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From the Los Angeles Times

Insurance often overlooked by small firms

Coverage that goes beyond property and liability risk might come in handy.

By Joyce M. Rosenberg
The Associated Press

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Buying insurance is crucial for a small company, but it's often overlooked or given short shrift. In the process, owners can leave their businesses vulnerable to huge payouts for something as mundane as a clerical error or as cataclysmic as flooding.

To many owners, the word "insurance" means property and liability coverage, the products contained in a standard commercial or business owner's policy. If there's a fire, for example, or someone trips and breaks his leg on the premises, the company is covered.

Many business owners stop there. "A lot of it is denial -- tomorrow will never come, or this will never happen to me," said Kansas Insurance Commissioner Sandy Praeger.

But Praeger, who is also president of the National Assn. of Insurance Commissioners, said owners' ignorance is another factor: "I think it's just not understanding all of the different types of insurance they need."

She noted, for instance, that employers may not realize they need to purchase workers' compensation insurance, which many states require of companies with a certain number of employees.

Praeger also cited a common mistake made by people who run businesses out of their homes. They believe a homeowner policy will automatically cover them if there's a business-related accident, such as a customer tripping and being injured.

An often-overlooked form of coverage, business interruption insurance, has saved many companies from going under. Brian Drum, chief executive of Drum Associates, a New York-based executive recruiter, said his company, located a block from the World Trade Center, would have failed after the 2001 terrorist attacks without such insurance. It helps a business pay expenses when it can't operate because of a disaster.

Drum thinks companies should buy as much insurance as they can, although he acknowledges that many owners don't want to pay another expense.

Drum says he regretted not buying what's called employment practices liability insurance, which covers worker-related issues such as sexual harassment, discrimination, wrongful discipline or termination and failure to employ or promote.

When an employee filed suit against his company, Drum said, the business had to pay legal costs that otherwise would have been covered under an insurance policy.

Another type of insurance many owners should consider is errors and omissions coverage, which is akin to the malpractice insurance that medical and legal professionals carry. It can cover legal costs and damages when a client claims that a service failed to have the expected results, or when a service wasn't performed at all.

There are several good insurance primers online. The National Assn. of Insurance Commissioners, Praeger's group, has a website called Insure U for Small Business at www.insureuonline.org/small business. It explains basic forms of insurance such as workers' comp, property and liability, commercial auto and home-based coverage.

The Insurance Information Institute also provides a good overview of many kinds of insurance on its site, at www.iii.org/individuals/business. It explains coverage such as business interruption and employment practices liability insurance and also has sections addressing the needs of specific industries.

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