have to wait 30 days for a flood insurance policy to go into force. If you are worried about damage from flood, find out more about the NFIP at www.floodsmart.gov. If the flood insurance property limits from the NFIP are inadequate to cover your business, check with your insurance agent about coverage options.
- Consider any improvements to your business or the neighborhood that have been made since your property was last appraised. If there have been changes since the last time your insurance company assessed your property value, it may be time to update your policy.
- What is your limit of liability or the maximum amount insurance will pay for covered loss?

Business Interruption

Business interruption insurance covers lost earnings due to circumstances stated in your policy – such as fire or hail – that shut down your business for an extended period. Business interruption/continuation insurance covers expenses associated with running your business, like your payroll and utility bills, based on your company's financial records. Business interruption/continuation may also help pay for the extra expenses to keep your business in operation until you recover.

» A few things to check in your Business Interruption/Continuation policy:

- What perils – or covered occurrences – are listed in your policy?
- What expenses are covered and is the limit adequate for the amount the policy will pay out?
- Benefits under this kind of coverage may not be payable for a certain number of days after the business interruption has occurred. Check to see if your policy has

a waiting period and make sure you have sufficient funds to tide you over for that time.

Liability Insurance

Liability insurance, also called Commercial General Liability (CGL), covers four categories of events for which you could be held responsible: bodily injury; damage to others' property; personal injury, including slander and libel; and false or misleading advertising.

» Here are a few things to know about your CGL when preparing for a disaster:

- There are three types of legal damages people may sue you for that are typically covered by a CGL: policy compensatory damages, general damages and punitive damages.
- Medical payments are generally a separate coverage section of a CGL policy and generally have a separate stated limit. If a customer is hurt on your premises – whether you are responsible for the injuries or not – your medical payment limit is the amount your policy will pay for their immediate care and treatment. Check your medical payment limits and decide if this amount is enough for your needs. If not, you might consider raising your medical payment limits.
- A commercial umbrella liability policy provides extra protection above a standard CGL policy. This kind of policy will increase the amount of liability paid per incident and sometimes coverages for commercial automobile and workers' compensation. An umbrella policy will have its own terms and limits, so make sure to review it closely to see when it kicks in over your standard CGL policy. Small business owners may want to consider an umbrella policy if they are worried about protecting their personal assets or the assets of their business from lawsuits.
- Premiums for your CGL may be impacted by the addition or reduction of employees, clients product offerings or inventory; alterations to your building; or changed state regulations. If any of this has changed, you may want to talk with your insurance agent or company to reevaluate your policy and premiums.

Workers' Compensation Insurance

Workers' compensation insurance protects a business owner from claims by employees following a work-related injury or illness. It generally covers an employee's medical expenses, rehabilitation costs and lost wages. Most employers are required to carry workers' compensation insurance. Check with the Department of Labor and Training at 401-462-8100 or visit www.dlt.ri.gov to see if your small business is required to have this coverage.

» Use this checklist to help keep your workers safe:

- Is the office space in good physical condition? Is there anything that would impede workers from taking shelter or evacuating in an emergency?
- Review emergency procedures with your employees.
- Comply with safety requirements that can limit work injuries.
- Understand the terms of your workers' compensation insurance policy. If you have questions about the situations covered by the policy, call your state insurance department or your insurance agent or company.

Commercial Auto Insurance

Automobile liability insurance – required by most states – covers medical expenses for injured persons and damages to the property of other individuals as a result of a motor vehicle accident caused by the insured's negligence. Typically, commercial auto insurance policies have higher liability limits than a personal auto insurance policy. They also may have provisions that cover rented and other non-owned vehicles, including employees' cars driven for company business.

» Here are a few things to check in your auto insurance policy:

- If you are relying on either a personal auto insurance or personal umbrella liability policy to provide you with protection for your company's use of vehicles, look closely at the provisions, as business-related liability may be excluded.
- Is your policy up-to-date on all business vehicles? Does the policy reflect up-to-date information on: where you garage the vehicle, who drives it, your liability limits and deductibles? These factors can all affect your premium, so if anything has changed, be sure to contact your insurance agent or company for a policy review.
- You might want to consider increasing insurance on the vehicles to cover permanently attached items, such as a generator or storage unit that could be damaged or lost in a disaster.
- If you have a business umbrella policy, be sure to review the policy to see if it has auto coverage. Know your liability limits and check to see if the policy places limitations on the vehicles' drivers.

Don't be a victim of insurance fraud! Before you sign a contract or write a check for coverage, STOP. CALL your state insurance department and CONFIRM that the agent and company you are working with are licensed to do business in your state.

If you have questions about business insurance requirements in your state, or wish to check the status of the agent and/or company, you may contact the Rhode Island Insurance Division at 401-462-9520 or DBR.Insurance@dbr.ri.gov.

About the RI Insurance Division

The mission of the Rhode Island Insurance Division is to assist, educate and protect Rhode Islanders through the implementation and enforcement of state laws mandating

regulation and licensing of the regulated industries while recognizing the need to foster a sound business environment in the state. We are also committed to treating everyone who comes before us fairly, efficiently and with respect. For additional information visit <http://www.dbr.ri.gov/divisions/insurance/>.

About the NAIC

Formed in 1871, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC has three offices: Executive Office, Washington, D.C.; Central Office, Kansas City, Mo.; and Securities Valuation Office, New York City. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more information, visit www.naic.org.

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